Counterparty exposure, as a position in its own right

> **COUNTERPARTY EXPOSURE**
>
> Coins held on an exchange are a position: a bet that the exchange stays solvent and honest, sized as the fraction of the account it represents, and lost in full if the venue fails. The seed's demand met - counterparty exposure as a position in its own right - with the dated failures of module 1 as the evidence that this position can go to zero overnight, taking everything on the venue with it.

Module 1 said an exchange balance is a claim on a company. This lesson sizes the claim as what it is: a position, with a size, a risk, and a documented history of going to zero.

The position, measured

A £15,000 balance on an exchange against a £50,000 account is 30% counterparty exposure - a 30% position in 'this venue stays solvent', held whether or not the trader thinks of it as one. The equity track sized single-name risk because a stock can go to zero; a failed exchange is that risk, larger, because it takes every coin on the venue at once - not one position to zero, but all of them. The 2014 and 2022 failures (module 1) were exactly this: customers who never sized their venue balance as a position discovered its size when it became its loss.

Sizing the counterparty

A per-venue cap, like the equity per-name cap: no single exchange holds more of the account than a total loss there could be survived - the halving lesson's cap, applied to the venue instead of the name.Trading float only on venues: the coins needed to trade, sized as counterparty exposure; the rest in self-custody, where there is no counterparty - module 1's split, now a sizing rule.Venue quality as the risk grade: reputable, audited, regulated-where-possible venues are lower-risk counterparties than fringe ones - the position's risk grade is the venue's integrity, read as module 2 read volume integrity.

The uncomfortable arithmetic

Active trading needs coins on venues, and coins on venues are counterparty risk - so the trader cannot reduce this position to zero without ceasing to trade. The honest response is not elimination but sizing: the trading float capped per venue, the total on-venue balance capped against the account, the rest in self-custody, and the split reviewed like any position because it is one. Crypto is the only asset class where the exchange itself is a sized risk - the clearing house that guaranteed the futures trader is exactly what the crypto trader does not have, and this lesson is the price of its absence.

Check your understanding

1. Why is an exchange balance a position, not a neutral holding?

a. Exchanges charge holding fees

b. It is a bet the exchange stays solvent, sized as the account fraction it represents, and lost in full if the venue fails - the 2014 and 2022 failures are the evidence

c. Balances lose value over time

Answer: b. A claim on a company, sized as risk. A failed exchange takes every coin on it at once - single-name-to-zero risk, larger, and it has happened on the public record.

2. Why can't a trader reduce counterparty exposure to zero?

a. Regulators require venue balances

b. Active trading needs coins on venues, which are counterparty risk - so the response is sizing, not elimination: float capped per venue, the rest in self-custody

c. Self-custody is not allowed

Answer: b. Crypto is the only asset class where the exchange is a sized risk - no clearing house guarantees it. The uncomfortable arithmetic is managed by caps, not eliminated.