DC Perspectives

MAY
2022

Observations on Fidelity's Bitcoin–401(k) Announcement

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On April 26th, 2022, Fidelity Investments announced plans to offer bitcoin for 401(k) plans. For Fidelity, this plan is a natural next step. As shown below, Fidelity began exploring digital assets in 2014. Soon after, bitcoin-centric custody solutions began to emerge, followed by a private fund and spot-based ETF. While Fidelity's embrace of bitcoin could be seen simply as bandwagon hopping, the trend below suggests that bitcoin may be part of a broader long-term digital asset strategy.

Exhibit 1: Timeline of Fidelity's Adoption of Digital Assets

2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022

MARCH 2014
Fidelity announces exploration of blockchain and begins mining Bitcoin

JUNE 2015
Affiliate Fidelity Charitable launches Bitcoin contributions

JUNE 2018
Subsidiary Fidelity Digital Assets launched

JUNE 2020
Inception of Wise Origin Bitcoin Index Fund I, a private fund for accredited investors

AUGUST 2020
Fidelity Digital Assets announced as the exclusive Bitcoin custodian for Kingdom Trust's Choice retirement accounts

NOVEMBER 2021
Inception of Fidelity Advantage Bitcoin ETF, a spot-based ETF approved in Canada and launched on the TSX

APRIL 2022
Fidelity announces Bitcoin offerings for 401(k) plans

Source: Fidelity

For bitcoin and digital assets broadly, this could be a watershed moment. The scope of bitcoin offerings for retirement accounts prior to this announcement, such as those put forward by Kingdom Trust, was limited and arguably unknown outside crypto-savvy circles. Depending on how the market responds, Fidelity's proposal could mark a new chapter for crypto adoption in the U.S.

Historically, one of the largest hurdles for digital asset adoption has been the general reluctance of financial institutions to offer bitcoin or any crypto as investable options. It now seems the onus of bitcoin investment and adoption is shifting away from institutional offerings and toward fiduciary judgement.

For the broader investment industry, a robust debate quickly emerged as to the impact of bitcoin's introduction to 401(k) plans. A compelling discussion has emerged drawing parallels to the late 1980s and early 1990s, when the industry shifted from a balance-forward-defined-benefit environment to a daily-valued-defined-contribution environment.

- Optimists suggest that bitcoin-401(k) offerings are as evolutionary for retirement plans as giving participants access to their accounts and limited discretion over allocations.
- Likewise, skeptics naturally suggest offering bitcoin for 401(k) plans is hazardous and devolutionary, citing potential perils of uninformed investor discretion, fiduciary risk, and unprecedented volatility.
- On a lighthearted note, this dispute may sound familiar. It's oddly similar to debates surrounding Adam Smith's rationale choice theory which have continued since the mid-1770s…

Depending on how the market responds, Fidelity's proposal may drive other institutions to offer, or move participants to demand digital assets as investable options.

For plan sponsors, bitcoin may appear in committee discussions sooner rather than later. While Fidelity may offer bitcoin as an investment option, the final decision will ultimately fall on plan sponsors. As a first-of-its-kind investment, bitcoin's profile demonstrates both unprecedented risk and sizeable long-term returns. This unique risk-reward dynamic places fiduciaries in a difficult position.

Certainly, sponsors need to ensure diverse and attractive options are available for plan participants. However, as emphasized in the Department of Labor's Compliance Assistance Release No. 2022-01 401(k) Plan Investments in "Cryptocurrencies," sponsors most certainly need to exercise astute judgement in assessing the suitability and risks of potential investment options.

To that end, there are several measures that sponsors may want to consider to mitigate volatility, speculation, and uninformed participant risk:

- Establishing and documenting an objective process to evaluate the viability of bitcoin as an investment option.
- Following and documenting an objective process to evaluate and review bitcoin's investment performance, detailing coherent and characteristic-based performance thresholds and time horizons for review.
- Setting allocation constraints such as 3%, 5%, or 10% of the total balance, similar to constraints used in corporate plans to manage exposures and downside risk.
- Instituting an excessive-trading policy that defines minimum holding periods and minimizes "round-trip trading", similar to those currently used in plans to minimize fees and prevent market manipulation.
- Publishing educational material for plan participants, similar to educational efforts active in plans today.

Looking forward it seems likely that bitcoin and digital assets will garner more attention in market commentary and political discourse. Digital assets have emerged in several narratives with both positive and negative implications:

- Executive Order on Ensuring Responsible Development of Digital Assets (*March 9, 2022*)

- D.O.L. Compliance Assistance Release No. 2022-01: 401(k) Plan Investments in "Cryptocurrencies" (March 10, 2022)
- Increasing scrutiny of regulatory ambiguity in the U.S.
- Public discourse on investor protections, wealth inequality, market access, and fostering innovation

It is unclear how institutional adoption will progress, and Fidelity's bitcoin announcement is only one part of a larger puzzle. Law makers, regulators, plan sponsors, and their respective constituents still have much to say. This is a development that bears watching and we look forward to sharing more details as they emerge.

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