



Digital Asset Custody Regulatory Update

Current Regulatory Landscape Solidifies Tetra as
Canada's Custodian of Choice

Tetra Trust Company

March 1, 2023

Overview

1 Canadian Regulatory Landscape

What changes does the recent Canadian Securities Administrators notice entail and what do they mean?

2 U.S. Regulatory Landscape

What is going on in the U.S. cryptocurrency landscape and how does this relate to Canadian custody?

3 The Clear Choice for Custody

How is Tetra the ideal custody solution amidst the rapidly evolving regulatory landscape?

1

Canadian Regulatory Landscape

What Happened?

On February 22, 2023, the Canadian Securities Administrators (CSA) published a notice with updated guidance for Crypto Trading Platforms.

“In light of recent insolvencies involving a number of Crypto Trading Platforms ... we are introducing important new investor protection provisions.”

— CSA, February 22, 2023

The action was taken by the CSA as a direct result of recent insolvencies in the crypto space, and the guidance serves to increase the expectation of controls to be followed by firms in this arena. The very first requirement listed speaks to expectations on custody.

What Does This Mean?

The guidance emphasizes that firms must use a custody provider who meets the standards of an “Acceptable Third-Party Custodian”. Simply put, unregulated domestic custodians would not meet the criteria to secure the custody of regulated market participants. Further, international custodians will now require specific regulatory approval.

New Custody Provisions

At least 80% of crypto assets must be held with an “**Acceptable Third-party Custodian**”, meaning an entity that meets the custodianship criteria set out by the new notice. This includes but is not limited to:

- being functionally independent of the [firm] within the meaning of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (NI 31-103);
- having obtained audited financial statements within the last 12 months; and
- having obtained a Systems and Organization Controls (SOC) 2 Type 1 or SOC 2 Type 2 report within the last twelve months or has obtained a comparable report recognized by a similar accreditation board.

2

U.S. Regulatory Landscape

What Happened?

In the United States, the regulatory environment surrounding digital assets is also actively addressing the need to enhance custodianship quality. Just one week before the CSA issued their guidance, the Securities and Exchange Commission (SEC) issued a proposed rule, specifically targeting the enhancement of custody rules, driven by digital assets.

Simply put, the SEC notes that “the proposed changes are intended to help ensure that qualified custodians provide certain standard custodial protections when maintaining an advisory client’s assets.”

What Does This Mean?

One of the changes proposed is revising what entities would meet the criteria of a “qualified custodian”. And one such entity who would meet this criteria are certain types of foreign financial institutions (“FFI”). Specifically, the SEC has proposed a set of seven conditions that FFI’s would need to meet to earn this designation, and Tetra would be capable of meeting all of these.

As such, not only is Tetra the ideally constructed custodian for the domestic market, but we bear the traits of what global regulators are looking for in a qualified custodian.

“Congress gave us authority to expand the advisers’ custody rule to apply to all assets, not just funds or securities. Further, investors would benefit from the proposal’s changes to enhance the protections that qualified custodians provide.”

— Gary Gensler, SEC Chair

3

The Clear Choice for Custody

Current State of Play

There are clear trends emerging in the digital assets space.

The first is that there is a definitive need for regulated, qualified custodians in the digital assets ecosystem. The fact that this asset class is new and novel is not an excuse to have sub-standard protection of investor assets; rather it is a reason to have the highest standards.

The second is that regulators around the globe have been mobilized and are determined to bring change to the manner in which digital assets are secured. They are right to do so given the significant failures experienced recently.

THE BOTTOM LINE: Market participants will reduce regulatory friction and ensure a smooth glide path by choosing to custody digital assets with Tetra.

The Tetra Competitive Advantage

Tetra is the only Canadian entity specializing in digital assets to go through the intensive process of obtaining regulated status. As such, Tetra is the only Canadian custodian that meets all desired criteria designed by the regulators, and is well positioned to be in line with international standards also. Tetra was built for this purpose; to be the regulated custodian of choice in the Canadian marketplace.

Tetra's Key Controls

- ✓ Qualified custodian under rules NI 31-103 and NI 81-102
- ✓ SOC 2 Type 2 certified
- ✓ Annual penetration tests
- ✓ Audited financial statements
- ✓ Assets are never rehypothecated
- ✓ Dedicated compliance team
- ✓ Insurance for assets available
- ✓ Experienced executive team and Board of Directors



Trusted Digital Asset Custody

Tetra Trust Company is Canada's first and only trust company licensed to custody digital assets with a vision of enabling the institutional adoption of digital assets.

Registered as a Canadian trust company under the Loan and Trust Corporations Act (Alberta), Tetra is fiduciarily responsible to act in the best interests of its clients. Its operations are overseen by a Canadian regulator.

Contact



Didier Lavallée, CEO

sales@tetratrust.com

Didier brings over 16 years of financial services experience, having led various leadership positions in capital markets and asset servicing. Prior to becoming CEO of Tetra, Didier spent close to a decade with the Royal Bank of Canada including Head of Canadian Custody Product for RBC Investor and Treasury Services. Didier holds a B.A. in Finance and Administrative Studies from Western University.

Digital Asset Custody Regulatory Update