



NATIONAL ASSOCIATION OF  
STATE TREASURERS

# Crypto 101: A Webinar Series for Public Finance Officers

**Session 3 –  
Managing Risk: What Public Officials Need to Watch**

Thursday, December 4

Moderated by Monica Mezzapelle  
State Treasurer of New Hampshire

# Panel members



Speakers and corporate affiliate members:

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 **CERES Coin**

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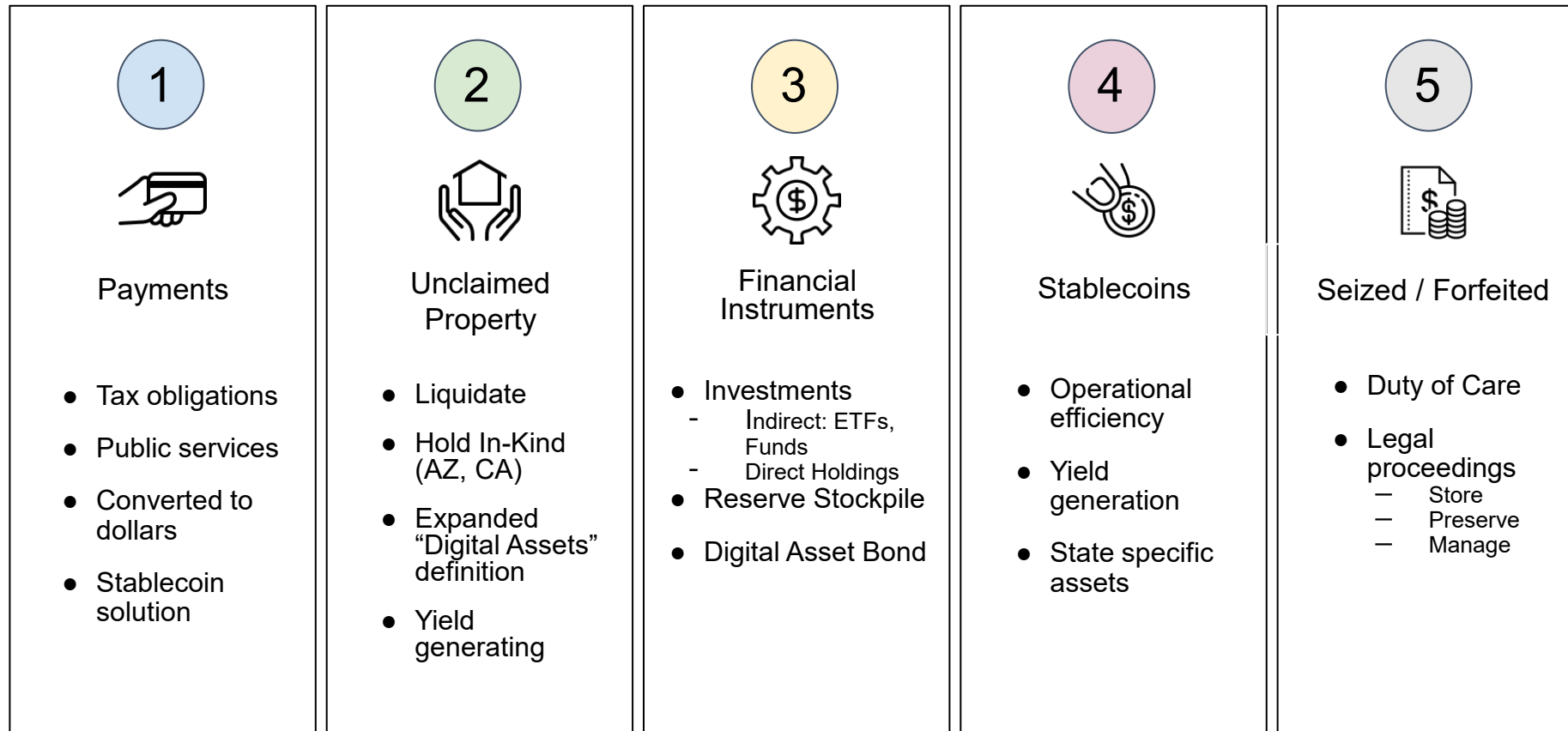
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# Managing Risk

A Holistic Overview of Risk Management

Presented by:  Wave Digital Assets

# How Are States Interacting With Digital Assets Today



# Holistic Overview of Risk Management

## Step 1 – Intake of Assets



### Goal

Ensure digital assets entering state control are legitimate, compliant, safe to hold, and accurately understood; avoiding legal, regulatory, financial, or reputational risk.

### Key Risks for States

#### Knowing Where the Assets Came From

1. Illicit or tainted transaction history
2. Incomplete or unclear provenance
3. Counterfeit or unstable tokens
4. High-risk or unverified counterparties
5. Blacklisted, frozen, or obfuscated wallets

#### Knowing What the State Actually Holds

1. Misidentified asset types (wrapped, staked, NFT, RWA, DeFi)
2. Missed entitlements (airdrops, forks, rewards)
3. “Red-flagged” tokens with delisting, volatility, or low-liquidity risks

### Recommendations

#### Track & Trace Firm

Blockchain analytics that trace wallets, assess risk, and verify asset legitimacy. [Chainalysis](#), [TRM Labs](#), [Elliptics](#), etc.

