Custodian evaluation guide

How to choose the right solution for your organization.

Crypto investors know the saying, “Not your keys, not your crypto”: Whoever holds the keys to a wallet controls the funds inside.

To safeguard your funds, then, you need to do due diligence particularly well. Investors fundamentally have two choices: Store the keys on their own or with someone they trust.

A KEY DECISION

Store the keys myself	Store the keys with someone I trust

Each option comes with its own pros and cons.

Most major investors simply can’t take the chance that a careless or rogue employee could compromise their wallet. And parking funds on exchanges leaves them vulnerable to hacks. Instead, serious investors typically rely on a custodian (or even mix-and-match between several custodians) for greater protection.

But here’s the catch: Not all custody is created equal. How do you tell custodians apart? How do you determine which ones are most trustworthy?

The following questions will help you evaluate whether a potential custody partner is best-positioned to keep your funds safe.

	✓ PROS	✕ CONS
Store myself	Not dependent on someone else to guard my funds.	Could lose the keys through accident, theft, etc. Hard to put the funds to work and do it safely.
Store with someone I trust	May provide extra security, depending on the quality of the counterparty. Often provides greater accessibility to funds. May allow policies and permissions for additional security controls.	An untrustworthy partner could mismanage my keys or fail to protect me against hackers.

Is the custodian regulated?

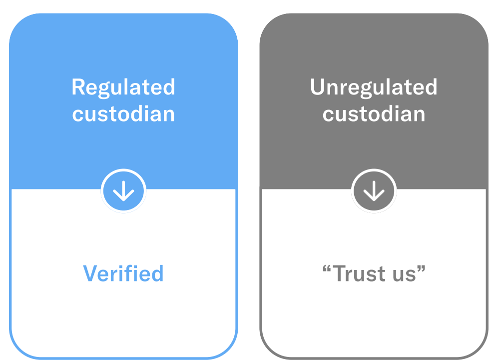
Some custodians have gained regulatory approval, which they’ve achieved by undergoing audits and meeting specific, rigorous standards meant to protect client funds against loss.

Securing this approval – a difficult process – sends a strong signal that the custodian follows well-designed procedures.

By contrast, many custodians – even large ones – are not regulated. They do not hold a fiduciary duty to you as the client. And while some may have achieved external accreditations – even SOC1 and SOC2 – they have not gone through and passed deep vetting by regulators.

Instead, they simply ask you to trust that they will protect your funds as promised.

One of the key reasons behind this is that many digital asset “custodians” don’t actually hold the funds on your behalf. Rather, they simply provide hot wallets, where you hold the keys to an internet-connected wallet yourself. This can be an excellent solution for easy liquidity, but comes with risks when it comes to holding large sums.



Are they a “qualified custodian?”

The term “qualified custodian” refers to a custodian regulated in the US, derived from the Investment Advisers Act of 1940.

To become a qualified custodian, an entity must hold clients’ funds in a segregated manner and meet rigorous regulatory standards aimed at protecting those funds from loss, theft, or misuse. It applies only to specific types of regulated entities, like state trusts, which operate with a fiduciary duty to their clients. Many also offer additional protection by holding insurance policies, providing backup keys, and enabling customizable wallet policies.

Moreover, at the time of writing, the SEC is considering making it mandatory for certain types of investors to store their digital assets with a qualified custodian.

Audited

Segregated

Ficudiary

What kind of wallets does the custodian offer?

Custodians may offer multiple ways to hold your digital assets:

- **Hot wallets** → Internet-connected wallets where you hold a majority of the keys
- **Cold (custodial) wallets** → Air-gapped wallets (ie, no internet access) where the custodian manages all the keys
- **Self-managed cold wallets** → Air-gapped wallets (ie, no internet access) where you hold all the keys while using the custodian’s vault management technology

Often, customers will keep a small percentage of their funds in hot wallets for liquidity and then the bulk of their funds in a custodial wallet for safekeeping, rebalancing periodically as needed. If they’re in a certain jurisdiction or building a more advanced setup, they may also keep funds in a self-managed cold wallet.

If your custodian does not offer all of these services, however – ie, they offer only hot wallets or only cold wallets – you may wind up sacrificing either security or speed.

Loosely, you can think of these three options, respectively, like a:

- **Debit card** → Great for easy access
- **Vault** → Great for maximum security
- **Safe in your own home** → Great for taking security into your own hands

How will I be able to deploy my funds if I choose this custodian?

Custodians may provide you with multiple ways to put your assets to work, offering products or integrations that let you access essential services.

Determine which they offer and how easy or difficult they are to use. For options like trading or staking, ask about how they handle price execution, how they select validators, what fees they charge, etc.

- Trading
- Settlement
- Staking
- DeFi integrations
- Borrowing and lending
- Integrations with partner exchanges

Can I leverage their wallets to serve my own customers?

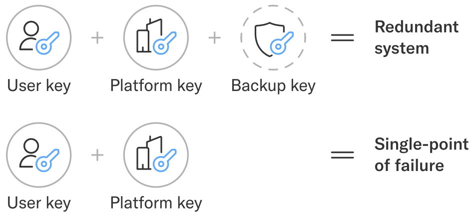
If you're a platform offering crypto services to your own customers, it's often more effective to leverage your custodian's wallet infrastructure instead of recreating it yourself. Many platforms build on top of this foundation and then layer on their own branding/marketing, AML/KYC procedures, and relevant integrations.

