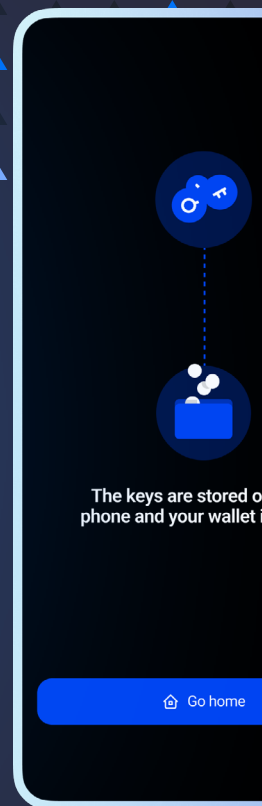
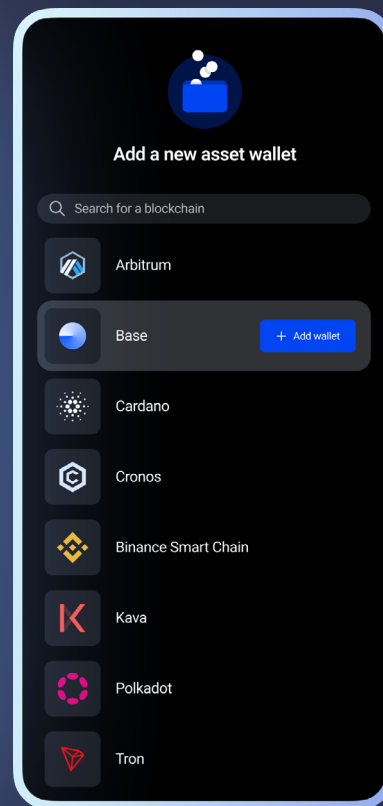
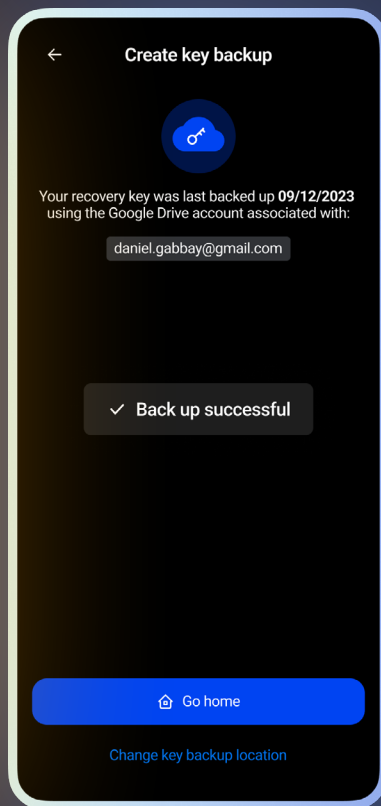
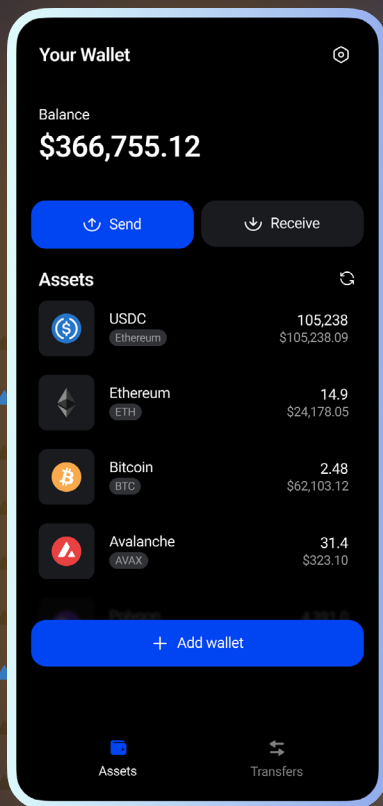


# Unlocking Web3 for Businesses: Security, Compliance, and Custody



# Unlocking Web3 for Businesses: Security, Compliance, and Custody

## Why Businesses are Embracing Web3

Corporations and digital businesses are looking to the blockchain and Web3 spaces to enhance their customers' experience with their brands. The benefits of blockchain are centered around decentralization and an ownership layer that provides individuals with more control over their data and assets. Unlike Web2, blockchain technology enables all activities in the Web3 space to be distributed and tamper-proof, delivering an immutable record of every transaction and elevating customer trust.

