

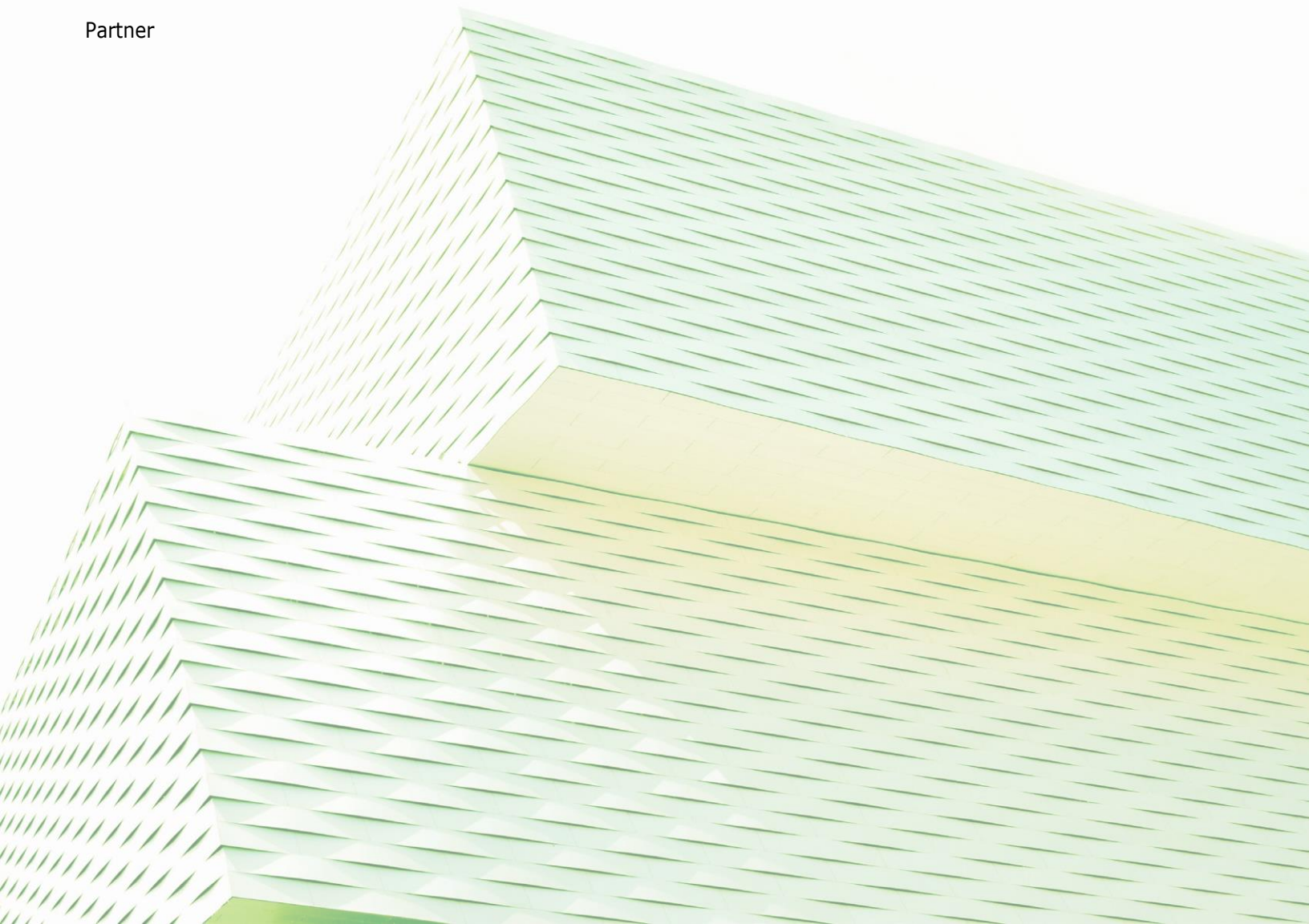
SAB 121 Rescission: Impact on M&A in The Crypto Space

