27 January 2023

# NOTICE

## Bermuda Monetary Authority (Authority or BMA) clarifies the accounting treatment for digital assets stored or maintained by Digital Asset Businesses on behalf of their customers

In 2020, the Authority consulted on the *Digital Asset Business Accounts Rules 2021* (Rules) that would stipulate the structure of the statutory financial returns submitted by relevant Digital Asset Businesses (DAB). The final Rules were published in February 2021 and apply to financial years commencing on or after 31 December 2020.

The *Digital Asset Business Act 2018* (DABA) defines a custodial wallet provider as the: "[…] provision of the services of storing or maintaining digital assets or a virtual wallet on behalf of a client."[1] Per its customer protection mandate, the Authority must interpret this definition in its broadest sense. Several DABs offer custodial wallet services, often in conjunction with other DAB activities, including the provision of digital asset exchange and digital asset derivative exchange services.

The present notice clarifies the Authority's interpretation of the accounting treatment for digital assets stored or maintained on behalf of a DAB's customers. For entities that store or maintain digital assets on behalf of their customers, the relevant assets and liabilities shall be presented on the DAB's statutory balance sheet and be subject to audit.

In consideration of the risk transfer associated with these activities, particular attention should be paid to Note 2 of Schedule II to the Rules, with regards to the description of the DAB's governance, risk management and internal controls, concerning the following financial and control assertions, as applicable:
- Existence of digital assets reported in the balance sheet
- Safekeeping and custody of digital assets
- Segregation of client assets

Finally, particular attention should also be paid to Note 3 of Schedule II to the Rules regarding valuation methods and active market definitions.

For any questions regarding this matter, please contact Fintech@bma.bm.

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[1] Section 2(1) of DABA.