Since the rise of Web3, corporations have shown substantial interest for compelling reasons, including the ability to:

- ▲ **Create new revenue streams by reaching untapped demographics:** Web3 resonates with people excited about its decentralization principles, and appeals to a generation that has embraced wallets and digital assets as part of their online interactions. This creates the opportunity for new or enhanced business models and revenue streams across untapped markets and new demographics.
- ▲ **Enhance loyalty and increase engagement:** Unlike current web platforms, where user participation can feel transactional, Web3 offers systems like token-based rewards tailored to a user's habits. Users often have a more vested interest in the brand's products and services, fostering a deeper sense of community and brand loyalty.

- ▲ **Improve customer relationship management:** The immutability of the blockchain ensures the integrity of your customers' data. Businesses can streamline processes using smart contracts and also use the data to measure user interactions, which enables them to create new product or service offerings.

This whitepaper is for anyone interested in bringing a Web3 strategy to market. You'll gain insights on real-world Web3 case studies and technology requirements. It features adoption challenges that businesses are likely to encounter, including reputational risks, regulatory and compliance considerations, wallet and custody explanations and use cases, and technology and expertise needed for your company to launch a successful Web3 offering.

#### WEB3

### Enterprise-grade Technology Requirements

Identifying the right custody and wallet solution is essential to the success of your Web3 strategy. Multiple stakeholders must be involved, including executive leadership, IT and the development team, finance, legal, and marketing.

#### KEY REQUIREMENTS TO CONSIDER

- ▲ Corporate-grade key management and wallet security
- ▲ Governance and policy management
- ▲ Secure smart contract management and tokenization
- ▲ Flexible and scalable

[Read the list of requirements](#)

# Table of Contents

05	Navigating Web3 Challenges and Uncertainties
08	Wallet and Custody Types
11	Web3 Technology Requirements for Different Corporate Stakeholders
13	Web3 Case Studies

# Navigating Web3 Challenges and Uncertainties

Many corporate leaders approach Web3 with cautious optimism and view it as the inevitable next step in digital transformation and an opportunity to create new value streams. However, this optimism comes with a dose of caution, often centered around reputational risk, regulatory uncertainties, and security.

## Reputational Risks

Reputational risks associated with Web3 substantially impact companies if they are unprepared for decentralized systems' nuances or do not choose the right technology partner. Reputational concerns include:

- ▲ Project failures
- ▲ Data breaches
- ▲ Security failures
- ▲ Regulatory backlash
- ▲ Environmental concerns
- ▲ Poor governance

Plan and prepare to respond to reputational risk to avoid damage to the brand and prevent stakeholder mistrust. Partnering with the right technology companies that can help manage/mitigate such risks is critical to achieving your Web3 vision.

## Regulatory and Compliance

Regulations vary widely across different regions and play an essential role in ensuring fairness, safety, and accountability across industries, aiming to protect businesses and the general public. The following information is an overview of the state of regulations related to digital assets in the United States.



### CASE STUDY

[Full-contact Karate Sports League Establishes a Command Center for its Web3 Digital Operations](#)

## U.S. Securities and Exchange Commission

The U.S. Securities and Exchange Commission (SEC) enforces federal securities laws and regulates the securities industry and exchanges. The rapid evolution of cryptocurrencies and other digital assets like Ethereum (ETH), Bitcoin (BTH), and NFTs has presented unique challenges to the SEC's traditional regulatory framework. The commission's approach to classifying digital assets remains ambiguous. The SEC has attempted to advance regulations for years and gained significant momentum after the FTX fallout in November 2022. Here is the SEC Crypto Crackdown Timeline featured in the Forbes article, "[How Does The SEC Regulate Crypto.](#)" This lack of clarity is often problematic for businesses as they grapple with how to treat these assets on their balance sheet.