#### Crypto RIA

Regulated adviser that identifies, values, and manages digital assets and entitlements. [Wave Digital Assets LLC](#), [Galaxy Asset Management](#), etc.

#### Why They Matter for States

1. Verify ownership & legitimacy
2. Identify asset type
3. Capture asset entitlements
4. Support audits & investigations
5. Provide AML/KYC checks

# Holistic Overview of Risk Management

## Step 2 – Safeguarding Assets



### Goal

Protect digital assets from loss, theft, mismanagement, or operational failure while meeting the state's duty of care to safeguard public assets.

### Key Risks for States

1. Improper custody setup (exchange, custodian, self custody)
2. Transfer/key handling errors
3. Internal or external hacks
4. Limited or no insurance
5. Regulatory non-compliance
6. Weak SOC 1 / SOC 2 controls
7. Unsupported tokens/assets
8. Counterparty bankruptcy risk
9. Tech outages or failures
10. No or limited support

### Recommendations

Utilize Qualified Custodian(s): A regulated entity legally authorized to safeguard client assets with strict controls, audits, and segregation requirements.  
[Anchorage](#), [BitGo](#), [Kraken Custody](#), [Coinbase Custody](#)

1. Utilize 1 or more qualified custodians
2. Implement MPC/cold storage
3. Require SOC 1 / SOC 2 controls
4. Maintain insurance coverage
5. Engage a Crypto RIA for oversight

### Why They Matter for States

1. Protect against loss, theft, hacks
2. Ensure regulatory compliance
3. Reduce operational errors
4. Lower counterparty failure risk
5. Improve auditability & transparency

# Digital Asset Custody Overview



	Exchange Platform that holds your assets to enable trading	Custodian Regulated entity that securely stores assets on your behalf	Self-Custody You hold and control your own private keys
Who controls keys?	Exchange	Custodian	User
Asset segregation	Pooled / omnibus wallets	Segregated by law	N/A
Primary purpose	Trading	Safe Keeping	User Control
Security level	Medium	High	Varies by user skill
Regulatory status	Trading Platform	Often qualified custodian	N/A
Bankruptcy protection	No	Yes (if QC)	N/A
Recovery options	Limited or none	Strong recovery/insurance	None (lose keys = lost assets)
Ease of use	Easiest	Moderate	Hardest
Risk profile	Counterparty + hacking risk	Operational + custodian trust	Human error + physical loss

# Holistic Overview of Risk Management

## Step 3 – Maintenance: Position Monitoring & Reporting Assets



### Goal

Ensure accurate, real-time tracking, valuation, and reporting of digital assets to maintain accountability and fulfill fiduciary and audit obligations.

### Key Risks for States

1. Inaccurate or incomplete position tracking
2. Lost visibility across multiple wallets/custodians
3. Missing or incorrect valuations
4. Gaps in audit trails or transaction history
5. Failure to detect unauthorized activity or errors

### Recommendations

Utilize Digital Asset Reporting Platform: Independent tools that track, value, and reconcile digital asset holdings across wallets and custodians, providing real-time visibility and audit-ready reporting. [Lukka](#), [TaxBit](#)

1. Maintain centralized inventory of all wallets and custodians
2. Enable real-time monitoring and alerts
3. Integrate reporting with accounting/financial systems
4. Establish regular reconciliation and audit procedures

### Why They Matter for States

1. Improves asset accountability
2. Reduces reporting errors
3. Supports audits & compliance
4. Detects issues early
5. Maintains public trust



# Holistic Overview of Risk Management

## Step 4 – Management of Digital Assets



### Goal

Safely return, liquidate, or manage digital assets while minimizing risk, maximizing value, and meeting fiduciary obligations.

### Key Risks for States

1. Volatility & downside risk — rapid price swings impacting liquidation or portfolio value
2. Underperformance vs. benchmarks — poor timing or execution reducing returns
3. Loss or errors during market interaction — failed transfers, slippage, or smart-contract issues
4. Counterparty failure — exchange/OTC desk insolvency or disruption during execution
5. Mismanaged asset specifics — wrong asset type, missed entitlements, or “red-flag” tokens (delisting, low liquidity)

### Recommendations

Utilize Fiduciary Crypto RIAs: Regulated advisers that manage digital assets with a legal duty to act in the state’s best interest, handling trading, execution, and portfolio decisions with fiduciary oversight. [Wave Digital Assets LLC](#), [Galaxy Asset Management](#), etc.

