

Crypto FAQ for RIAs



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The Future of Finance: RIAs' Burning Questions on Crypto

Amid an unprecedented wealth transfer, young investors are embracing cryptocurrencies, while advisors grapple with the unknown. As an RIA, your expertise in portfolio construction, risk understanding, and client alignment holds immense value.

RIAs may now extend this value to include the world of crypto, ensuring that your clients' financial journeys remain seamless and comprehensive in an evolving landscape. For these reasons, VanEck wants you to be in the know on the latest questions that are top of mind for RIAs as well as insights to help our RIA clients grow and better manage their wealth management practice.

RIA Frequently Asked Questions on Digital Assets

Can I charge clients fees on assets held in self custody?

Assets held in clients' self-custody wallets are, by nature, considered non-discretionary assets. As such, advisors can charge fees on those assets for recommendations and advice related to those assets.

What are other examples of RIAs charging advisory fees on non-securities?

RIAs often advise on assets beyond just securities, though the specific rules and regulations about what they can charge fees on will differ by jurisdiction and the particular terms of their registration. Examples of non-securities for which advisors might provide advice and recommendations include real estate investments, art and collectibles, business interests, and commodities.

Software solutions like RightCapital, eMoney, and MoneyGuidePro enable advisors to track and calculate fees based on the Assets Under Management or Assets Under Advisement assigned by them. Regardless of whether these fees result from securities or non-securities advisory services, they must be disclosed and agreed upon by clients.

For more information on disclosures and determining whether an asset falls under Assets Under Management or Assets Under Advisement, please refer to the SEC's Form ADV instructions: <https://www.sec.gov/about/forms/formadv-instructions.pdf>

What kinds of products and services can I make recommendations on?

Transaction recommendations are made directly on decentralized finance (DeFi) protocols, meaning advisors have access to an open ecosystem of applications, products, and services.

By leveraging DeFi, advisors get access to the deepest liquidity, tightest spreads, best prices, and most innovative and competitive products, such as swaps, liquidity providing, lending, staking, trading of fungible and non-fungible tokens, leverage, on-chain funds and special purpose vehicles, and more. Centralized alternatives lock advisors into a walled garden of products that have much higher fees and less flexibility for advisors and their clients.

Of course, an RIA's ADV must be updated to reflect this activity.

Are tokens considered securities? What happens if a token is deemed a security?

As documented in the [Ripple Labs vs. SEC Summary Judgement](#) filed on 07/13/23, programmatic, secondary sales of tokens are not considered to be securities. While this case is still in trial, it provides some clarity and a reference of how the trading of tokens in blind bid/ask transactions on decentralized exchanges and protocol is currently perceived by the courts.

If a token were to be deemed a security or for the specific purpose of tokenizing securities, the token would have to be held in qualified custody, subject to securities rules and regulations and any compliance requirements from the custodian.

How should RIAs manage the risk that a token is deemed a security?

Ideally, you as an RIA would set up all your clients with a qualified digital asset custodian (like Standard Custody or Gemini) in the crypto on-boarding process. That way, if a token is deemed a security, then custody could be moved to this qualified custodian. [Under New York law, it may be deemed adequate that a NY chartered bank custody security. The SEC is reviewing its rules as to what a qualified custodian is.]

So, as an RIA, the first step is to determine whether a token is a security. Consider two standards: (a) most conservative— if SEC alleges anywhere that a token is a security, it will have to be held at a custodian or (b) more balanced—if a third party determines it is a security (we look to crypto exchanges for example) then it will have to be held at a custodian.

It is best practice to let the RIA client choose which methodology to use to satisfy their comfort level. Worst case, if no custodian were available, the token would have to be excluded from the AUA calculation.

It is also possible that a token be considered a commodity interest, which would require other custodial considerations.

Qualification standards:

There are no licensing requirements for digital asset advisory. The industry has self-organized around two organizations that produce educational and training content to provide advisors with digital asset certifications. These organizations are PlannerDAO's CDAA certificate (link here: <https://www.certifieddigital.org>), and DACFP's certification and continuing education programs (link here: <https://dacfp.com/certificate/certificate-financial-advisor-track/>). We recommend both programs to advisors who ask us about certifications. They each provide different perspectives on the technology and potential of crypto in an advisor's practice and the industry.