Regardless of region, here are some important regulatory and compliance questions to consider:

- ▲ How is the cryptocurrency or tokens we're considering classified in our region/ jurisdiction (e.g., as a security, non-fungible token (NFT), stablecoin, or utility token?)
- ▲ Are we operating or transacting in multiple jurisdictions? If so, how does the regulatory environment differ across these regions?
- ▲ How are cryptocurrency transactions treated for tax purposes in our jurisdiction?
- ▲ What are the reporting requirements for crypto transactions?
- ▲ What about anti-money laundering (AML) and Know Your Customer (KYC) obligations?
- ▲ How do we ensure the security and protection of our digital assets?

## U.S. Crypto Tax Reporting

The U.S. Internal Revenue Service (IRS) and the U.S. Treasury Department introduced a new rule that requires cryptocurrency brokers to complete a report related to users' sales and exchanges of digital assets to the IRS. The law applies to centralized and decentralized digital asset trading platforms, crypto payment processors, and certain online wallets where users store digital assets. The rule would cover cryptocurrencies like BTC, ETH, and NFTs. A new tax reporting form called 1099-DA is available to help crypto users determine if they owe taxes ([Reuters.com](#)).

Understanding regulatory, compliance, and tax obligations in your country and jurisdiction is critical to delivering a successful Web3 offering strategy. It is, therefore, crucial to develop strategic relationships with trusted Web3 or crypto technology providers with knowledge, know-how, and a track record for adhering to regulatory requirements.

## Wallet Technology and Security

Blockchain technology was not conceptualized with corporate enterprises as the primary users. Once data is committed to the blockchain, it cannot be altered. While this provides trust and transparency, it also means fraudulent transactions are permanently recorded and cannot be reversed. This state of permanence is why hackers constantly look for ways to exploit weaknesses and vulnerabilities at every opportunity.

As enterprises cannot easily and simply adopt Web3, they must build or integrate tools that enable wallet security, policies, and procedures tailored to transact and interact on the blockchain to derive value. Security isn't just a requirement for Web3; it's foundational. Wallet technology and security are the cornerstones to safeguarding wallet transactions on the blockchain. Corporations must consider secure wallet technology and infrastructure in anticipation of potential threats.

Web3 also brings a new set of governance and policy challenges. Traditional governance structures and policies that corporations have relied upon may need to be revised to accommodate the nuances and complexities of managing digital assets. Corporations must create policies or adapt their existing systems to ensure they comply with the ever-evolving regulatory landscape and are protected against internal threats.

Flipkart 

CASE STUDY

[eCommerce Company Advances Rewards Program with Web3 Technology](#)

# Wallet and Custody Types

Custody relates to how digital assets are held and managed. Each wallet type and wallet provider has different characteristics. Below is a glossary of the key players in wallet security.

## Terminology: Parties in the Web3 Wallet Ecosystem

**Custody technology service providers** refer to companies that provide a technology solution for the creation, administration, and security of digital asset wallets. Fireblocks is an example of a custody technology service provider.

**Business** refers to the contracting party of either a custody technology service provider or a subcustodian. Businesses use wallet providers for multiple use cases, ranging from the administration of their assets (treasury management) to the “white labeling” of wallet solutions in services offered to their end-users.

**End-user** refers to the customer(s) of the business. End-users may have a contractual relationship with the business but rarely have a direct commercial relationship with the wallet service provider.

From the lens of the Web3 company, businesses often choose between non-custodial and direct custody models. The following explains the main types of wallet custody models and the roles of different parties involved.

### WEB3 CUSTODY TYPES

**Non-custodial wallets:** A business onboards a custody technology service provider to design security features, enable blockchain interaction, and offer ongoing support. The end users have full control over their digital wallets and private keys and are responsible for safeguarding their assets. Losing access to a non-custodial wallet often means the assets are irretrievable.



**Direct custody (self custody):** A business onboards a custody technology service provider to design security features and offer support. The business is in sole possession of end-users' private keys, controls the wallet(s), and initiates all transactions for the end-users.

