



PRIMER

Digital asset custody

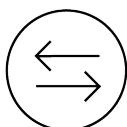
Digital asset custody

Digital asset custody faces challenges and considerations that traditional custody does not:

1. Digital assets are intangible, with no clearing entity to serve as a centralized record-keeper. The assets' private keys can be stored on paper or on hardware devices, meaning that copies of the asset's ownership may exist. So, while it's easy to prove possession, it can be much more difficult to prove sole control.
2. Traditional custody involves keeping assets far out of reach of potential attackers. The digital asset analog is cold storage, a widespread approach to custody that keeps assets inaccessible by holding them offline. However, many digital assets are designed to incentivize active participation on their networks. Keeping assets offline in cold storage can restrict the ability to participate in a network and realize the full value of the asset.

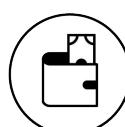
Common digital asset custody methods

Types of custody and associated challenges



Exchanges

Exchanges provide online access to assets, usually keeping a subset of assets in a hot wallet, making them vulnerable to server attacks or phishing.



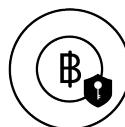
Paper wallets

Pieces of paper that hold written private keys or seed phrases, which are prone to loss, configuration error, and make it hard to validate integrity of the wallet.



Software wallets

Software wallets enable storage of private keys locally on a mobile or desktop device, but are reliant on individuals employing sophisticated security and redundancy measures. Most self-custody software wallet configurations are vulnerable to compromise by coercion, and can expose their users to greater attack risk.



Multi-signature addresses

Ownership requiring an M-of-N approval, a minimum number of signers (M) out of the total number of signers (N), before a transaction can complete can be unreliable and cumbersome to facilitate, and processes to access assets vary by blockchain. It can also be difficult to remove or add an individual from the trusted group when necessary.



Consumer hardware wallets

Specialized hardware devices loaded with software that stores private keys and signs transactions, but are vulnerable to theft and loss, and require a backup seed which can reduce them to a paper wallet. A compromised laptop can exploit the vulnerabilities of a hardware wallet when connected.



Cold storage

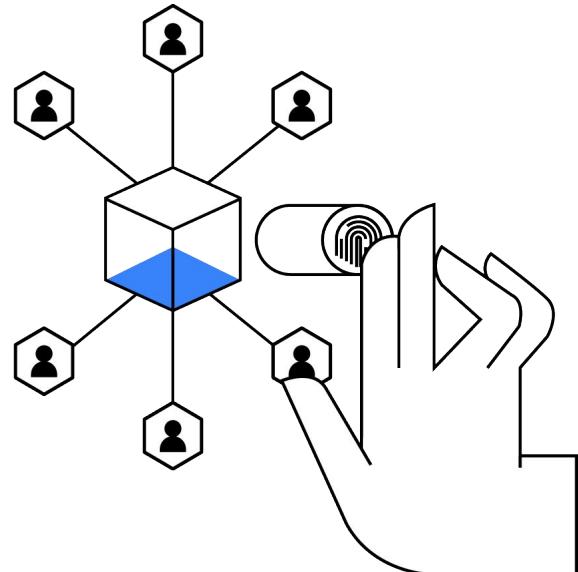
Assets are stored offline in a device not connected to the internet. Downsides include vulnerability to human error or misconduct, slow processes for moving assets, limited network participation, challenges receiving staking rewards, delays in claiming forks and airdrops, and audit challenges.

How do custodians authenticate approved users?

Eliminating vulnerabilities with thorough processes

Digital asset storage solutions vary widely in their approach to authentication. Some have extremely weak controls, with any individual able to withdraw funds using only a username and password. Some have multi-user authentication that is vulnerable to social engineering, such as requiring approval by email from one user and by phone from another, both of which can be faked.

The best way to authenticate organizational intent is to require approval from multiple designated approvers, and verify the identity of each approver with multiple layers of biometrics, behavioral analytics, and unforgeable cryptographic signatures.