1. Provide fiduciary trading & execution
2. Manage liquidations & return of assets
3. Oversee portfolio management and rebalancing
4. Evaluate asset types, risks, and entitlements
5. Maintain audit trails, reporting, and compliance

### Why They Matter for States

1. Work to minimize loss from volatility and red-flag assets
2. Help ensure compliance with regulatory requirements
3. Reduce counterparty and execution risk
4. Maintain auditability & transparency
5. Seek to maximize value while minimizing market impact



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# Practical Evaluation

Putting the Risk Management Framework to Use

Presented by:  **CERES Coin**

# Six Questions to Ask Any Digital Asset Proposal



- 1. What exactly am I buying?**  
Legal form (fund, SPV, tokenized note/certificate, stablecoin) and underlying assets
- 2. How is it regulated and where is it domiciled?**  
Identify the regulator (SEC, banking, state securities) and governing law
- 3. Where does the money sit, and who can move it?**  
Segregated FBO accounts, bankruptcy-remote structures, MPC/dual control
- 4. How fast can I get my money out?**  
Documented T+0/T+1 process, gates/pauses, and stress-tested liquidity
- 5. What independent testing has been done?**  
SOC 1 Type II, SOC 2 Type II, smart-contract audits, pen tests
- 6. What reporting will my auditors receive?**  
Daily balances, transaction logs, reconciliations, and custodian statements

# What Am I Buying?

## High and Low Risk Examples



ASPECT	WhateverCoin (High-Trading Meme Coin Example)	CERES Coin (SEC-Registered Yield-Generating Stablecoin)
LEGAL FORM	Decentralized cryptocurrency token (meme coin) on the Solana blockchain. No formal legal structure or regulatory oversight; created via smart contract by an anonymous developer.	Security issued by an investment company registered under Section 8(a) of the Investment Company Act of 1940. Exempt from "payment stablecoin" regulations under the GENIUS Act (signed July 18, 2025), allowing compliant operation as a security.
WHAT YOU OWN	A certain number of fungible digital tokens (SPL tokens) stored in a compatible Solana wallet (e.g., Phantom). Ownership is purely of the tokens themselves, with no claim to external value or assets.	Tokens representing a pro-rata share in an underlying U.S. Treasury-backed money market fund (e.g., M3SIXTY MCGXX with a stable \$1.00 NAV). You own a tokenized security that generates yield while maintaining stability.
UNDERLYING ASSETS	None. Value is driven entirely by speculation, community hype, and viral memes (e.g., trends or jokes). No backing, collateral, or real-world assets—prices are susceptible to extreme volatility without intrinsic support.	U.S. Treasury-backed money market funds, providing direct exposure to government securities. This structure supports U.S. debt financing and aligns with Treasury Secretary Scott Bessent's vision for stablecoins as tools for financial stability.
RIGHTS OF HOLDERS	Limited to holding, trading, or transferring tokens on exchanges or DEXes. Potential community-driven features like voting on memes or staking for "Methane Credits" (unimplemented as of December 2025), but no guaranteed income, voting rights in a company, or legal protections. High risk of loss due to whale concentration (85% held by top 10 addresses) and pump-and-dump schemes.	Yield generation (2-3.5% from Treasury investments), unrestricted peer-to-peer transfers, fraud-resistant blockchain security via patents (US 12,141,769; US 11,055,677; US 11,797,955), and compliance with KYC/AML. Holders benefit from transparency, auditability, and integration into government programs (e.g., Mississippi's 529 LOI), reducing waste in areas like SNAP (\$10B annual overpayments). As an SDVOSB-owned asset, it prioritizes eligibility for state/federal contracts.

# Extra Questions for Stablecoins & Tokenized Cash Products



- 1. What backs it?**  
100% cash, T-bills, or 2a-7 MMF reserves vs. corporate paper, loans, or crypto collateral
- 2. Where are reserves held?**  
Segregated, bankruptcy-remote accounts vs. commingled operating cash
- 3. How do redemptions work?**  
Direct redemption at par, T+0/T+1, and whether the issuer can gate or pause
- 4. What is its regulatory classification?**  
Money market instrument, tokenized MMF share, payment stablecoin, or something else
- 5. How is custody handled?**  
Qualified custodian, MPC/multi-sig, state-controlled wallets, or vendor-only custody
- 6. How do on-chain and off-chain records reconcile?**  
Clear linkage to the state's books, ledgers, and auditor workflows

# When It's a Disbursement Vendor, Not an Investment



1. **Program compliance:**  
Alignment with SNAP/TANF/federal guidelines, OMB rules, and benefit-use restrictions
2. **Beneficiary protections:**  
Errors, fraud, dispute resolution, and who bears financial responsibility
3. **Identity, KYC & eligibility:**  
Onboarding flows for unbanked/underbanked and verification of program eligibility
4. **Operational SLAs:**  
Uptime, settlement times, customer support, and incident-response guarantees
5. **Integration with state systems:**  
ERP/payroll/benefits integration, APIs, batch uploads, reconciliation
6. **Data security & privacy:**  
PII protection, SOC 2 Type II coverage, encryption, access controls

# Join us for the remaining webinars

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## **Session 4 – The Road Ahead: Future Trends and Public Sector Preparedness**

Look ahead at stablecoins, central bank digital currencies, and other emerging trends. We'll discuss what these developments could mean for treasuries, public funds, and citizen services.

Thursday, December 11 at 1 pm ET/ 12 noon CT/ 11 am MT/ 10 am PT.

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