Both wallet custody types offer unique advantages depending on the objectives and requirements of a company. Here is a comparison chart between the two types of wallets and a breakdown of private key management, security, recovery options, user experience, accessibility, and regulatory compliance.

### Wallet Comparison Chart: Non-custodial and Direct Custody

	NON-CUSTODIAL WALLETS	DIRECT CUSTODY
<b>Private Key Management</b>	Users have full control and access to their private keys; no third party can move their assets.	Private keys are controlled and managed by the service provider, which secures and stores them on behalf of the user.
<b>Security</b>	Security is primarily the user's responsibility, as private keys are in their full control.	The service provider is responsible for the security of wallets and transactions with a centralized infrastructure
<b>Recovery Options</b>	There is often no service provider to assist with recovery.	Often managed through customer support or automated processes set by the service provider.
<b>User Experience</b>	A greater learning curve for beginners.	It's more user-friendly for beginners.
<b>User Experience</b>	Less scrutiny, oversight, and reporting.	Subject to different regulations depending on jurisdiction; KYC and AML compliance.

To apply the technicalities of wallets to real-world scenarios, the following use cases have been summarized to illustrate why non-custodial and self-custody wallets are the preferred methods to support Web3 initiatives, and how different companies are utilizing both types of wallets according to their business needs.



#### WEB3 GAMING COMPANY

### Direct Custody Wallets

A gaming company introduces an ecosystem where users earn tokens by playing games, trading in-game assets, and participating in tournaments. The company opts for a custodial wallet to simplify the onboarding process for hundreds of players, many of whom might be new to crypto.

[Read how Kriptomat uses Web3 wallets directly in their application to scale the support of millions of gamers.](#)

- ▲ Gamers can create accounts and set up a wallet quickly without the complexity of managing private keys.
- ▲ The gaming company ensures tight security on its servers, offering a protected environment for gamers's assets.
- ▲ Players can easily trade, sell, or buy in-game items.
- ▲ If a user forgets their password or faces issues, they can contact the gaming company.



#### WEB3 BEAUTY COMPANY

### Non-custodial Wallets

A beauty company launches (decentralized autonomous organization) DAO and decides to mint exclusive NFTs representing limited edition beauty products, which come with real-world items when purchased. For this initiative, the company encourages users to use non-custodial wallets.

[Discover how L'Oréal's NYX Makeup, is launching a DAO and Ethereum NFTs to 'Redefine Beauty.'](#)

- ▲ Users interested in the NFTs are likely already familiar with crypto and appreciate the value of self-custody.
- ▲ Upon purchasing the NFT, the ownership is transferred directly to the private wallet, ensuring full control and ownership.
- ▲ The NFT can be traded, sold, or showcased on any platform or marketplace that supports the respective blockchain, offering true decentralization.

# Web3 Technology Requirements for Different Corporate Stakeholders

Businesses looking to venture into Web3 usually involve various key stakeholders, including executive leadership, IT and the development team, finance, legal, and marketing, during the vetting and due diligence process. Here is an overview of common stakeholders and what they perceive to be important.

## Corporate-grade Key Management and Wallet Security

**IT and development** teams will require a solution that leverages multi-party computation (MPC) security and allows you to create and manage wallets with zero counterparty risk. They will expect the provider to offer different wallet options, including direct custody and non-custodial wallets. They will likely consider solutions that can eliminate a single point of private key compromise by combining MPC and secure hardware enclaves. Vendors with certifications such as CCSS Level III, SOC2 Type II, ISO 27001, ISO 27017, and ISO 27018 will be in better standing with the IT and development teams.

## Governance and Policy Management

**IT, development, operations, and finance** teams will require a platform that allows them to customize policies to business processes with a dynamic policy engine. The groups must be able to configure user roles, transaction policies, and approval workflows for every wallet, user, and transaction type so that any transfer or operation will only be executed with the required approvals.



