



Bitcoin Treasury Framework

BTC Treasury Adoption Guidance

Company Configuration

COMPANY TYPE

Government Entity

COMPANY SIZE

Large (251-1000 employees)

INDUSTRY

Financial Services

JURISDICTION

United Kingdom

PLANNED ALLOCATION

2% of Treasury

RISK ASSESSMENT

Low Risk

⚠️ IMPORTANT LEGAL DISCLAIMER

This framework provides general guidance based on current information and is for informational purposes only. It does not constitute legal, tax, accounting, or financial advice. Bitcoin regulations vary significantly by jurisdiction and are subject to frequent changes. Always consult with qualified legal, tax, accounting, and financial advisors before making any treasury decisions. House of Bitcoin and its affiliates assume no liability for any decisions made based on this framework.

Treasury Allocation Risk Profile

Allocation: 2% of treasury reserves

Risk Level: Low

Assessment: Conservative approach, suitable for initial adoption

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No

This framework is designed for a UK-based government entity (e.g., an Arm's Length Body or Executive Agency) in the financial services sector. It aligns with the UK's ambition to become a global cryptoasset hub while adhering to the rigorous "Managing Public Money" (MPM) standards and IFRS accounting.

• 1. REGULATORY LANDSCAPE

- **Legal Status:** Under the **Property (Digital Assets) Bill (2024/25)**, Bitcoin is legally recognized as a "third category" of personal property in the UK. This provides clear legal recourse in cases of dispute or insolvency. It is not legal tender.
- **Tax Treatment:** HMRC treats Bitcoin as a capital asset. For a corporate entity, gains/losses are subject to **Corporation Tax (currently 25%)**. The "Cryptoasset Manual" provides specific guidance on pooling and disposal rules (similar to Section 104 holdings).
- **Regulatory Bodies:** The **Financial Conduct Authority (FCA)** oversees AML/CTF registration. Since 2024, the **Financial Services and Markets Act 2023 (FSMA)** brings cryptoassets into the "designated activities" regime, requiring firms to follow strict marketing and conduct rules.
- **Compliance:** Entities must ensure any UK-based exchange or custodian used is on the **FCA's MLR Register**. Currently, over 85% of applicants fail this registration, making vendor selection critical.
- **Recent Updates:** The UK is finalizing a bespoke regime for **Fiat-backed Stablecoins** and "Staking" in 2025; while Bitcoin is distinct, it falls under the broader "Regulated Activities Order" expansions.

• 2. ACCOUNTING CONSIDERATIONS

- **Standards (IFRS):** Under IFRS (mandated for UK public bodies), Bitcoin is generally classified as an **Intangible Asset (IAS 38)** because it lacks physical substance and is not a financial asset (as it's not a contract).

- **Valuation & Impairment:** UK entities typically use the **Cost Model**. Bitcoin is recorded at cost and tested annually for impairment. Under IAS 36, if the market price falls below cost, an impairment loss must be recognized in the P&L; however, upward revaluations are restricted unless an active market is used under the Revaluation Model (rare for public bodies).
- **Inventory Exception:** If the entity actively trades Bitcoin (unlikely for a government treasury), it may fall under **IAS 2 (Inventory)**, measured at fair value less costs to sell.
- **Balance Sheet Classification:** Listed under "Non-Current Assets" unless a disposal is planned within 12 months.
- **HMT Reporting:** Government entities must report holdings in accordance with the **Financial Reporting Manual (FReM)**, requiring additional disclosures on volatility risks to HM Treasury.

• 3. CUSTODY & SECURITY

- **Institutional Custody:** For a government entity of 250+ employees, **qualified institutional custody** is mandatory. Self-custody (hardware wallets) introduces unacceptable "key person risk." Use UK-based, FCA-registered custodians (e.g., Copper, Komainu, or Fidelity Digital Assets).
- **Multi-Signature / MPC:** Implement a **3-of-5 or 4-of-6 Quorum**. Use Multi-Party Computation (MPC) technology to ensure no single employee or director has access to the private keys.
- **Insurance:** Ensure the custodian carries **Specie Insurance** (physical loss) and **Crime Insurance** (internal fraud/hacking). Verify that the policy limit covers at least 100% of the AUM (Assets Under Management).
- **Proof of Reserves:** Mandate quarterly, third-party audited **Proof of Reserves (PoR)** and SOC 1 Type II / SOC 2 Type II reports from the custodian.

