Kingdom Trust
Solidifies the Foundation for Qualified Custody of Digital Assets

June 2018

KINGDOM TRUST®

By: Matthew Jennings | Kingdom Trust Co-Founder & CEO

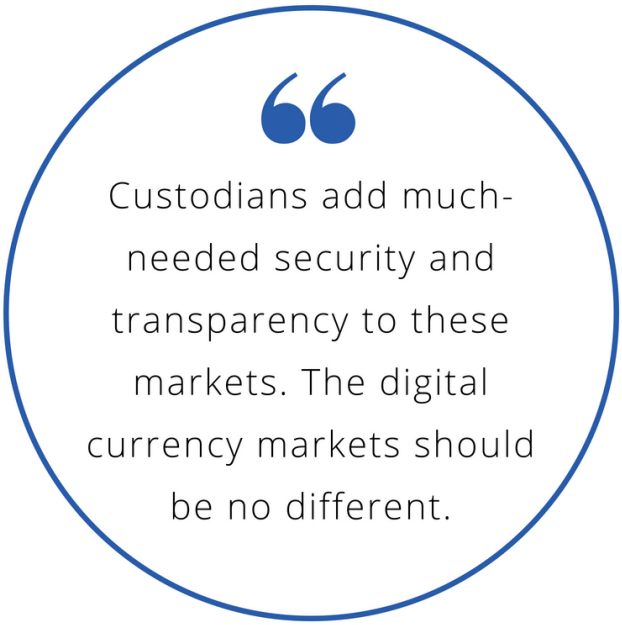
ABOUT THE AUTHOR

Matt Jennings is the CEO at Kingdom Trust, where he has propelled the company into the digital asset market as the first qualified custodian of cryptocurrencies. In 2009, Matt co-founded SBG 1320, LLC, the parent company of Kingdom Trust. A Certified General Real Estate Appraiser and licensed agent, Matt manages a multimillion-dollar real estate portfolio. Matt's interest in investing in real estate and other alternative assets led him to co-found Kingdom Trust.

Kingdom Trust has long been considered the leader in custody solutions for digital assets. As the first mover and pioneer in the cryptocurrency industry, Kingdom has spent years researching and implementing a fully-regulated platform for the custody of our clients' digital assets. Along the way, I have met many people asking similar questions about the custody of these unique assets.

With this whitepaper, I'd like to help bring clarity to what "qualified custody" is and why there is such a large need for it in the cryptocurrency marketplace.

Custodians have long played a key role in all financial and investment markets. Whether you hold securities, commodities, or any of a myriad of alternative and traditional assets, a custodian is likely involved. Custodians add much-needed security and transparency to these markets. The digital currency markets should be no different.



A custodian is typically an unrelated third-party utilized to "hold" the assets on behalf of its clients, and typically in the financial markets, the custodian is a regulated entity such as a bank or trust company. These regulated custodians are known as "qualified custodians."

This is what the digital currency market currently lacks. Most digital currency investors take self-custody of their digital assets or rely on an unregulated custodian to custody their assets. Many are not even aware of this or do not understand the difference in self-custody, using an unregulated custodian, as opposed to using a regulated qualified custodian. Let's touch on both of those.

Self-custody of digital assets is when individuals or institutions hold custody of their own digital assets. While this may sound appealing on the surface, it comes with great risk. In this circumstance, the owner of the digital currency takes responsibility for the safekeeping of the digital assets and the underlying "keys," passwords, or other authenticators needed to access or transact the currency. Taking on this responsibility for any significant amount of assets requires a fair amount of knowledge of both the software used for digital security and the physical security of the authenticators. Quite simply, most average investors and institutions do not sufficiently have this knowledge or the proper security to do this effectively.

Another issue with self-custody is the disaster recovery process. We've all heard stories of people passing away with fortunes of bitcoin or other digital currencies with heirs unable to access the fortune because they do not have the proper passwords or private keys. Or what if the private keys are destroyed by a natural disaster?