## CASE STUDY

Digital Sports Betting Company  
Establishes Governance and Security  
Policies for its Web3 Program

## Secure Smart Contract Management and Tokenization

**IT, development, legal, and compliance** teams will need a solution that allows them to secure and control smart contracts from wallets. They will require the ability to set policies for interacting with whitelisted smart contracts to protect against malicious actors. The team will also need to configure policies for NFT and token operations – from user permissions to admin approvals. Automation capabilities to mint and transfer NFTs and utility tokens at scale are important to this group.

## Flexible and Scalable

**All departments** need a future-proof custody and wallet provider to scale with the business as your Web3 initiative evolves and grows. To ensure success, the provider should be able to handle large-scale complex projects and support proofs-of-concept projects that can be easily implemented in a production environment without the need to re-architect.

## Stepping into the Future with Web3

For businesses ready to take the next step, working with the right technology providers with deep-rooted knowledge, hands-on experience, and proven technology is imperative. The path to Web3 necessitates effective solutions for your needs today but is flexible to scale as your business evolves.

CASE STUDY



Karate Combat is the world's premier full-contact striking league, blending the excitement of live-action, full-contact Karate with immersive CGI environments powered by the Epic Games Unreal gaming and virtual production engine. Karate Combat is the first sports league structured as a DAO, powered by the \$KARATE token.

RESULTS AT A GLANCE

Karate Combat has eliminated a single point of private key compromise, and configured different roles for their organization and approval levels for each employee.

## Karate Combat: Full-contact Karate Sports League Establishes a Command Center for its Web3 Digital Operations

### THE CHALLENGE

Karate Combat needed a secure way to store their private keys and their native \$KARATE token on both the Ethereum and Hadera networks. The new token and the increase in transaction volume required that only certain employees, including legal and tax directors, could oversee the funds. In addition to managing and securing the token treasury, Karate Combat also needed to make distributions to investors and payments to partners periodically.

### THE SOLUTION

Karate Combat partners with Fireblocks to create a command center to secure its digital assets from malicious insiders and manage day-to-day treasury operations.

“

*Non-technical, non-crypto native individuals, like our legal and tax directors, are integral to our chain activity. We need them involved in our smart contract operations. Before Fireblocks, I was puzzled - I didn't know what we would do. We went with Fireblocks because it was the most secure and easy-to-use solution when working with our non-technical, non-crypto native team members for on-chain transactions and activities.*

**David Aho**  
 Founder, Karate Combat

## CASE STUDY



Karate Combat is the world's premier full-contact striking league, blending the excitement of live-action, full-contact Karate with immersive CGI environments powered by the Epic Games Unreal gaming and virtual production engine. Karate Combat is the first sports league structured as a DAO, powered by the \$KARATE token.

## THE RESULTS

Karate Combat has:

- ▲ **Eliminated a single point of private key compromise** by combining MPC-CMP and secure hardware enclaves, protecting private keys from internal and external attacks.
- ▲ **Configured different roles for their organization and approval levels for each employee** so that only specific individuals could have oversight of fund compliance. The protection of the fund movement helped them against potential rogue employees and human error.

As Karate Combat's team innovates in the future, Fireblocks is ready to scale as their Web3 strategy evolves.

[Learn more about Fireblocks Treasury Management](#)

## CASE STUDY



The Flipkart Group is one of India's leading digital commerce entities and includes group companies Flipkart, Myntra, Flipkart Wholesale, Flipkart Health+, and Cleartrip.

## RESULTS AT A GLANCE

Flipkart can now offer a Web3 rewards program to heighten brand loyalty, a better way for brands to interact with their customers, and access to on-chain data that maps cross-vertical purchase behavior.

