

# A Primer on the State of Digital Asset Custody In Canada

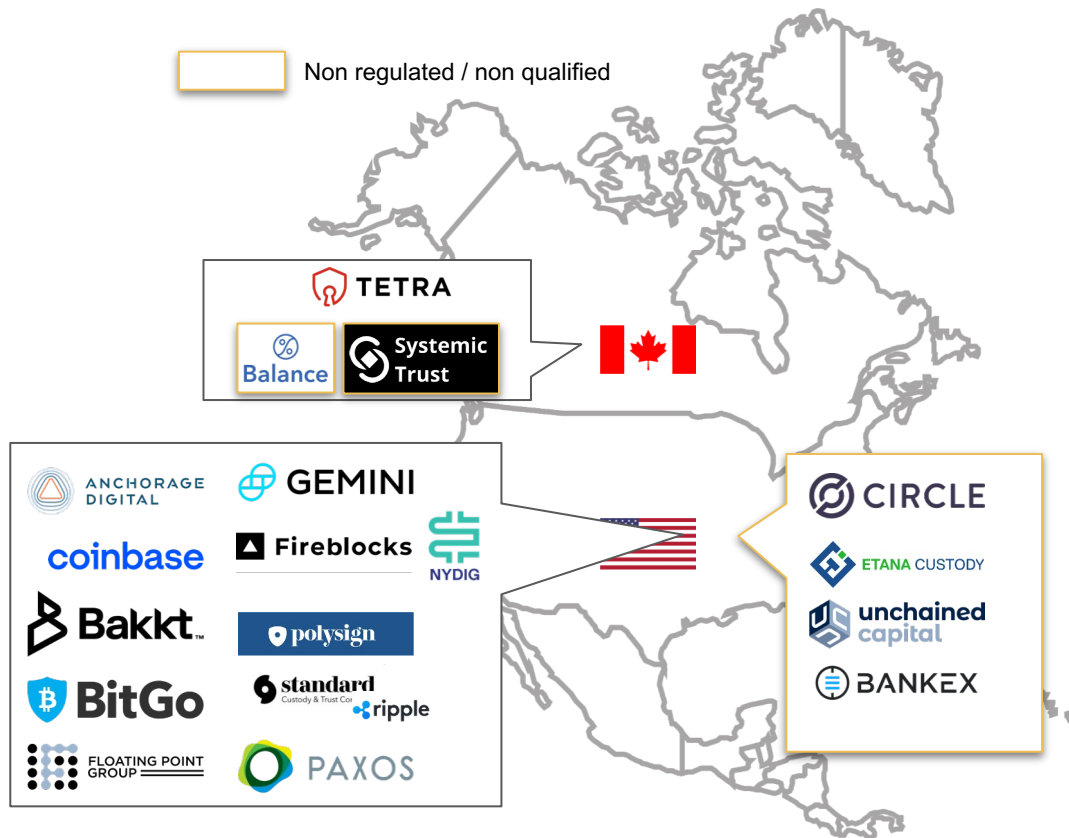
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# The Supply of Institutional-Grade Custodians is Limited

While there is a **diversified offering of institutional-grade custodians in the US** (qualified or otherwise), a growing number of which are now regulated, the number of Canadian ones has decreased from 4 to 3 over the past 2 years.

**Tetra Trust remaining the only Canadian-regulated digital asset custodian.**



# Institutions Must Work with a Qualified Custodian, However...

The Canadian Securities Administrators (CSA) **requires**, through National Instrument (NI) 31-103, that **Canadian institutional investors rely on a qualified Canadian Digital Asset (DA) custodian**. Yet, it also states that:

*“A foreign custodian may be a custodian of the cash or securities of the client or investment fund if a reasonable person would conclude (...) that using the foreign custodian is more beneficial to the client or investment fund than using a Canadian custodian.”*



**Canadian Custodians are required to have “equity of not less than \$10,000,000”\***



**Foreign Custodians are required to have “equity of not less than \$100,000,000”**

The requirements between Canadian and Foreign custodians differ, specifically on **capital requirements**, although **most foreign custodians do not meet this requirement**.

# So, What Does this Mean for Canadians?

**89%+**

The share of **Canadian** digital assets held by **international custodians**.



**90%+**

Bitcoin custodied for U.S. ETFs held by **one custodian**

Canada is highly dependent on Foreign Digital Asset Custodians, and this will only increase based on the current trends:

1. **Canadian CTPs being directed to foreign custodians** due to inconsistency in the regulatory framework
2. **Number of Canadian digital asset custodians decreasing** while the number of foreign custodians continues to increase
3. **Foreign custodians are regulated differently** and can offer more services and products vs Canadian QCs

This raises concerns of not only competition issues, but of a **growing systemic risk – specifically concentration risk**. The lack of cohesive regulation at the federal-level that enables Canadian custodians to custody Canadian assets could further exacerbate this situation.

# This Brings Us to the Fundamental Issue.

**Very few digital assets of Canadians are actually secured by Canadian custodians.**

As a result, there are public interest issues for Canadian investors

- Asset keys being held offshore
- Jurisdictional risk that can create issues in default scenarios (bankruptcy or insolvency laws)
- Different and inconsistent regulatory standards leading to unlevel playing field
- No oversight of Canadian regulatory authorities into foreign custodians
- Unqualified players for digital assets providing services



A Bitcoin coin is partially buried in a mound of gold sand. The coin is silver with a black 'B' symbol in the center. The words 'METALS BITCOIN DIGITAL DECENTRAL' are visible around the edge of the coin. In the background, a red maple leaf is visible, suggesting a Canadian theme.

# The Need for a Canadian Federal Framework

This fundamental issue can only be addressed through a **harmonized framework** that puts in place the right weights and measures to foster and balance healthy competition in the Canadian qualified DA custodian, while ensuring digital assets of Canadians **remain secure and have the full weight of the Canadian law.**

# Tetra Trust Company

- Canadian licensed trust company incorporated under the *Loan and Trust Corporations Act* (Alberta) in July 2021
- Qualified to custody digital assets on behalf of institutional investors and accredited investors
  - ◆ Crypto asset trading platforms (CTPs) and ETFs
- Has fiduciary duty to act in best interests of its clients
- Tetra meets the requirements to custody registered entities under rules NI 31-103 and NI 81-102.

The word "Canada" in a black serif font, with a small Canadian flag icon above the letter 'a'.

Canada