Custody is a trading decision

> **CUSTODY**
>
> Where the keys are: self-custody - the holder controls the keys, and the risks are personal (loss, error, theft) - or exchange custody, where the venue holds the keys and the holder owns an unsecured claim on a company. An exchange balance is not the coin; it is the exchange's promise of the coin, and the promise's history includes total failures. The seed's demand honoured: counterparty risk sits here, from day one.

In every other track, counterparty questions arrived mid-course. Crypto's seed put custody in module 1, and the reason is structural: here, where the asset is a key-controlled entry, custody IS ownership - and the alternative is a creditor's claim.

The two custodies

Self-custody: the holder's keys, the holder's coins - ownership in lesson 1's full sense. The risks are personal and mechanical: keys lost are coins lost, with no issuer to appeal to; theft, error and inheritance all become the holder's own operational problems.Exchange custody: the venue holds the keys; the customer holds a balance in the venue's database - a claim on a company, not an entry on the ledger. Convenient, necessary for active trading - and an unsecured credit exposure to a business, in an industry whose failures are large and documented.

The record, dated

The claim's risk is not theoretical. In 2014 the then-largest exchange collapsed with customer coins missing; in November 2022 one of the largest global venues failed with customer balances unbacked - both on the public record, both total losses for many claimants at the time, both discovered by customers who believed a balance was a coin. The platform states these as the commodities track stated its regime breaks: dated, factual, and load-bearing - the asset class's defining risk events were custody events.

The trading decision

The seed's phrase, made operational: custody is decided per purpose, not per ideology. Trading float on venues - sized as counterparty exposure, per module 4's machinery, because that is what it is; holdings in self-custody - where ownership is actual and the risks are ones preparation can manage; and the split reviewed like any position, because it is one. The platform's other tracks asked 'whose promise are you holding?' as a wrapper question; crypto asks it of the account itself - and this track will not let the question retire.

Check your understanding

1. What does an exchange balance actually represent?

a. Coins held in the customer's name on the ledger

b. An unsecured claim on a company - the venue's database promise of coins whose keys the venue holds

c. An insured deposit

Answer: b. The balance is not the coin; it is the exchange's promise of one. The 2014 and 2022 failures - both on the public record - were the difference discovered at total cost.

2. How does the track operationalise 'custody is a trading decision'?

a. Self-custody always, for everything

b. Per purpose: trading float on venues, sized as the counterparty exposure it is; holdings in self-custody; the split reviewed like any position

c. Exchange custody, for convenience

Answer: b. Neither ideology decides - the plan does. Venue balances are positions against a company, and module 4 sizes them exactly as the seed demanded: as risk, from day one.