

## PUBLIC POLICY ISSUE BRIEF

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### Strengthening Investor Protections at Cryptocurrency Exchanges

**Overview:** The devastating collapse of FTX in November 2022 illustrated the need for strong internal controls and corporate governance policies at cryptocurrency exchanges. Although significant progress was made on this subject during the 118<sup>th</sup> Congress – including passage of the *Financial Innovation and Technology (FIT) for the 21<sup>st</sup> Century Act* in the U.S. House of Representatives – additional steps are needed to enhance investor confidence in the cryptocurrency market. It is for this reason that The IIA supports policy efforts designed to strengthen objective assurance over cryptocurrency corporate governance and internal control practices.

#### Role of Internal Audit

An internal audit function, adhering to The IIA's [Global Internal Audit Standards](#), is the organizational entity responsible for providing **independent** and **objective** assurance over an organization's risk, governance and internal control processes.

Since internal audit is independent from management – and reports directly to the organization's governing body – it is properly positioned to enhance value and strengthen credibility with stakeholders. This role represents a core consumer protection designed to promote operational **transparency** and **accountability**.



#### IIA Key Objectives

**Enhance Investor Protections at Cryptocurrency Exchanges:** The presence of a required internal audit function at cryptocurrency exchanges – widely regarded as an essential corporate governance best practice – will enhance investor confidence and reduce the potential for internal control failures.

**Strengthen Transparency and Accountability:** Develop an annual internal control report – produced by senior management of the cryptocurrency exchange and validated by an internal audit function – certifying the appropriateness and completeness of organizational internal controls.

**Build on the Promise of FIT21:** The *FIT for the 21<sup>st</sup> Century Act* signaled an important step in the creation of a comprehensive and reliable cryptocurrency legal/regulatory framework. The IIA welcomes the opportunity to build upon the legislation's internal audit references to create a trusted private-sector oversight mechanism.

#### IIA Cryptocurrency Resources

The following links provide additional information regarding the value of internal audit at cryptocurrency exchanges:

- [Legislative Proposal: Enhancing Corporate Governance at Cryptocurrency Exchanges](#)
- [IIA Letter to Congress Following the Collapse of FTX](#)

For any questions regarding the internal audit profession, please contact Michael Downing, Senior Director for North American Advocacy, at [Michael.Downing@TheIIA.org](mailto:Michael.Downing@TheIIA.org).