Using a regulated custodian allows institutions and investors to forward the responsibilities of safekeeping of these authenticators to a custodian with a robust platform in place, maintaining

audited policies and procedures and disaster recovery programs to prevent these losses and crises. Individual investors can even set up beneficiaries of their custodial accounts to ensure their digital assets are properly dispersed to the proper heirs upon their deaths. There are no keys or other authenticators to maintain or secure by the account owner. It's the equivalent of putting money into the bank for safekeeping versus keeping it in your desk drawer, safe, or burying it in the backyard.

Some exchanges and other providers of digital currency storage and solutions will take custody of the assets for their customers. In many cases, the same firm or a related firm from which the digital currency is purchased takes custody of the digital assets on the client's behalf.

But this is an area where the digital currency market is far behind other traditional markets. Many of these firms are not regulated or qualified custodians and do not have proper oversight from outside regulators to ensure the assets are being accounted for and reported accurately. Various government agencies have cited this as a very concerning aspect of digital currency markets, and justifiably so. The primary role of a custodian is transparency and safekeeping. This simply cannot be obtained without the use of an unrelated third party as custodian of the assets. Security to the underlying owner of the digital currency is further enhanced when the unrelated third party is a fully-regulated and qualified custodian.

> "Custodians add much-needed security and transparency to these markets. The digital currency markets should be no different.

A fully-regulated qualified custodian is typically a financial institution such as a bank or trust company. The term "qualified custodian" was first coined by the SEC in the Investment Advisers Act of 1940. Even today, many investment advisors are required to use a qualified custodian to hold the assets they invest on behalf of their clients. Although not required for some individual investors or institutions, anyone holding a significant amount of assets should use the services of a qualified custodian. The benefits are substantial, and the cost is very reasonable for the peace of mind and services provided.

When operating as an institution under the guidance of a regulatory body, financial institutions are required to keep very detailed records, reconciliations, and apply robust policies and procedures around the custody or safekeeping of client assets. These institutions are regularly audited to ensure such records and policies are maintained and all assets are properly accounted for. Regulators also look at disaster recovery programs, financial solvency, capital adequacy, and a myriad of other factors to ensure the institution is strong and equipped to serve its important role to the underlying client.

More transparency, security, and ultimately trust should be added to the overall crypto markets. While, yes, the SEC requires the use of qualified custodians for registered advisors over a particular size, we believe the use of a qualified custodian should go much further than that—as do many

of our clients, particularly in the digital asset space. The use of qualified custodians to hold digital assets by not only advisors but market makers, exchanges, and individuals brings strength and trust to the overall cryptocurrency marketplace. These are very much needed to expand the market into larger institutional growth and are also the key to the successful release of many new and exciting products.

Kingdom Trust is a state-chartered, public trust company, and we were the very first fully-regulated qualified custodian to enter this market. Our firm operates as a non-related third-party custodian and does not give investment advice, recommend investments, or endorse any investments or the sponsors of any investments. Among the powers granted to the company through our state charter are the ability to take and hold deposits of clients' property for safekeeping and the ability to act in a fiduciary capacity and exercise trust powers. These are key roles that only regulated financial institutions are grated the authority to administer for the public.

While Kingdom Trust moves aggressively forward as the leader in this space, we realize and see the need for additional qualified custodians in the marketplace. We welcome the competition. This is an emerging market that needs this regulatory framework and service to grow.

If you hold a significant amount of digital assets or are an investor in a fund or product that does, you should ask your advisor, exchange, or security provider if they utilize the services of an unrelated qualified custodian to safekeep your assets. If not, you may want to do further research and consider other alternatives.

Kingdom Trust is proud to serve thousands of clients within the digital asset market and plan to continue to lead this market to a place of consumer trust and confidence as well as regulatory compliance. Kingdom Trust has served as a qualified custodian to institutions and individuals for nearly a decade, and our portfolio of around $12 billion in assets under custody consists of a wide variety of traditional and alternative assets. We believe, as do many other experts and regulators, this diversity is key to maintaining a strong financial institution, and while we have a highly-skilled team very focused on digital assets, we are still very committed to serving all asset classes both now and in the long-term.

Kingdom Trust is an independent qualified custodian under the Investment Advisers Act of 1940, as amended, and 26 USC 408. Kingdom Trust is registered and regulated in the state of South Dakota and does not provide, promote, endorse or sell investment products and does not endorse or promote any individual investment advisor or investment sponsor.