Digital Assets in The US Audit & Tax Landscape

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OUR FEATURED PANELISTS

About

AKRAM
Assurance, Advisory & Tax

Akram is a trusted adviser to alternative fund. Our laser focus on this industry allows us to provide highly specialized accounting, audit, and tax services that are accurate and affordable. Our professional team is well versed in the nuances of hedge fund, private equity fund, venture capital fund, CTA , digital asset fund, real estate fund, and family office entity structures and strategies.

MONARQ
ASSET MANAGEMENT

Monarq Asset Management is a multi-strategy investment firm decoding digital asset markets with scientific precision and continuous innovation.

While others see volatility, we see opportunity - transforming real-time data into consistent, risk-adjusted returns across market cycles.

CATALYST

The Catalyst Group is an innovative, tech-focused financial services firm delivering independent fund administration, financial accounting, and corporate services to a range of clients that include Hedge Funds, Private Equity Funds, Venture Capital Funds, Real Estate Funds, Crypto Funds, Family Offices, Corporates and Ultra-High-Net-Worth Individuals.

Catalyst is a values driven company with a clear mission to create a spark in a one-dimensional industry.

FORMIDIUM

Formidium is a global fund administrator serving a wide range of funds, including venture capital (VC), private equity (PE), hedge funds, digital assets, SPVs, multi-strategy vehicles, real estate funds, and other alternative investment strategies.

Our purpose-built platform and experienced team deliver the speed, accuracy, and award-winning service today's funds demand, far beyond what legacy systems can offer NAV, tax, financial & investor reporting

Digital asset & hedge fund expertise

SPVs, co-invests, real estate & multi-strategy, cloud native service and whiteglove service.

Introduction

What was once a forward-looking projection is now official 2026 reality: **86% of global institutional investors** now hold or plan digital asset allocations. Driven by massive Bitcoin ETF inflows and corporate treasury adoption, institutional crypto integration has accelerated at an unprecedented pace. As digital assets become a permanent fixture of institutional portfolios, navigating the evolving **U.S. Audit & Tax Landscape** is no longer optional—it is a critical operational requirement.

Investment Trends and Institutional Adoption

- Digital assets have transitioned from speculative interest to core portfolio consideration, with institutional adoption accelerating meaningfully through 2025 into 2026.
- The launch of spot Bitcoin ETFs in January 2024 and spot Ethereum ETFs in mid-2024 has been a watershed moment — combined AUM across these products has surpassed $90B+, bringing institutional capital into crypto through familiar, regulated wrappers.
- A significant portion of institutional investors now plan to allocate more than 2-3% of their AUM to digital assets, up from prior years, driven by improved regulatory clarity and accessible investment vehicles.
- Top motivations remain consistent: potential for higher risk-adjusted returns, portfolio diversification, exposure to financial innovation, and hedging against long-term inflation and dollar debasement.

Contd.

- Family offices and hedge funds continue to lead adoption aggressiveness, with many treating digital assets as a permanent portfolio sleeve rather than a tactical trade.
- Corporate treasury adoption has expanded beyond early movers — more publicly traded companies have followed the precedent set by early Bitcoin treasury adopters, making this a recurring audit and disclosure consideration.
- Importantly, the classification question is maturing — a growing share of firms now treat crypto as a standalone asset class with dedicated risk frameworks, rather than lumping it under alternatives or commodities.
- The investor base is also broadening: pension funds, sovereign wealth funds, and insurance companies — historically the most conservative allocators — are beginning to establish initial positions or conduct formal digital asset feasibility reviews.

Regulatory Landscape and Tax Implications

- **Form 1099-DA** — originally delayed, broker reporting rules have been phased in through 2025–2026. The deck treats this as upcoming; it should now be framed as actively applicable.
- **IRS Rev. Proc. 2024-28** introduced a new safe harbor for specific unit allocation methods (HIFO, FIFO, etc.) for crypto.
- **The GENIUS Act** (stablecoin legislation) passed & signed by the Senate on July 2025 — significant for stablecoin tax treatment sections.
- **MiCA** is now fully in effect in the EU (July 2026 implementation for most provisions) — update from "potential global alignment" to "active global regulatory framework.

POLLING QUESTION

What is identified as the top concern for both adopters and cautious firms regarding digital assets?

a) Asset performance

b) Custody Costs

c) Regulatory uncertainty

Rise of Stablecoins and Tokenized Assets

- Tokenized real-world assets have moved from concept to active market — tokenized US Treasuries alone have surpassed $13-15B+ in on-chain value by 2026, led by products like BlackRock's BUIDL and Franklin Templeton's BENJI.
- Tokenization is unlocking access to traditionally illiquid asset classes, with portfolio diversification, fractional ownership, and real-time settlement as primary drivers.
- Stablecoin adoption has accelerated significantly — the GENIUS Act now provides a formal legislative framework for stablecoin issuance in the US, reducing regulatory ambiguity.
- Stablecoins are actively used for yield generation, FX settlement, and liquidity management across both institutional and retail contexts.
- These instruments demand robust audit trails, updated custody frameworks, and fresh tax compliance approaches for both issuers and holders.