• 4. GOVERNANCE FRAMEWORK

- **Board Approval:** Formal amendment of the **Treasury Management Policy**. Requires sign-off from the Accounting Officer (CEO) and the Audit & Risk Committee.
- **Investment Policy Statement (IPS):** Define a "Maximum Allocation" (e.g., **1% to 3% of liquid reserves**) to mitigate the impact of a 50%+ drawdown on the total balance sheet.

- **Execution Strategy:** Use Time-Weighted Average Price (TWAP) or Dollar-Cost Averaging (DCA) over a 3-6 month window to enter positions, avoiding market slippage on large blocks.
- **Rebalancing:** Set "Hard Caps." If Bitcoin appreciation causes it to exceed 5% of total reserves, a mandatory "rebalance-to-target" sell-off is triggered to harvest gains and manage risk.

• 5. RISK MANAGEMENT

- **Volatility Management:** Bitcoin's annualized volatility remains ~50-60%. Use **Value at Risk (VaR)** modeling to simulate "Black Swan" events (80% drawdown) and ensure the entity remains solvent under MPM guidelines.
- **Counterparty Risk:** Only utilize exchanges with deep liquidity and FCA registration. Avoid offshore "unregulated" platforms (e.g., Binance International, ByBit) to comply with UK financial promotion rules.
- **Operational Risk:** Establish a "**Four-Eyes**" principle for all outbound transfers. Any movement of funds above a certain threshold (e.g., £50,000) must be initiated by Treasury and authorized by the CFO.
- **Political/Reputational Risk:** Draft a "Communications Protocol" to address public/parliamentary scrutiny regarding the use of public funds for volatile assets.

• 6. TREASURY IMPLEMENTATION ROADMAP

- **Phase 1: Education (Month 1):** Briefing the Board and Audit Committee on the "Store of Value" thesis vs. speculative risks.
- **Phase 2: Legal & Tax Opinion (Month 2):** Commission a UK "Big 4" or top-tier law firm to provide a formal tax and regulatory opinion for the specific entity type.
- **Phase 3: Policy Update (Month 3):** Formally update the *Investment Strategy Statement* and *Internal Control Framework*.
- **Phase 4: Procurement (Month 4):** Run a competitive tender (G-Cloud or similar framework) for an FCA-registered custodian and execution partner.
- **Phase 5: Pilot Allocation (Month 5):** Execute a small "test" buy (e.g., 0.1% of reserves) to test the plumbing, reporting, and accounting flows.

- **Phase 6: Full Implementation (Month 6-12):** Gradual DCA into the target allocation.
- **Phase 7: Ongoing Monitoring:** Monthly reporting to the Treasury Committee and annual impairment reviews.

• 7. DUE DILIGENCE CHECKLIST

- [] Does the provider hold **FCA MLR Registration**?
- [] Is there a **SOC 2 Type II** report available for the custody environment?
- [] Are the assets held in **segregated bankruptcy-remote accounts** (on-chain)?
- [] Does the custodian have a **UK-based legal entity** for jurisdictional ease?
- [] What is the **withdrawal latency** (e.g., 24-hour time lock)?
- [] Is the **insurance policy** underwritten by a reputable syndicate (e.g., Lloyd's of London)?
- [] Are **AML/KYC procedures** compliant with the UK Money Laundering Regulations 2017?

• 8. KEY RESOURCES & CONTACTS

- **FCA Crypto Hub:** The primary portal for regulatory status and warnings.
- **HMRC Cryptoasset Manual (CRYPTO):** Essential for Corporation Tax compliance.
- **CryptoUK:** The UK's self-regulatory trade association for cryptoassets (useful for benchmarking).
- **HM Treasury (Financial Services Strategy):** For policy papers on the future of digital assets.
- **UK Jurisdiction Taskforce (UKJT):** For legal statements on the status of cryptoassets and smart contracts.



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