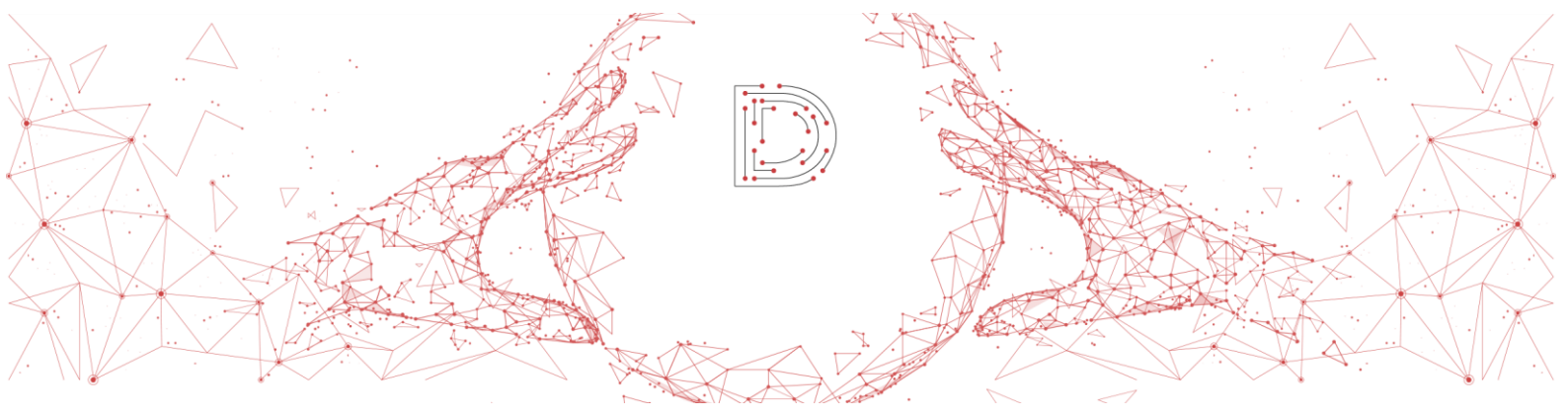


1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

by



www.digital-assets-custody.com



1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

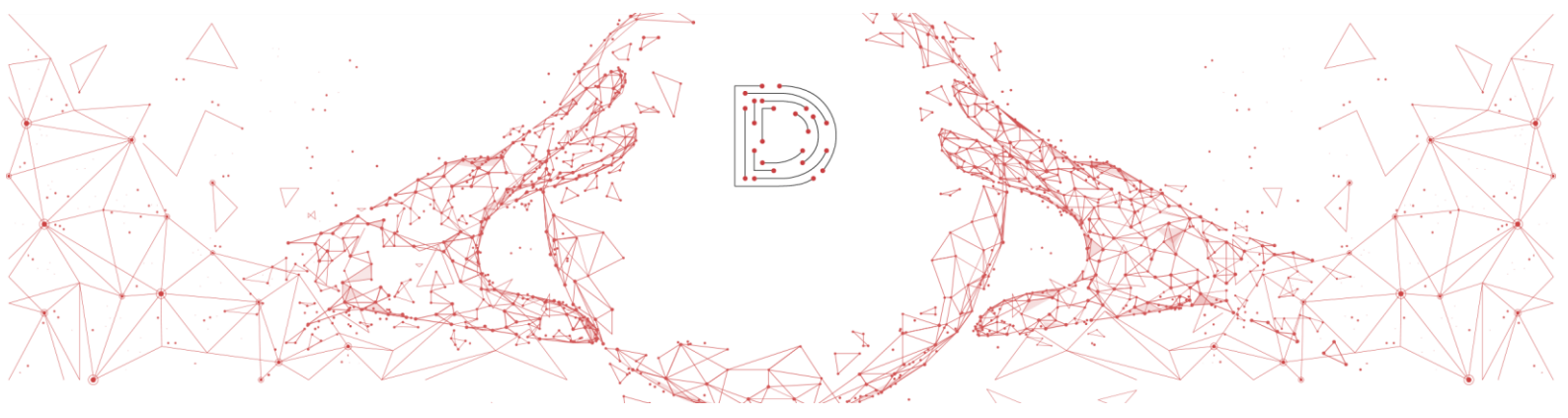
With the introduction of the term "Kryptowerte" (digital assets, e.g. cryptocurrencies such as Bitcoin, but also security tokens) in the German Banking Act on 1 January 2020, Germany entered a field not previously occupied by larger jurisdictions: for the first time, the safekeeping of digital/crypto assets is subject to a permit issued by the German Federal Financial Supervisory Authority (BaFin). This obligation to obtain permission applies to every service provider who stores digital assets or the corresponding private keys for third parties and actively addresses the German market. Thus, the domicile of the respective company is irrelevant to the question of whether the company is classified as a digital asset custodian or not.

