

Everything You Need to
Know About Choosing a

Digital Asset Custodian

Custodian Evaluation Guide

Essential information you need to know when selecting a custodian

When deciding how to securely hold digital assets, there are two choices: managing your own keys or entrusting keys with a custodian. There are essential questions you need to answer before considering a custodian.

✓ Define Your Objectives and Needs

Before beginning a review of custodians, clearly outline your business and regulatory objectives and needs. Having well defined requirements will help you determine the level of security and services you need and will quickly shorten your list of potential custodial vendors.

✓ Technology Offering

Some custodians have built their own infrastructure while others are utilizing services of others. Are they in control of the technology direction? How do they support integrations with your platform?

✓ Different Types of Custodians

There are two broad categories of crypto custodians:



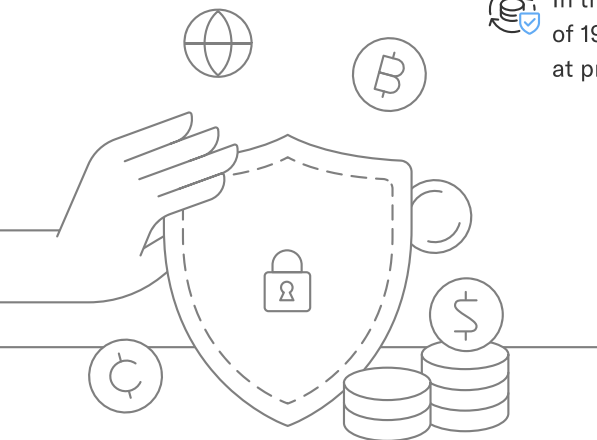
Unregulated → Many custodians, even large ones, fall under this category. They may have certifications such as SOC 1 or SOC 2 but that does not mean that they have fiduciary duty to safeguard your assets or keep from co-mingling your assets with others, including theirs. They ask that you trust them.



Regulated → Some custodians have gone through thorough rigorous vetting by regulatory agencies designed to ensure that they are protecting assets against loss. A regulated custodian is a strong signal that they follow well-defined procedures.





In the USA, the term “Qualified Custodian,” derived from the Investment Advisers Act of 1940, refers to a regulated custodian meeting rigorous government standards aimed at protecting funds from loss, theft, or misuse.




✓ Wallet Support

Wallet infrastructure is the backbone of digital assets. There are two main wallet types that may use one of a variety of security protocols to protect the assets within.

 **Hot Wallets** → These are always on, internet connected wallets and are used for conducting transactions such as sending and receiving digital assets. Their high availability exposes them to potential risks of unauthorized access.

 **Cold Wallets** → These are wallets that store keys offline, “air-gapped” wallets that are never internet accessible and used to safely hold assets for long periods of time.

 **Self-Managed Cold Wallets** → Similar to cold wallets, these store keys offline but in your own environment in conjunction with the custodian's vault management system and typically used when local regulations mandate keys being held in a specific location.

✓ Security Measures

There are several security protocols that may be used to lock down a wallet including MultiSig and MPC/TSS. These protocols require a set of keys to be presented to sign transactions before a transfer can take place. Here are typical key signing procedures:

1-of-1 or 2-of-2 Keys Wallets → Called a single-sig wallet, it offers a simpler and less rigorous key signing process. While these processes are less expensive and faster to transact, losing one key can be catastrophic.

M-of-N Keys Wallets → This type of wallet is more resilient and offers safety in the event one key is lost as not all keys are required to sign a transaction. An example is a 2-of-3 wallet that has three keys (N) and two of them (M) need to be presented in order to approve a transaction. Such a configuration not only solves the problem of single point of failure where the full key is never constituted on a single device, but also solves the scenario where even with loss of a single key shard, users can still manage the wallet and access funds



✓ Asset Support

Ensure that the custodian supports the specific cryptocurrencies you intend to custody. Not all custodians offer the same range of digital assets, and more asset coverage is not necessarily better.

✓ Additional Services

How else can the provider help your organization grow? Are you able to stake and collect rewards on assets? Can you trade and settle from cold storage? How do they help mitigate counterparty risks? A top custodial provider should be able to do more than hold your assets.

✓ Insurance Coverage

Protection against potential losses and misuse from bad actors whether external or internal is an area of exposure to inquire about. Ask about coverage limits and ability to procure additional coverage if necessary.

BitGo proudly displays details about the [insurance coverage](#) limits, provider and possibility for procuring more “excess specie” insurance.

✓ Business Continuity and Financial Stability

Understanding the ability of the company to weather storms both physically and financially is key to predicting the likelihood of your assets to be safely contained for the long haul. How are keys physically secured and how are they protected from financial instability?

✓ Reputation and Reviews

Review the history of the custodians you are considering for lost assets, hacks or other security breaches and that any regulatory licenses are current. Look at the executive management’s reputations and track record at prior firms as well as social media for any negative commentary.

✓ User Experience and Customer Service

Generally, quality of life issues are not critical to protecting assets but they do impact the lives of those using the system. Don’t forget to look at the user experience and that the customer service is going to meet the needs of your team.

✓ Fees Structure

Custody fees can vary widely from one provider and the next. Understand the cost implications and the trade offs when comparing low cost vs. premium solution providers.

Connect with us to learn more about BitGo's digital asset custodial offering [here](#).



Digital Asset Custodian Checklist

REGULATION

- ☐ They are a regulated custodian
- ☐ They will hold a fiduciary duty to my organization
- ☐ They will hold our funds in a segregated manner

WALLET OPTIONS

- ☐ They offer both hot and cold wallets
- ☐ They cover most or all of the coins/tokens we wish to hold

WALLET SECURITY

- ☐ They hold insurance coverage against theft, loss, or misuse
- ☐ We can purchase extra insurance
- ☐ Their wallets come with backup keys
- ☐ They have SOC1 and SOC2 accreditations
- ☐ They follow human processes that complement their security technology
- ☐ They allow us to set wallet policies, like user permissions, whitelisting, and transaction limits

DEPLOYING FUNDS

- ☐ They offer access to trading services from both hot and cold wallets
- ☐ They offer settlement
- ☐ They offer staking
- ☐ They offer borrowing/lending
- ☐ They allow us to access DeFi with our wallet
- ☐ They allow us to trade off-chain with partner exchanges
- ☐ They offer access to trading, settlement, and staking from cold storage, specifically
- ☐ They offer quality price execution on trades
- ☐ They use a reasonable fee structure

BUILDING PLATFORMS

- ☐ We can build on top of their hot and cold wallet infrastructure
- ☐ They offer the coins and tokens we wish to offer our own users
- ☐ We can integrate easily

About BitGo

BitGo provides builders and investors alike with regulated custody, financial services, and core infrastructure for investors and builders alike.

We provide these services through multiple entities, including four regulated trust companies around the globe, each of which serves as a regulated, qualified custodian. Some of the services listed above may be offered by a specific entity – eg, qualified, regulated custody by BitGo Trust Company, hot wallets by BitGo Inc, trading by BitGo Prime, etc – or only available in certain jurisdictions.

ESTABLISHED IN 2013

SOC1 TYPE 2
SOC2 TYPE 2
certified

UP TO
\$250M
in insurance coverage

1ST
purpose-built
qualified custodian

20%
of all on-chain Bitcoin
transactions by value

1500+
institutional clients
in 50+ countries

100+
crypto exchanges in
the world using BitGo

\$3T+
in lifetime transaction
volume

700+
coins and tokens
supported

Contact us at sales@bitgo.com or visit www.bitgo.com.

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