Best Practices for Estate Planning and Tax Reporting:

- **Stay Informed:** Keep up with digital asset regulations and estate planning strategies.
- **Client Education:** Explain the importance of managing digital assets within financial and estate plans.
- **Inventory and Valuation:** Help clients track and value their digital assets accurately.
- **Security:** Emphasize strong security practices and include digital asset instructions in estate plans.
- **Estate Planning:** Update estate plans to include digital assets and designate a digital executor.
- **Tax Implications:** Inform clients about tax implications and suggest tax-efficient strategies.
- **Records and Documentation:** Advise clients to maintain detailed records of digital asset transactions.
- **Multi-signature Wallets:** Consider using multi-signature wallets for added security and estate planning.
- **Regular Reviews:** Encourage clients to review digital asset plans regularly.
- **Professional Assistance:** Recommend specialists for legal and tax advice.
- **Insurance:** Explore options for insuring digital assets.
- **Digital Estate Planning Tools:** Use specialized tools to streamline digital asset management.
- **Fiduciary Duty:** Fulfill fiduciary duty by making prudent decisions about digital assets.
- **Communication:** Keep clients informed about changes in the digital asset landscape.

Is there a specific platform that VanEck recommends for providing these services?

L1 Advisors is a web platform that enables financial professionals to track and advise on their clients' digital assets, even if those assets are held in self-custodied wallets or at a centralized crypto exchange. More specifically, it provides advisors and clients with an interface to track crypto assets and portfolio positions as well as send and receive transaction recommendations without ever leaving the L1 interface.

The platform enables advisors to charge a fee on assets advised on through the platform. Additionally, L1 provides risk management and goal setting tools tied to a client's wallets and positions, which are updated in real-time. L1 also integrates with platforms like BlackDiamond and Salesforce to bring on-chain data to an advisor's back office for each client account.

We believe [L1Advisors.com](https://www.l1advisors.com) is a potential solution to empower Registered Investment Advisors (RIAs) to confidently guide clients through both traditional and digital assets. To reiterate, as an RIA, your expertise in portfolio construction, risk understanding, and client alignment holds immense value.

L1Advisors offers features that not only streamline crypto wealth management but could also contribute to the growth of your RIA practice.

Get the Complete Picture of Your Client's Assets

L1 offers a non-custodial solution for gaining insights into your crypto-native clients' holdings. Gain insights into your clients' comfort with risk and continuously monitor their exposure in real-time. Provide more holistic wealth management advice by seamlessly assisting them in tracking and advancing towards their financial objectives.

Nurture Stronger Client Relationships

L1Advisors goes beyond portfolio management. It's a tool that enables you to work more closely with self-custodied clients, fostering a deeper level of collaboration. By offering insights into their crypto portfolios and aligning strategies with their risk tolerance, you solidify your position as a trusted advisor who truly understands their goals.

Seamless Integration for Enhanced Efficiency

Incorporating L1Advisors into your practice enhances operational efficiency. The tool seamlessly integrates on-chain data into your existing back-office systems. This integration not only streamlines your workflow but also provides a comprehensive view of your client's entire financial picture, facilitating more informed decision-making.

Earn Fees for Advice on Self-custodied Crypto Assets

L1Advisors empowers you to deliver specialized advice. This platform defines and accounts for those assets as Assets Under Advisement (AUAs) and it enables advisors to charge an AUA (%-based) fee, or a minimum monthly amount, to their clients who hold assets in self-custodied wallets. It also facilitates the recommendation of transactions for those assets, which can be set and sent by the advisor and simply signed by the client to accept them. Clients have full discretion so they can reject recommendations as well.

Building Your Digital Footprint

In a landscape that's rapidly becoming digital-first, leveraging tools like L1Advisors.com demonstrates your commitment to embracing technology to enhance the client experience. As you navigate the world of digital assets, your ability to offer solutions like L1Advisors.com positions you as an RIA who's attuned to the changing needs of modern investors.

Conclusion

The rise of cryptocurrencies has opened a new chapter in the world of finance. For RIAs, it's an opportunity to redefine their role, strengthen their practice, and cater to the needs of a generation of investors seeking guidance in the digital age. L1Advisors.com isn't just a tool; it's a transformative solution that enables RIAs to bridge the gap between traditional wealth management and the demands of the crypto landscape.

By leveraging L1Advisors you're not just managing crypto portfolios – you're shaping the future of your practice and the financial success of your clients.

If you would like to learn more, we encourage you to reach out to your respective VanEck regional Director to answer questions or to schedule a demo of L1Advisors.com.

Disclaimer: VanEck has an equity ownership interest in L1 Advisors.

Risk Considerations

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