It is in the nature of things that many details still need to be regulated in this new field and various questions are still unresolved. Since we believe that the best solutions always emerge from dialogue and must be based on data, we have conducted an exploratory study between 19 October to 3 November 3 2019 to provide a basis for further studies. We believe such contributions will also benefit to other regulators aiming to work on digital assets framework in 2020.

A summary of the results that we consider most relevant can be found in this document. You can request the complete evaluation of the study by e-mail to info@digital-assets-custody.com.

A total of 114 companies were invited to participate in the survey, of which 23 (17%) submitted their replies. In total, the questionnaire contained 35 individual questions, 9 of which were of general nature and were not included in the evaluation. The remaining 26 questions can roughly be assigned to the four subject areas

- general company information,
- tokens, private keys & transactions,
- safety and
- regulation.



1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

WHAT WE'D LIKE FROM YOU

1. Feedback

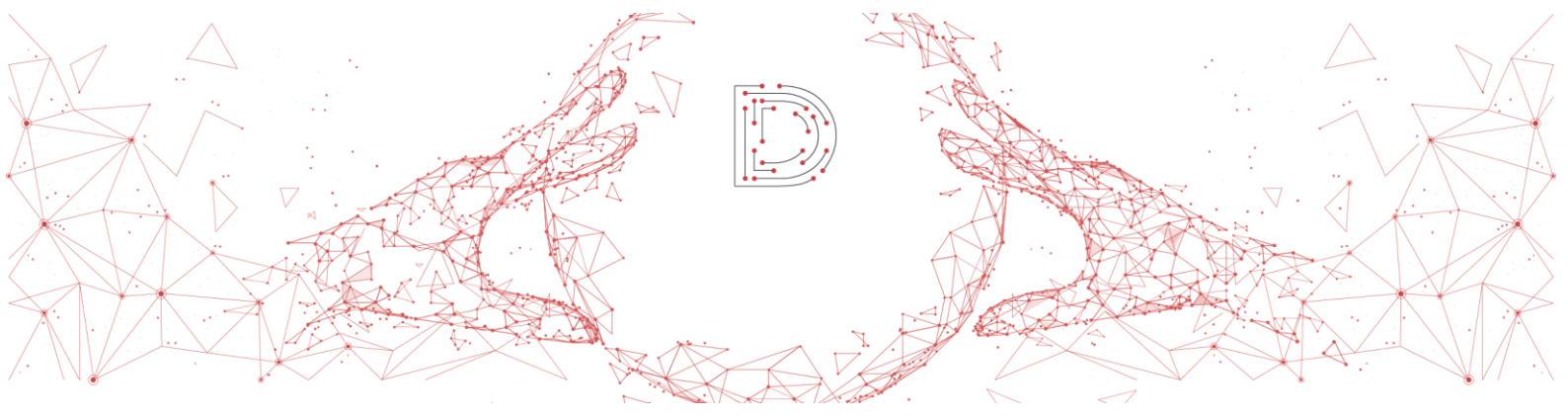
Talk to us on [LinkedIn](#) or [Twitter](#) or get in touch via [email](#).

Tell us what's wrong, tell us what you like, and tell us what you don't like. Most important to us, however, is that you tell us what is of particular interest to you in this subject area and what information you would like to receive for future studies.

2. Attribution

You're welcome to quote anything you find in this report, as long as you note the source. Seems fair.

We hope you enjoy the study!



1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

GENERAL COMPANY INFORMATION

The distribution of answers to the question on self-assessment seems remarkable right at the beginning. The surveyed companies could choose between the options "Digital Asset Custodian", "Digital Asset Exchange", "Tech Provider for one of the above" and "Other". The distribution of the answers is shown in the figure below.