How to vet a digital asset custodian

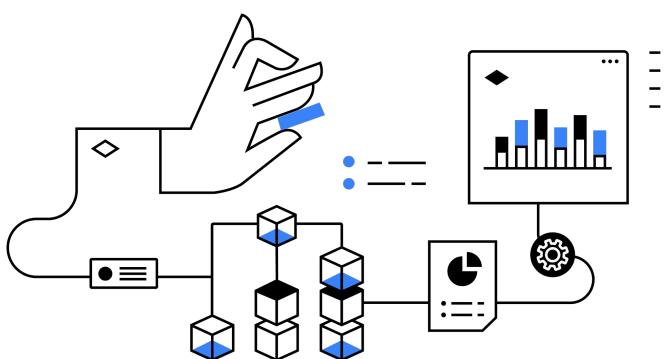
When qualifying a digital asset custodian, ensure the answer to the following questions is an unambiguous “yes”:

Security

- Are the keys generated securely in hardware?
- Can transactions be signed only with your organization's consent?
- Do transactions require strong authentication of the user, including biometrics and behavioral analytics?
- Does account access forgo the use of passwords?
- Are single points of failure eliminated?

Functionality

- Does the custodian provide crypto product integration, offering staking, trading, and financing opportunities?
- Can users participate in on-chain governance concerning assets under custody?
- Can assets under custody be accessed for forks and airdrops?



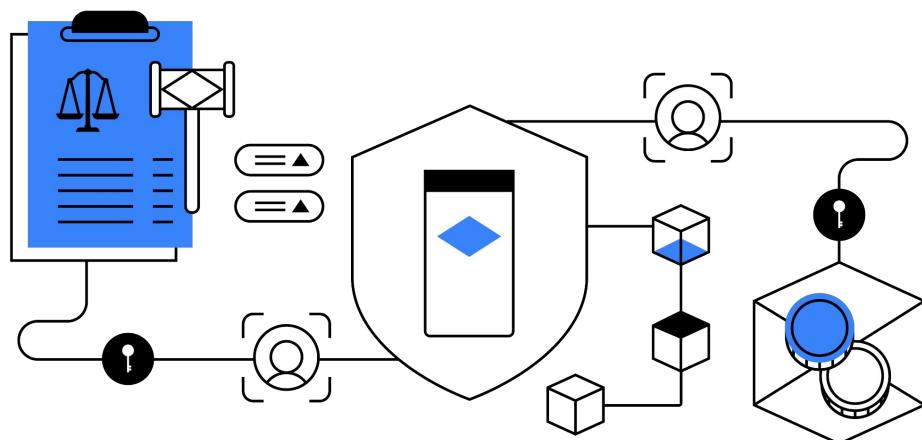
How to vet a digital asset custodian

Accessibility

- Can keys be accessed to conduct a transaction within a matter of minutes?
- Can access be customized to align with organizational permissions for administrators and users?
- Can administrators securely and easily access records?

Trust

- Is the custodian subject to regulatory oversight, and do they operate in compliance with applicable laws and regulations?
- Does the custodian receive independent attestations for financial and security controls (i.e. SOC 1, SOC 2)?
- Does the security model prioritize safety of personal data?
- Does the custodian have crime insurance?



About Anchorage Digital

Anchorage Digital is a crypto platform that enables institutions to participate in digital assets through custody, staking, trading, governance, settlement, and the industry's leading security infrastructure. Home to Anchorage Digital Bank N.A., the first federally chartered crypto bank in the U.S., Anchorage Digital also serves institutions through Anchorage Digital Singapore, Porto by Anchorage Digital, and other offerings. The company is funded by leading institutions including Andreessen Horowitz, GIC, Goldman Sachs, KKR, and Visa, with its Series D valuation over \$3 billion. Founded in 2017 in San Francisco, California, Anchorage Digital has offices in New York, New York; Porto, Portugal; Singapore; and Sioux Falls, South Dakota. Learn more at anchorage.com, on X @Anchorage, and on LinkedIn.

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