Crypto ETF Auditing Considerations: Overview

- Spot Bitcoin ETFs (Jan 2024) and Ethereum ETFs (Jul 2024) created a new category of regulated audit client holding digital assets directly.
- Audit firms must now apply Investment Company Act frameworks alongside emerging digital asset-specific procedures simultaneously.
- Sponsors include major institutions like BlackRock and Fidelity, raising the bar for audit quality, documentation, and specialist expertise.
- Firms without established crypto audit capability risk exclusion from a rapidly expanding and high-profile client segment.

Crypto ETF Auditing: Key Risk Areas

- **Custody Verification** — On-chain holdings must be independently verified; standard confirmation procedures do not apply to cold storage wallet arrangements.
- **Fair Value and NAV** — Daily NAV strikes require evaluation of principal market determination and pricing methodology consistency with ASU 2023-08 and ASC 820.
- **Private Key Controls** — Multi-signature arrangements, key generation, access controls, and disaster recovery require specialized IT audit capabilities beyond standard ICFR testing.
- **In-Kind Transactions** — Creation and redemption mechanics involving on-chain transfers require point-in-time valuation and full transaction-level reconciliation.
- **Staking Income** — Ethereum ETF staking introduces unresolved income recognition, tax treatment, and control questions that auditors must actively monitor.
- **SAB 122 Impact** — Rescission of SAB 121 has changed how custodian banks account for client crypto holdings — auditors must reflect this in custody-related procedures.

DeFi Engagement and Associated Risks

- DeFi refers to financial services operating on blockchain platforms using smart contracts, which automate lending, borrowing, trading, and yield farming without traditional intermediaries like banks.
- Many DeFi protocols use smart contracts based on standardized frameworks such as the **ERC-20 token standard** on the Ethereum blockchain.
- **ERC-20** is a technical standard that defines a common set of rules for creating and managing tokens. It ensures interoperability between tokens and DeFi platforms by standardizing how tokens are transferred, approved, and queried.
- These standards allow different tokens and protocols to work together seamlessly, fostering a robust ecosystem but also introducing complexity.
- Smart contract vulnerabilities remain a critical risk — bugs or exploits in contract code can result in significant and irreversible financial losses.
- The DeFi audit challenge is significant: auditors need fluency in blockchain technology, smart contract logic, and decentralized protocol mechanics that differ fundamentally from traditional finance.

DeFi Engagement and Associated Risks (Contd.)

- The use of DeFi protocols is growing rapidly. It’s projected that engagement with DeFi will triple by 2026 as more investors explore decentralized financial products.
- Institutional and retail investors are increasingly attracted to DeFi because it offers accessibility, transparency, and innovative yield opportunities.
- However, this fast growth brings several risks:
  - Many organizations and individuals lack the specialized knowledge to fully understand the complexities of DeFi protocols and smart contracts because DeFi is a highly technical and rapidly evolving field that requires expertise in blockchain technology, coding, and financial mechanisms that differ significantly from traditional finance.
  - Regulatory environments are still evolving, which creates uncertainty and potential compliance challenges.
  - Market volatility and liquidity issues in DeFi tokens can also impact the value and stability of investments.
- As DeFi continues to evolve, balancing its promising opportunities with these risks will be essential for sustainable growth and responsible participation.

POLLING QUESTION

What is one major risk associated with DeFi's rapid growth?

a) Lack of internet access among users

b) Limited potential for innovation

c) Insufficient technical knowledge and regulatory uncertainty

Challenges in Valuation and Reporting

- Unlike traditional stocks, digital assets still lack comprehensive standardized valuation models across all asset types.
- A landmark development: FASB's ASU 2023-08 now requires fair value measurement for qualifying crypto assets, with changes recognized in net income — effective for fiscal years beginning after December 15, 2024.
- ASU 2023-08 is a significant step forward but applies only to fungible crypto assets held by business entities — NFTs, DeFi tokens, and other complex instruments remain outside its scope.
- Digital assets — especially DeFi tokens and illiquid altcoins — remain highly volatile, traded across fragmented markets with inconsistent pricing, making reliable fair value determination challenging.
- The gap in formal standards for non-qualifying assets means firms still face significant judgment calls and evolving practices.

Challenges in Valuation and Reporting (Contd.)

- Valuation approaches — market, income, and cost methods — must still be carefully adapted to each asset's unique characteristics, with consistent documentation remaining critical.
- DeFi adds complexity through lending, borrowing, and yield farming activities relying on smart contracts rather than traditional intermediaries, introducing new operational and valuation risks.
- The AICPA Digital Asset Valuation Guide (June 2024) remains a key reference, with updated practice aids in 2025 addressing its interaction with ASU 2023-08.
- This guide is best practice guidance — not an authoritative standard — and professional judgment remains essential, particularly for assets outside ASU 2023-08's scope.