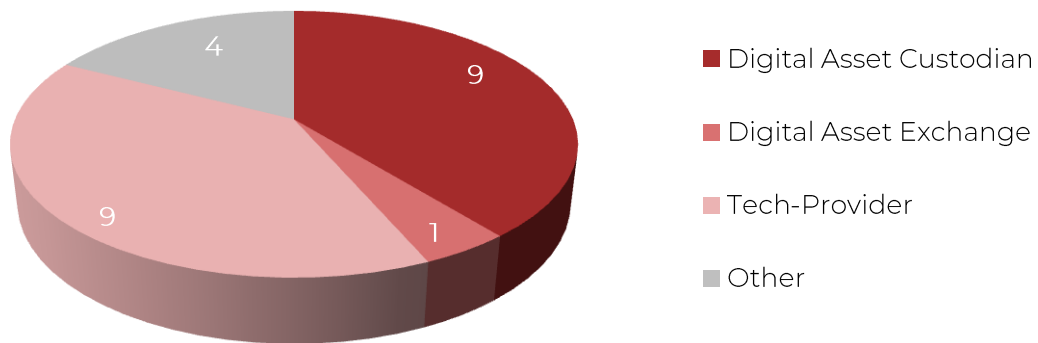
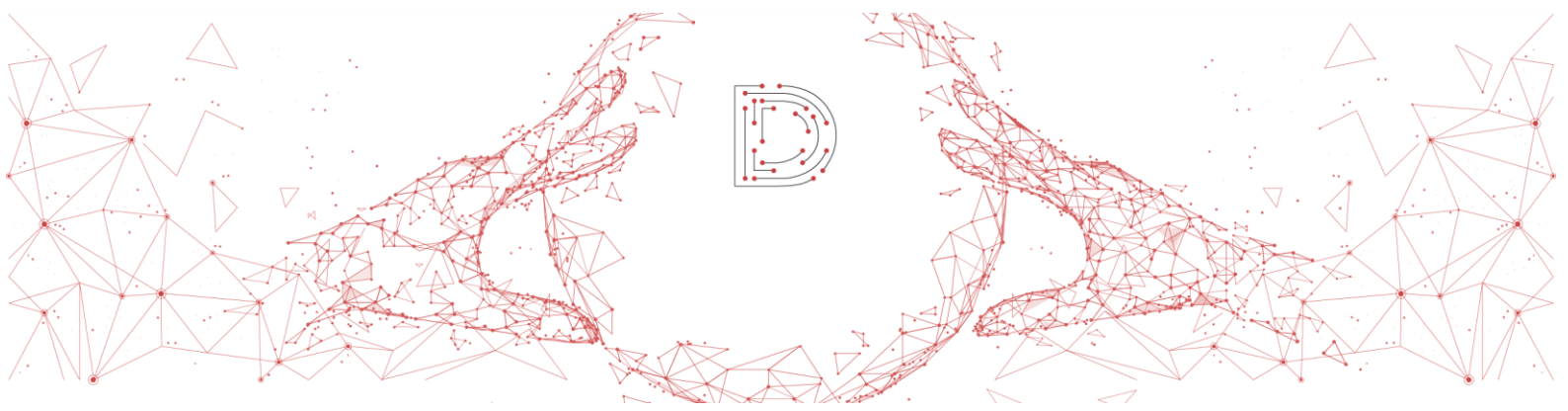


Figure 1: "What describes your company best?"
*n=23

Since only those companies were explicitly invited to participate in the study, which in our estimation would have to qualify as digital asset custodians, this picture is surprising.

While the self-assessment of the only participating Exchange is still comprehensible, 9 (40%) of the remaining companies see themselves primarily as tech providers, the same number assigned themselves to the "Custodian" segment and 4 companies chose the response option "Other". Apparently, there is a big discrepancy between the companies' self-image and their actual tasks as crypto custodians. Thus, the regulator will ultimately have to decide which type of service provision is to be qualified as custody and which as a technical service.



1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

The majority of all companies (47%) were founded in 2018, with a clear increase in the custodians segment (6 foundations). With a total of 9 start-ups, Switzerland is proving to be a particularly attractive location, especially for tech providers (5 headquarters) and companies from the segment "Other" (2 headquarters).