Examine how those backing wallets work, what kind of digital assets they support, and how to connect them with the rest of your tech stack.

How many keys come with each wallet?

Some wallets work on an "M-of-N" model. In plain English, this means that a wallet might have, say, three keys (N) and you need any two of them (M) to approve a transaction (ie, 2-of-3). This provides redundancy and, thus, resiliency.

Something like a 1-of-1 or 2-of-2 wallet, however, creates a single point of failure; losing one key can be catastrophic.



Do they hold insurance coverage?

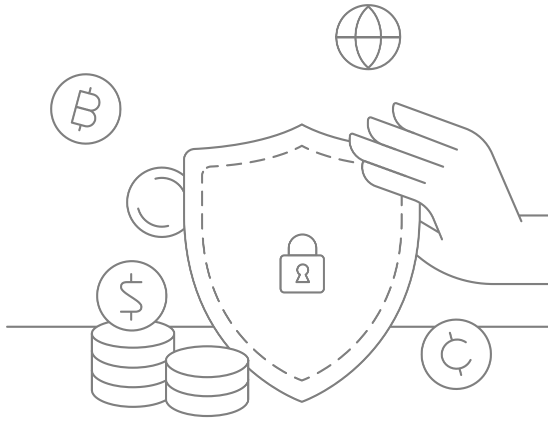
Some custodians offer insurance for certain types of wallets and for certain situations (eg, a key lost due to negligence). Typically, the custodian holds the policy and you may receive compensation should your wallet be affected by a covered event (though you may be able to purchase additional coverage on top of the custodian's policy).

Unfortunately, not all custodians offer this protection. There have been occurrences where a custodian has lost a key – rendering the wallet unusable and permanently locking the funds – and the customer has no recourse.

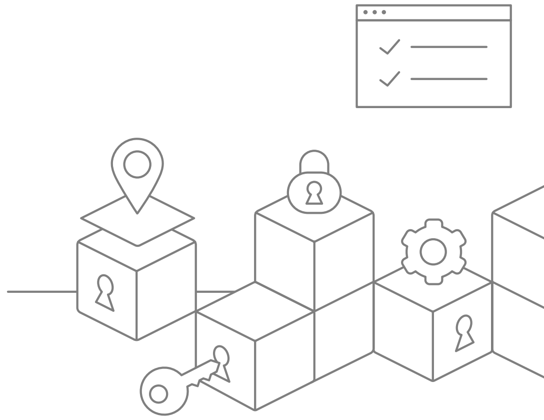
What coins and tokens do they support?

Compare your portfolio against the list of coins and tokens you plan to hold.

If a particular custodian doesn't support one of your favorite coins, you'll naturally need to find another solution for at least that coin.



BitGo



What user controls would my wallet come with?

Ideally, your provider will allow you to customize policies and user permissions for each wallet. These may include:

- Assigning user roles (like view-only or the power to initiate but not approve transactions)
- Determining how many Administrators need to approve each transaction
- Ensuring outflows can only go to whitelisted wallet addresses
- Setting transaction and velocity limits, to cap the number of coins that can leave the wallet during any one transaction or time period

Without these, a bad actor who gains control over your keys could wipe out your holdings. With these protections in place, however, you can mitigate the potential damage.

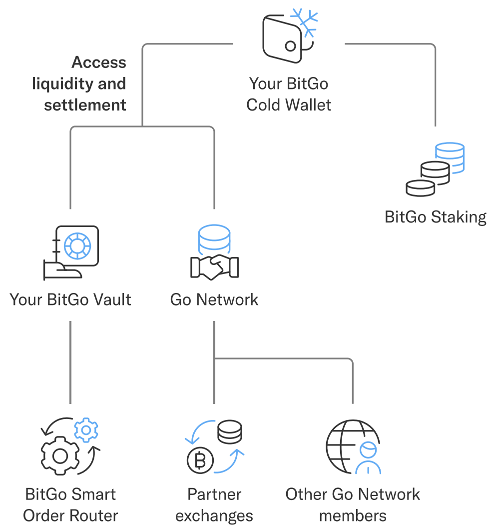
What is the process for withdrawing funds from cold storage?

If you plan to hold funds in cold storage, familiarize yourself with the protocols for withdrawing funds. What human processes does the custodian use to complement their technology? What kind of checks does your team need to pass? What is the average withdrawal time?

Can I do anything with my funds while in cold storage?

Some custodians may offer services like settlement, staking, or integrations with trading platforms – but only out of a hot wallet, which increases the chance of theft.

The "best of both worlds" approach would be to settle trades or stake from the safety of a cold wallet. In this setup, the funds typically stay with your custodian during trading, etc, then get transferred only during a pre-scheduled settlement process.



BitGo

Custodian evaluation 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
- [ ] 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

LEARN MORE AT BITGO.COM →

LAST UPDATED: 2023 APRIL