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AUTHOR

Michael S. Klena

Partner



Brief Context

BEFORE DIVING IN

INTRODUCTION

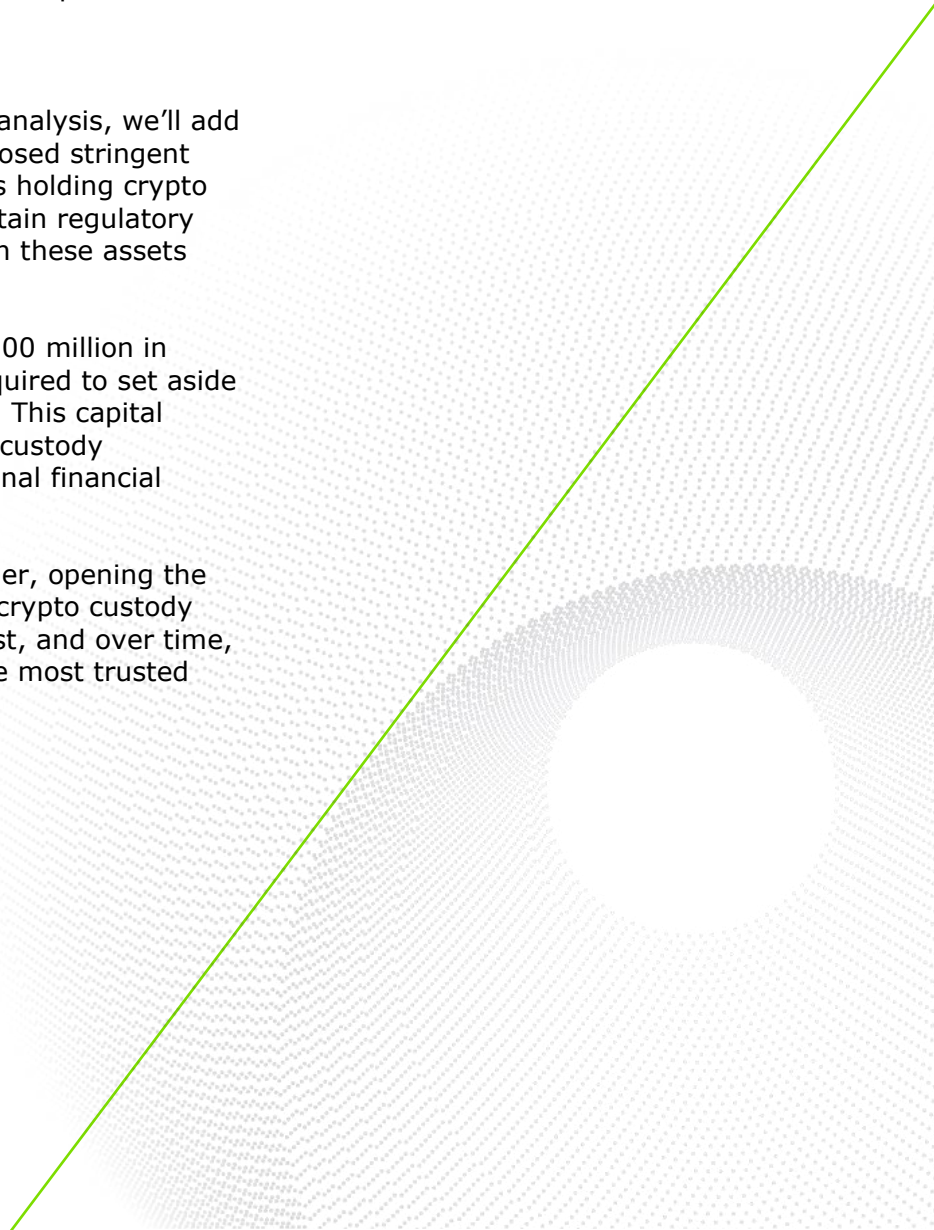
The cryptocurrency landscape is rapidly evolving, with regulatory changes playing a pivotal role. The SEC's shift on Staff Accounting Bulletin (SAB) 121 is a significant development with far-reaching consequences, particularly for M&A activity. We share our thoughts on these impacts and their influence on potential acquisitions.

SAB 121: A RECAP

While numerous resources provide in-depth analysis, we'll add our oversimplified explanation. SAB 121 imposed stringent requirements on public banks and custodians holding crypto assets. It mandated that these entities maintain regulatory capital against custodied crypto, even though these assets weren't their own.

For example, if Big Global Bank custodied \$100 million in Bitcoin for Blackrock's ETF, the bank was required to set aside an equivalent \$100 million of its own capital. This capital requirement, unique to crypto assets, made custody prohibitively expensive, discouraging traditional financial institutions from entering the space.

The rescission of SAB 121 removes this barrier, opening the door for traditional banks to compete in the crypto custody arena. Custody is fundamentally built on trust, and over time, market share will likely gravitate towards the most trusted providers.



Direct M&A Impact on the Crypto Industry.

The key question is: now that major traditional banks are free to hold crypto, will they? And if so, can they?

Will They?

The answer is yes, driven by strong client demand fueled by the launch of Bitcoin and Ethereum ETFs. These banks already manage the assets of mutual fund giants, and the inability to offer crypto custody has been a pain point. Now that they can, expect aggressive pricing strategies to retain and expand these crucial client relationships.

Can They?

Successfully navigating crypto requires a new tech stack, specialized processes, robust risk management, and specific expertise. While many large banks have explored these areas through proof-of-concept projects, the fastest and most efficient way to acquire the necessary capabilities is through acquisition. This suggests increased M&A activity targeting firms with established crypto custody infrastructure and technology.

Indirect M&A Impact on the Crypto Industry.

An ecosystem of services is built on top of a custody offering. Large banks also function as prime brokers, offering bundled services like lending, credit, custody, and trading.

With the ability to now offer crypto custody, prime brokers will be incentivized to integrate it into their existing service packages. The financial incentives and client demand are compelling, and traditional prime brokers are eager to retain their client relationships and wallet share. Adding crypto custody prevents competitors from gaining a foothold with their key clients.

Putting It All Together

M&A Outlook

The regulatory changes outlined above will impact the crypto industry. **Key takeaways include:**

Traditional global custodians entering crypto

custody: This will drive M&A as banks seek to acquire the necessary expertise and technology.

- Targets will include existing crypto custody providers and related technology firms.

Native crypto custody firms: will now have increased competition from traditional custodians, so will look to consolidate and build scale

- Targets will include existing crypto custody providers

Traditional prime brokers expanding their offerings:

The ability to offer comprehensive crypto services will prompt prime brokers to enhance their trading capabilities and to expand product offered to clients.

- Targets will include trading firms to improve internal processes and crypto trading expertise.
- Targets will also include trading technology/order management/portfolio management products targets to expand products to bundle for their clients.

Overall M&A activity: Expect a lively M&A market for the remainder of the year.



ABOUT

Architect Partners

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Architect Partners offers unparalleled senior judgment and expertise, delivering premium-value results for its clients. The Architect Partners team has completed over 350 transactions worth over \$30B in value across the globe.

Our Architect Insights commentary brings an informed perspective backed by hard-earned lessons from the early years of tech, crypto, and fintech. We don't have a content authoring department—every member of the team is responsible for analyzing key transactions and sharing our insights on industry dynamics. To date, we've published over 850 M&A Alerts and Ecosystem Insights, all openly shared on our site and via email.



CONTACT INFORMATION:
michael@architectpartners.com



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