The question about the current and future jurisdictions served resulted in the following picture:

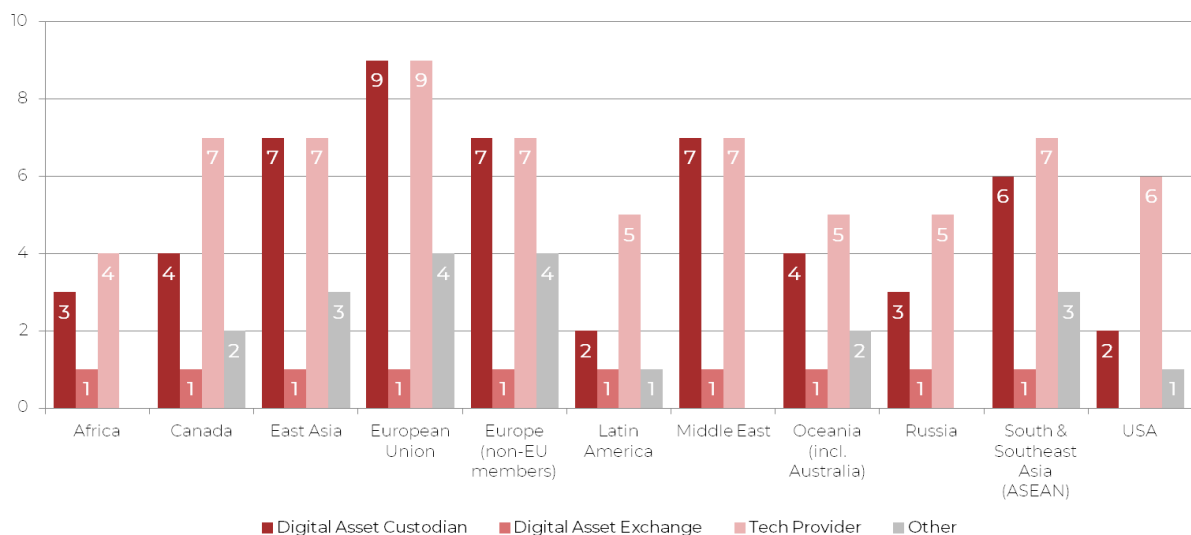
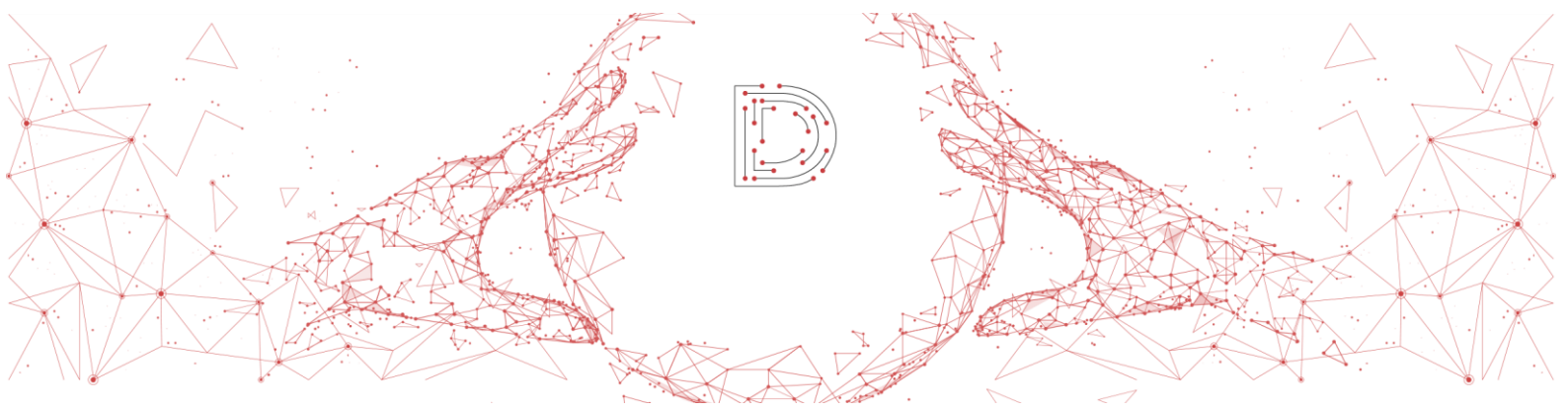


Figure 2: "You are currently serving or plan to serve customers from ...?"
 *n=23, East Asia umfasst: JPN, CHN, KOR, TWN, HKG, MAC

TOKENS, PRIVATE KEYS & TRANSACTIONS

Interestingly, 2 tech providers answered the question "How many digital assets did you have **under custody** on Jan 1st 2019 / Sep 1st 2019?" This suggests that they also act and qualify as crypto custodians, otherwise they would have no assets under custody, but apparently do not see this function as their primary one. Considering the new regulations in force in Germany since 1 January 2020, this is a not insignificant aspect.