Example: ASU 2023-08 Disclosure in Practice

Here 's what the new fair value disclosure actually look like in a 2025 audit:

3. Measurement of In-Scope Crypto Assets

The Partnership holds investment in crypto assets that are within the scope of ASC 350-60 (in-scope crypto assets). These assets are recorded at fair value. The Partnership's significant in-scope crypto assets, which are determined to be those that represent more than 5% of the Partnership's partners' capital, are included in the consolidated statement of condensed schedule of investments.

The table below presents a reconciliation of the opening and closing balances of the Partnership's in-scope crypto assets held during the year.

	Units	Fair Value
Beginning balance, at January 01, 2025	87,346	$ 38,872,734
Additions	4,412,567	317,845,569
Dispositions	(4,492,613)	(339,876,472)
Net realized gain		16,704,920
Net change in unrealized (depreciation)		(11,413,592)
Closing balance, at December 31, 2025	7,300	$ 22,133,159

The above reconciliation excludes stable coins and NFTs, as they do not fall under the definition of in-scope crypto assets per ASU 2023-08.

Additions include purchases and staking rewards each recognized at fair value on the date of addition. Dispositions include sales, and in-kind withdrawals, each recognized at fair value on the date of disposition. During the year ended December 31, 2025, the Partnership recognized net realized gain of $16,704,920 from in-scope crypto assets which represents the net of cumulative realized gains of $21,526,817 and cumulative realized losses of $4,821,897. These gains and losses represent the difference between the proceeds received and the cost basis of the in-scope crypto assets disposed of, determined using the specific identification method.

POLLING QUESTION

What major limitation currently affects the valuation and reporting of digital assets under accounting rules?

a) Overregulation by the SEC

b) Limited formal standards — ASU 2023-08

c) Excessive availability of pricing data

Emerging Audit Risks in 2026

1. AML Enforcement Has Become the Primary Regulatory Risk
Global AML-related fines exceeded $900 million in the first half of 2025 alone—outpacing securities classification cases
Transaction monitoring, KYC/AML, and sanctions screening are now core internal control areas
Audit implication: Auditors must test these controls with the same rigor as financial controls

2. Smart Contract Audits Are Now Mandatory
Once "best practice," now a hard licensing and listing requirement in Hong Kong, UAE, Singapore, and EU
Audit implication: We must assess whether clients have conducted required security audits—and whether those audits meet regulatory standards

3. Existence and Ownership—New Challenges
Airdrops appear with no purchase documentation, delivery mechanism, or counterparty relationship—traditional audit frameworks don't have a procedure for this
Forks create new assets—how do we verify ownership and determine valuation date?
Audit implication: New procedures are needed beyond standard confirmation processes

4. Audit Methodology Is Formalizing
PCAOB has identified crypto audits as high-risk—expectations now mirror those for banks and financial institutions
Auditors must demonstrate standardized, defensible procedures—not improvisation
Audit implication: Tolerance for informal explanations is falling fast

Technology Adoption and Talent Gaps

- AI-driven tax and audit platforms are now core infrastructure for digital asset compliance — tools across the crypto-native space and broader AI tax platforms are reducing manual workload and improving accuracy at scale.
- Blockchain analytics tools such as Chainalysis and Elliptic are increasingly relevant for audit procedures involving transaction tracing, wallet verification, and AML-related testing.
- Attracting tech-savvy talent and reskilling existing teams remains a top operational challenge for firms expanding into digital asset services.
- Firms should invest in structured training programs covering blockchain fundamentals, DeFi mechanics, and digital asset tax rules as baseline competency for client-facing staff.
- Automation is not optional — firms that embed technology into digital asset workflows now will hold a significant competitive advantage as client demand scales.

Strategic Recommendations for 2026

- Digital asset services must be treated as essential, not optional — client demand has outpaced the preparedness of most traditional audit and tax practices.
- Develop a formal digital asset policy covering client onboarding, engagement risk assessment, staff competency requirements, and technology infrastructure.
- Designate digital asset specialists within the firm — generalist knowledge is no longer sufficient as complexity across ETFs, DeFi, stablecoins, and tokenized assets deepens.
- Stay current with IRS guidance, FASB updates, PCAOB developments, and global frameworks including MiCA (Markets in Crypto-Assets Regulation) — regulatory change in this space is ongoing and rapid.
- Expect clients to demand nuanced, forward-looking guidance — basic compliance support is a commodity; strategic advisory is the differentiated offering.
- Professionals who build digital asset capability now will lead the field as broader adoption, new financial products, and real-time settlement models continue reshaping wealth management.
- Success in 2026 and beyond requires agility, cross-disciplinary collaboration, and a genuinely forward-thinking mindset.

POLLING QUESTION

What approach should firms take toward digital asset services?

a) Treat them as optional for select clients

b) Outsource them entirely

c) Treat them as essential and build internal capacity

THANKS FOR LISTENING

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