

# EMERGING DIGITAL ASSET CUSTODIANS SERVICING INSTITUTIONS IDENTIFYING SERVICE PROVIDERS AND THEIR OFFERINGS



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Many service providers offering custody solutions for digital assets (cryptocurrency) to institutions are still maturing their services. This is especially the case when compared to more traditional and established asset classes, such as Fixed Income. However, it's important to remember that the objective of all custodians remains the same. That is, to protect clients from the risks associated with clearing, settlement and storing assets. For digital assets, this will mean storing an institution's digital assets (private keys) safely offline in cold storage or in physical vaults.

Right now, as Tier 1 banks and financial institutions look at their options, the two main things holding them back from trading cryptocurrency is the lack of regulatory clarity (is it a security or utility?) and the risks associated with digital custody (settlement, clearing and storage). This means that there will likely be a huge opportunity for insurers to get involved and partner with digital custodians. Before banks start trading in digital assets, they will require a secure storage facility with low operational and settlement risk. Expect to see more partnership announcements between crypto custodians and big insurance names in the next 12 months.

With many large-scale pension funds, hedge funds, wealth and investment managers, academic institutions and family offices taking a keen interest in digital assets, Capco wanted to help identify the custodians pitching to institutions and better understand their level of service offerings.

Digital custody service provider <sup>1</sup>	Domicile	Open for business <sup>7</sup>	% stored off-exchange <sup>2</sup>	Regulatory oversight <sup>3</sup>	Insurance	Customer support <sup>4</sup>	Delayed release <sup>5</sup>	Minimum Assets	Scope
 BitGo™	Canada	✓	100%	✗	pending	★★	48hrs	\$1,000,000	75+ coins and tokens
 LMAX EXCHANGE	UK	✓	98%	Note <sup>6</sup>	pending <sup>7</sup>	★★★	48hrs	\$250k	BTC, ETH, LTC, BCH, XRP
 Ledger Vault	France	✓	100%	✗	✗	★	-	\$250k	17 Digital assets <sup>8</sup>
 coinbase   Custody	USA	✓	98% <sup>9</sup>	Note <sup>10</sup>	Note <sup>11</sup>	★★★	48hrs	\$10m	BTC, BCH, ETH, ETC, LTC
 xapo	HK	✓	100%	Gibraltar <sup>12</sup>	-	★	48hrs	-	BTC
 itBit	USA	✓	100%	NY <sup>13</sup>	-	★★★	-	-	BTC, ETH, ZEC
 Vo1t	UK	✓	Full cold storage, nothing connected to the internet	No	Cover for storage of Funds Cover for Transaction (Withdrawal)	★	Same day	\$1,000,000	27 digital assets <sup>18</sup>
 BLOCKEX	UK	Dec 2018	-	✗	On request	★★	24hrs	-	-
 koiner	UK	Dec 2018	-	Note <sup>14</sup>	Not pursuing	★★	48hrs	\$5m	-
 Trustology	UK	Live in Beta	-	GDPR	-	★★	-	-	ETH, ERC20, BTC
Komainu JV <sup>15</sup>	Jersey, France, Japan <sup>11</sup>	Dec 2018	-	Note <sup>16</sup>	-	-	-	-	-

✓ = YES ✗ = NO -= undisclosed or not applicable

## Emerging Custodians

- » Dominion Mining (Canada) - claim to be the first regulated Digital Custodian in Canada. Will be setting up offices in the UK, in 2019
- » Kingdom Trust (USA) - USA based custodian who now offer a qualified digital service. No UK subsidiary.
- » Fidelity Digital (USA) - recently announced that they will be offering digital trading and services. Expect to see some form of offering late 2019 or early 2020.
- » SmartMoney Exchange (UK) - will be a Crypto ECN and claim to guarantee that you will never lose your private keys (always recoverable). Solution will be blockchain-based and company will be located in the UK. MVP expected early 2019.

Gemini and Circle declined to participate in this publication.