1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

When asked "How many keys do you manage?", participants reacted cautiously - 14 (60%) of 23 companies did not want to answer this question. Respondents were also very cautious about the number of transactions per day and their respective volumes. 18 (78%) of 23 companies did not answer the question about the number of daily transactions, 19 (83%) of 23 did not answer the question about the respective median volume in USD.

The answers to the question of what kind of tokens customers can keep with the solution offered in each case came as no surprise. One company explicitly excluded privacy-oriented coins such as Monero for the future, as regulatory requirements and data protection were of prime importance. The number of tokens in safekeeping varies from ≤ 10 to over 1000 tokens.

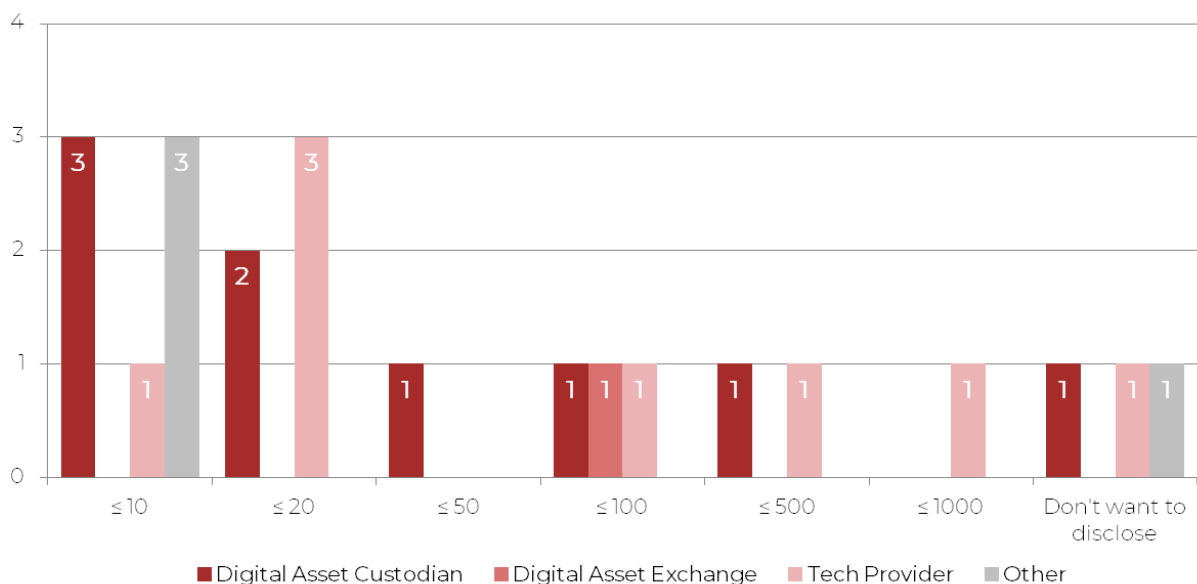
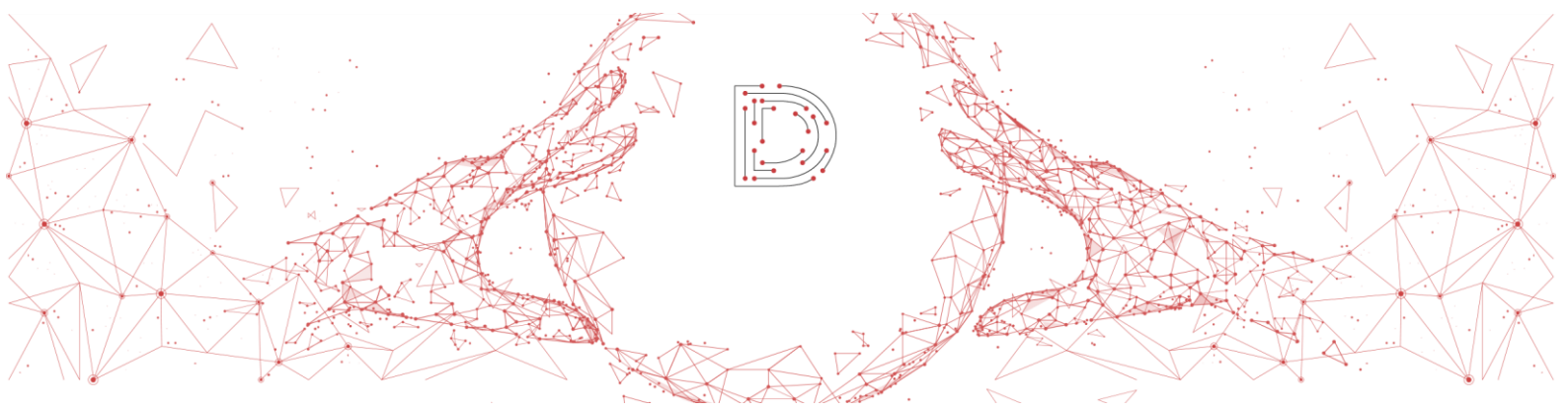