## Flipkart: eCommerce Company Advances Rewards Program with Web3 Technology

### THE CHALLENGE

Flipkart was challenged with advancing its Web2 loyalty programs. The team needed to improve and elevate:

- ▲ **Customer Engagement:** Loyalty programs were not designed with brand affinity in mind, failing to deliver customized experiences that resonate with modern consumers.
- ▲ **Rewards Distribution:** Traditional rewards targeting across various engagement levels (low, medium, high) is not foolproof, leading to less-than-perfect redemption rates. Implementing a more flexible rewards distribution system can empower users, deepen their engagement, and potentially lower Customer Acquisition Costs by attracting new customers to the brand.
- ▲ **Royalty Opportunities:** Previously, brands only expended resources on rewards without earning any royalties. There is untapped potential to convert reward programs into a new brand revenue stream, thereby making the rewards ecosystem more reciprocal and profitable.

### THE SOLUTION

Flipkart utilizes partners with Fireblocks' for its enterprise-grade wallet infrastructure to, seamlessly embedding wallets on in the background of the Flipkart mobile app – complemented by the Fireblocks configurable governance framework and treasury management capabilities. The solution enables Flipkart to manage and secure their Web3 operations easily. From deploying smart contracts to minting NFTs and transferring to self-custody wallets, seamlessly spun up for users in the background.

## CASE STUDY



The Flipkart Group is one of India's leading digital commerce entities and includes group companies Flipkart, Myntra, Flipkart Wholesale, Flipkart Health+, and Cleartrip.

## THE RESULTS

Flipkart can now offer:

- ▲ **A Web3 rewards program** with NFTs, mystery boxes, and limited edition brand membership badges to heighten brand loyalty.
- ▲ **A better way for brands to interact with their customers**, resulting in new revenue streams, higher reward redemption rates, and potentially reduced customer acquisition costs.
- ▲ **Access to on-chain data**, which maps cross-vertical purchase behavior, allowing them to target user rewards based on preferences.

Fireblocks flexible, scalable platform enables Flipkart to test, iterate, and experiment to support proof-of-concept projects without retooling - meeting them where they are on their Web3 journey - and ready to scale as they innovate for the future.

Flipkart's marketplace offers over 150 million products across 80+ categories and supports more than 450 million registered customers, and over 1.1 million sellers on the platform.

[Learn more about Fireblocks Wallets-as-a-Service](#)



## CASE STUDY

## Digital Sports Betting Company Establishes Governance and Security Policies for its Web3 Program

A digital sports betting company aims to enhance sports fans' spirit with products ranging from daily fantasy to regulated gaming and digital media.

### THE CHALLENGE

The digital sports betting company launched NFT player cards on the Polygon blockchain for multiple sports programs, including football, boxing, and golf. With security and governance as a top priority, the company needed the ability to purchase and distribute third-party NFTs and issue rewards securely.

### THE SOLUTION

The betting company partners with Fireblocks to simplify and automate NFT operations and workflows. Leveraging the Fireblocks policy engine, the sports gaming company can easily configure user roles, transaction policies, and workflows for wallets, users, and transaction types, ensuring transactions are never executed without required approvals.

The company's operations and technical teams can securely connect to third-party marketplaces to purchase NFTs and then distribute them to the end user wallets.

### THE RESULTS

The sports betting company can now:

- ▲ Ensure improved governance over each transaction
- ▲ Easily transfer NFTs to their wallet infrastructure
- ▲ Connect to third-party marketplaces to purchase NFTs securely
- ▲ Reduce risk and improve operational efficiency as part of the workflow

As the digital betting company continues to innovate and grow its Web3 strategy, Fireblocks is ready to scale to meet their needs.

[Learn more about Fireblocks Governance and Policy Engine](#)

# About Fireblocks

Fireblocks is an enterprise-grade digital asset security platform for moving, storing, and issuing digital assets. Fireblocks enables financial institutions to securely build, run and scale digital asset operations through the Fireblocks Network and MPC-based Wallet Infrastructure.

The company has secured the transfer of over \$4 trillion in digital assets and offers a unique insurance policy that covers assets in storage & transit.

To see Fireblocks in action reach out to [info@fireblocks.com](mailto:info@fireblocks.com).  
Learn more at [Fireblocks.com](https://fireblocks.com).

\$4T

DIGITAL ASSETS  
SECURELY TRANSFERRED

1,000s

INSTITUTIONAL CUSTOMERS

130M+

WALLETS CREATED

