

# Qualified Crypto Custody

## Tetra Digital Group

Holding digital assets introduces various vulnerabilities and challenges when compared to traditional financial systems. Unlike financial assets that are held through banks or brokerages, cryptocurrencies function as bearer instruments, where ownership is determined by control of the private keys associated with a wallet. This means that whoever controls the keys controls the asset, without any intermediaries.

However, this structure introduces risks that differ from traditional finance. Loss of private keys can result in the permanent loss of assets, while cybersecurity threats including hacking and phishing can drain assets instantly. Relying on exchanges or unqualified custodians exposes assets to platform failures, insolvency, or mishandling. For instance, events like the FTX collapse highlight how bankruptcy can delay or deplete recoveries. To mitigate this, qualified custodians utilize asset segregation where client holdings are kept entirely separate from the custodian's own corporate assets and remain protected from the firm's creditors.

Jurisdiction is also a key consideration. Assets held with custodians outside an investor's jurisdiction may be subject to foreign legal frameworks, which can affect recovery outcomes. Digital assets can also present challenges in estate and succession planning, where access to crypto depends on how custody is structured. For clients with significant holdings, understanding these risks is essential to safeguarding portfolios and ensuring they can be governed and transferred over time efficiently and effectively.

## Where qualified custody comes in

A qualified custodian refers to a regulated financial institution, such as a trust company, that is legally authorized to hold and protect client assets. They follow strict security and reporting rules that are much higher than those of a standard crypto exchange. This means digital assets are not only safe, but are readily accessible whenever they are needed.

In Canada, being a qualified custodian provides compliance quality while adhering to stringent regulatory standards set by financial authorities to ensure the highest level of security and trustworthiness.

## Regulatory oversight and industry assurance

Qualified custodians operate within established regulatory frameworks and play an important role in areas where digital asset regulation continues to evolve. As newer segments such as decentralized finance, staking, and tokenization develop, custodians help bridge the gap between existing financial and regulatory standards while supporting clients through the evolving ecosystem. By doing so, they contribute to greater oversight, compliance, and operational readiness across the ecosystem.

In order to remain accountable and transparent, qualified custodians are required to participate in financial audits, AML evaluations, security testing, and proof-of-reserves reporting. Although these practices are not mandated across jurisdictions, they are becoming widely adopted as the industry continues to evolve.

## Self-Custody vs. Third Party Custody

Self-custody allows investors to maintain direct control over their digital assets without relying on intermediaries, preserving independence and ownership. However, as previously mentioned, this approach requires individuals to manage their own private key security, as well as backups and any recovery processes where errors or breaches can result in permanent loss of assets.

Third-party custody shifts this responsibility to institutional providers such as a qualified custodian that offer structured guidelines and operational oversight designed to safeguard digital assets. This model reduces operational risk and supports institutional use cases, while introducing reliance on custodial providers.

Here is a breakdown of the differences:

ASPECT	SELF-CUSTODY	THIRD-PARTY CUSODY
Control & Ownership	The asset owner holds the private keys directly and retains full control, without relying on an intermediary.	Assets are held with a custodian, with ownership retained by the client but subject to the custodian's governance and processes.
Security	Security depends on the individual's ability to safely store and manage private keys, which introduces risk of loss or compromise.	Security is managed through institutional controls and oversight, and incorporates bank-grade infrastructure and multi-layer authorization.

ASPECT	SELF-CUSTODY	THIRD-PARTY CUSODY
Accessibility & Convenience	Provides direct access to assets but requires technical knowledge and can be difficult to coordinate in structured planning scenarios.	Access is managed through secure interfaces and defined workflows, supporting unified reporting and institutional oversight.
Risks	The individual bears full responsibility for safeguarding assets, with limited recourse in the event of loss.	Risks are mitigated through governance and regulation, but may include counterparty and jurisdictional considerations.
Best For	Tech-savvy individuals valuing autonomy.	High-net-worth individuals and institutions needing compliance, scalability, and professional oversight.

Many crypto holders use a combination of self-custody and third-party custody, with regulated custodians offering added oversight, asset protection, and alignment with Canadian regulations. Ultimately, the transition from personal self-custody to a regulated framework is about more than just security. It is about moving crypto into a structure that a trustee, an executor or a court can recognize and manage while ensuring that digital wealth is preserved and transferable across generations.