Figure 3: "How many different tokens are stored in your system right now? (If you store more than 1 ERC20-based token: not 1 for 'ERC-20 Tokens' but 15 if you store 15 different ERC-20-based token.)"
*n=23



1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

SECURITY

Of the companies surveyed, 7 (30%) have already been victims of hacking attacks and 3 (13%) did not want to comment on this question. One respondent answered "Yes" to the question whether one of the hacking attacks had been successful.

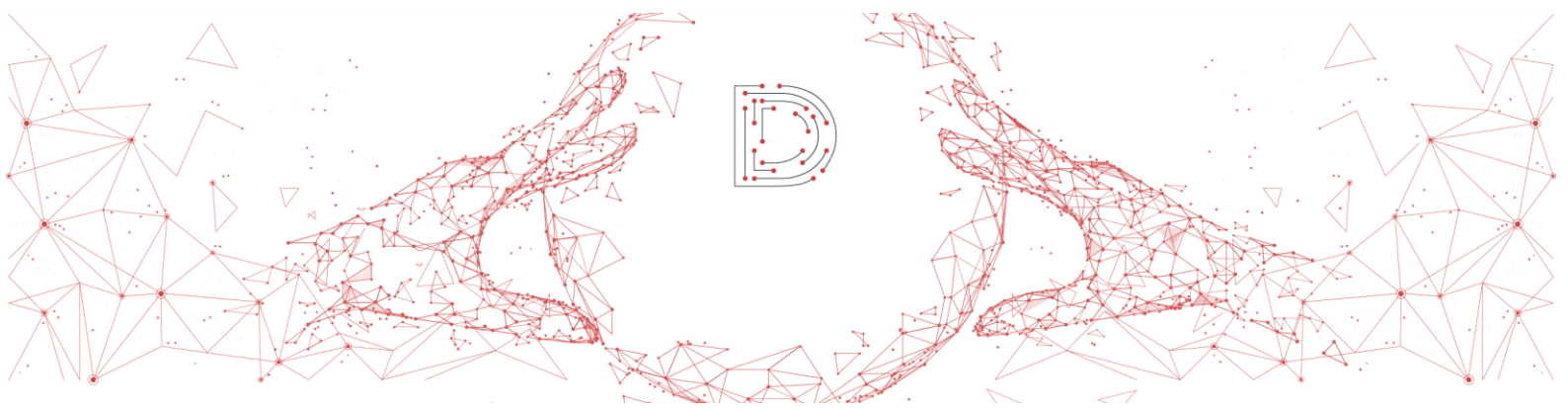
In this context it is striking that less than half of all providers answered the question "Do you have any emergency communication procedure in place?" with "Yes, with all of our partners". On the other hand, around 87% (20 answers) have implemented a Business Continuity Policy in the event of hacking or availability problems. 13 (56 %) market participants already have appropriate insurance cover, 7 (30 %) companies stated that such cover is planned but not yet available. Two companies do not have and do not plan to have such cover, one company did not answer the question.

REGULATION

It was also surprising that two market participants answered the question "Do you have any KYC or AML procedures in place" with "No" or "Planned, offered not available yet". 40% of respondents perform the relevant processes internally; while 13% rely on external partners and 26% use both internal and external procedures.