## What next?

Once the International Swaps and Derivatives Association (ISDA), outlines the terms to be applied to a digital derivatives transaction between two parties (typically a derivatives dealer and a counterparty), expect to see a centralised custodian service emerge.

# FOR FURTHER INFORMATION, PLEASE CONTACT:

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- <sup>1</sup> This information on digital asset custodian providers has been sourced from independent research, third-party websites and telephone interviews. The custodians outlined are either already operational or are developing solutions that will become operational later this year. Certain traditional financial institutions, like The Bank of New York Mellon, JPMorgan Chase & Co and Northern Trust Corp. are also exploring providing digital asset custody solutions.
- <sup>2</sup> This confirms if your digital assets are stored offline and therefore protected from hackers and rogue actors. For example, all fiat and crypto customer assets deposited with 'itBit' are backed by mandatory capital reserves as a regulated entity. This means 100 percent of clients' assets are kept in cold storage.
- <sup>3</sup> Some service providers are in preliminary discussions to become 'qualified custodians' under global regulatory regimes. Further information can be found at [SEC](#) and the [FCA](#).
- <sup>4</sup> One star is awarded for offering any of the following client modes of support - phone, email, web-chat. A dedicated account manager such as Vo1T earns three stars.
- <sup>5</sup> This represents time taken to transfer funds from cold storage to a digital wallet. Delayed fund release is used as another level of security.
- <sup>6</sup> LMAX is regulated by the FCA's Client Money Rules. Their Crypto exchange are governed by similar rules to LMAX Exchange's FCA regulated MTF (Multilateral Trading Facility).
- <sup>7</sup> This is currently being proposed by LMAX digital exchange and has yet to be formally confirmed.
- <sup>8</sup> Ledger Vault facilitates 17 coins and tokens: BTC, BCH, BTG, DASH, DGB, ETH, HSR, KMD, LTC, PIVX, POSW, QTUM, XST, STRAT, VTC, VIA and ZEC.
- <sup>9</sup> Coinbase claims on their website that they keep over 98% of total customer bitcoin in [cold storage](#). Cold storage means digital assets are stored offline.
- <sup>10</sup> Coinbase regulated status can be found [here](#).
- <sup>11</sup> Coinbase insurance information can be found [here](#). Funds held in accounts belong to Coinbase customers - not to Coinbase. If you are a United States resident, your Coinbase USD Wallet is covered by FDIC insurance, up to a maximum of \$250,000.
- <sup>12</sup> XAPO, is regulated by the GFSC (Gibraltar Financial Services (Electronic Money) Regulations 2011) and has been granted a license to provide e-money services.
- <sup>13</sup> Crypto assets are regulated by [New York State Department of Financial Services](#).
- <sup>14</sup> Koine Finance Ltd is an EMI Agent of an e-money issuer authorised by the Financial Conduct Authority. Koine's FCA register number is: 902023.
- <sup>15</sup> Komainu is a joint venture between Nomura Holdings, Inc., Ledger and Global Advisors/CoinShares. They plan to open in December 2018.
- <sup>16</sup> Nomura and Global Advisors are established organizations under supervision of various regulators.
- <sup>17</sup> Open for business means currently offering custodian services to institutional clients.
- <sup>18</sup> Vo1t's digital asset coverage is coins and tokens: Bitcoin, Ethereum, Bitcoin Cash, Litecoin, NEO, Dash, Ethereum Classic, Zcash, Qtum, Stellar, Ripple, Ox, Airswap, Agrello, Augur, Bluzelle, Datatoken, Enigma, Etch, Foam, Funfair, Ixledger, LociCoin, MelonPort, Metal, Mysterium, Nucleus vision, Numerai, Rocketpool, Simpletoken, SingularToken and Crowd Machine Computer token.

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**Other considerations:** The following digital custody services were deliberately not considered in our analysis: transaction audit trail, withdrawal limits, multiple signers / approvers to release funds, forced 2FA, segregation of duties, whitelisting IPs, cold storage (wallet not connected to internet), and regular security audits by external firms.

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