With regard to the topic of regulatory affairs, 11 (48 %) of 23 companies did not want to disclose whether or not they are currently regulated by a supervisory authority. 6 (26%) respondents indicated that they are regulated, and 3 (13%) are currently undergoing an application procedure to this effect. By far the most serious criticism with regard to the current regulatory environment in the EU was related to the high degree of fragmentation. Almost all respondents stated that a passport license was a key element for further success.

With regard to the topic of regulatory affairs, 11 (48 %) of 23 companies did not want to disclose whether or not they are currently regulated by a supervisory authority. 6



1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

When asked about active participation in an industry association or working group, only one company answered "No", 5 (22%) respondents did not provide any information on this. All other companies (74 %) are active in at least one, often several, associations.

The distribution across the most popular associations is shown in Figure 4.

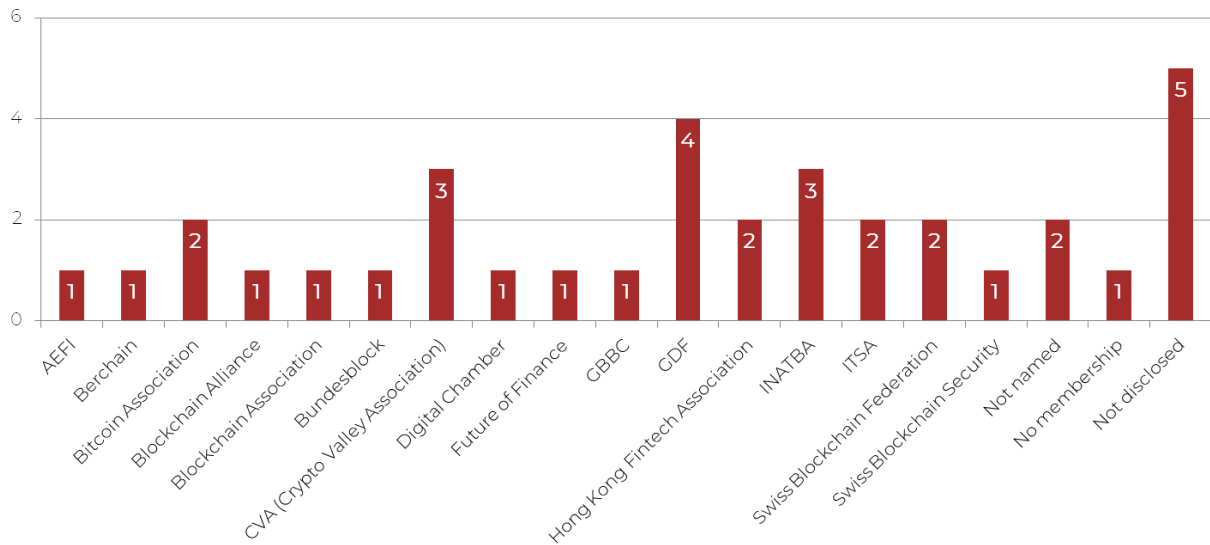
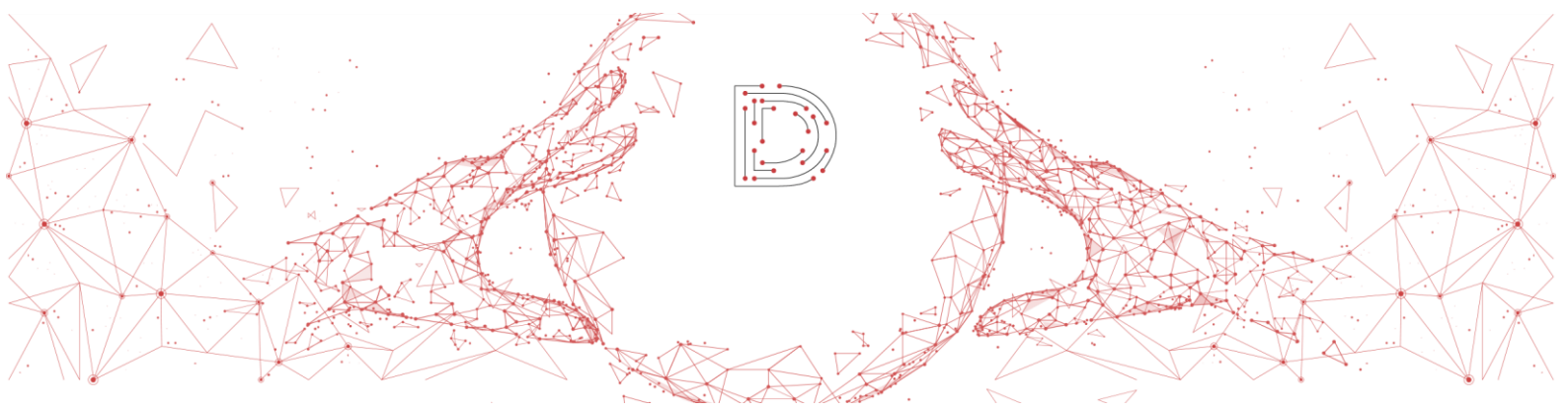


Figure 4: "Are you actively taking part in some industry body, working groups etc.?"

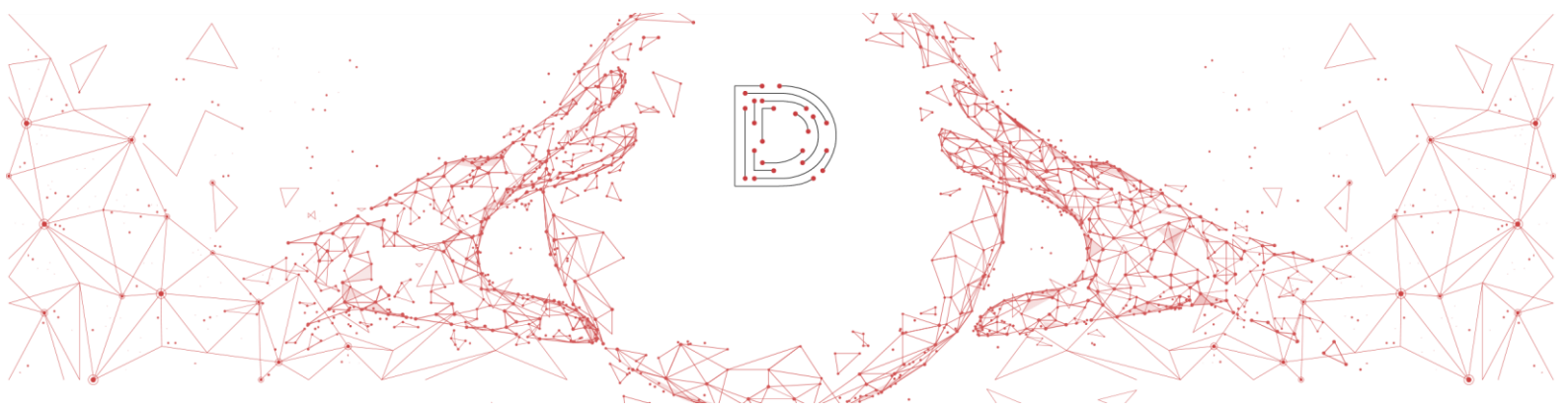
*n=23



1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

PARTICIPANTS





1st DIGITAL ASSETS CUSTODY SURVEY 01/2020

MEDIA PARTNERS



Digital Assets Custody (DAC) is a brand of DLC Distributed Ledger Consulting GmbH.

DAC operates the largest comparison platform for digital asset custodians on the Internet at www.digital-assets-custody.com. In addition, the company advises digital asset custodians and tech providers on regulatory issues and assists them in obtaining licenses. Furthermore, DAC supports established financial market participants within the framework of tender processes for digital asset custodians and the relevant hardware and software providers.

Get in touch: info@digital-assets-custody.com

DLC Distributed Ledger Consulting GmbH

Lange Reihe 73
20099 Hamburg, Germany

Phone: +49 251 981156-4070

Email: info@digital-assets-custody.com

Web: www.digital-assets-custody.com

Important note: This information does not constitute investment, tax or legal advice. It is for general information purposes only and may not be used as a substitute for advice given by appropriately licensed and qualified persons. Neither DAC Digital Assets Custody nor DLC Distributed Ledger Consulting GmbH provides professional advice or services in connection with this publication and shall not be liable for any loss to any person relying on this publication.

