POSITION CLARITY · FOR ADVISORS

The Canadian Custody *Due-Diligence* Checklist

What CSA guidance actually asks a fund manager to confirm about a crypto custodian, turned into questions you can bring to the diligence conversation.

Custody   Insurance   Segregation   Sub-custody

Position Clarity

An educational worksheet. Made in Canada.

POSITION CLARITY

Contents

01	Why custody is the diligence question that matters most	03
02	What CSA Staff Notice 81-336 actually asks	04
03	The custodian questions worth asking	05
04	Reading a custody attestation without being misled by it	06
05	Sub-custody and where the chain can break	07
06	Where this fits your existing process	08

SECTION 01

Why custody is the diligence question that matters most

A crypto fund's prospectus describes its strategy. It rarely makes as plain who actually holds the keys, what stands behind that holder if something fails, and how a fund manager satisfied themselves that arrangement is sound. That is custody, and it is the layer where crypto due diligence differs most from a conventional securities fund.

Custody. The arrangement by which crypto assets are actually held, meaning who controls the private keys or the institutional-grade equivalent, not who is named as fund manager or trustee.

Custodian. The entity, often a specialized third party distinct from the fund manager itself, that physically or cryptographically controls the assets.

Why it is not like a conventional custody question. A conventional securities custodian holds a record of ownership that a central registry or transfer agent can independently confirm. Crypto custody more often means direct cryptographic control: whoever holds the keys can move the asset, full stop, with no registry to appeal to if the keys are lost, stolen, or misused.

Attestation. An independent third party's signed report confirming a custodian's stated controls are actually in place and working as described.

THE QUESTION THIS GUIDE IS BUILT TO ANSWER

Not whether a crypto fund is a good investment. This guide does not address that question at all. It addresses a narrower, more mechanical one: given that a fund holds crypto assets, what does Canadian regulatory guidance say a fund manager must confirm about how those assets are actually held, and what does confirming it look like in practice.

This distinction holds throughout: a fund can have a sound strategy and a weak custody arrangement, or the reverse, and diligence on one does not diligence the other.

THE ONE LINE

In a crypto fund, custody is not a back-office detail. It is closer to the central risk the rest of the structure sits on top of.

SECTION 02

What CSA Staff Notice 81-336 actually asks

The Canadian Securities Administrators have published specific guidance addressed to crypto asset investment funds that are reporting issuers (funds that file continuous public disclosure with securities regulators). Read closely, it places the burden of confirmation on the fund manager, not on the custodian's own marketing claims.

WHAT THE GUIDANCE ASKS	WHAT IT MEANS IN PRACTICE
Confirm custodian expertise and experience	*The fund manager, consistent with its fiduciary obligation to the fund (its duty to act in the fund's and unitholders' best interest, not the custodian's), must satisfy itself the custodian has the necessary expertise and experience to safely custody the specific crypto assets involved, not custody assets generally.*
Judge insurance adequacy	*Regulators expect the fund manager to form its own view, using best judgment, on whether the insurance carried by the custodian, or by any sub-custodian it relies on to hold some of the assets, is satisfactory, rather than accepting a stated coverage figure at face value.*
Document the due-diligence process	*The expectation is a demonstrable process behind the confirmation above, not a one-line representation that diligence occurred.*

THE PHRASE WORTH UNDERLINING

The guidance repeatedly ties these expectations to the fund manager's fiduciary obligation to the fund itself, meaning to unitholders, not to the custodian relationship. The custodian is being evaluated on the fund's behalf. That framing is what turns a marketing conversation with a custodian into a diligence obligation with a paper trail.

THE ONE LINE

The obligation is not that a good custodian exists. It is that the fund manager can show they confirmed it, specifically, and formed their own view.

The custodian questions worth asking

Turned into questions for an actual diligence conversation, covering the expertise, insurance, and documentation areas the guidance in Section 02 points to, plus the operational-security facts underneath them. Check each as it is answered, and note where an answer is a claim rather than an evidenced fact.

- [ ] **What specific crypto assets has this custodian custodied before, and for how long?** Expertise with Bitcoin custody does not automatically transfer to an obscure token with different technical requirements. Their answer: ____________
- [ ] **Who are the individuals responsible for key management, and what is their track record?** A custody firm's institutional reputation and the specific team handling this mandate are not always the same thing. Their answer: ____________
- [ ] **What percentage of assets is held in cold storage versus hot wallets, and why?** Cold storage (offline, not internet-connected) and hot wallets (online, faster to move) carry different risk profiles; a custodian should be able to explain the split, not just state a headline figure. Their answer: ____________
- [ ] **What does the insurance policy actually cover, and what does it exclude?** Ask for the policy's named perils and its exclusions directly, not a summary. Theft, insider fraud, and loss of keys are frequently covered differently, or not at all. Their answer: ____________
- [ ] **What is the insurance limit relative to assets under custody?** A fixed-dollar policy limit against a growing pool of custodied assets can mean effective coverage per dollar shrinks over time without the headline figure changing. Their answer: ____________
- [ ] **Has this custodian, or its key personnel, been through a security incident, audit finding, or regulatory action?** A clean public record is informative; so is a disclosed incident and how it was handled. Their answer: ____________
- [ ] **What audit or attestation exists, and who performed it?** A SOC 2 report (an independent auditor's report against a recognized data-security control standard) or equivalent, and who the auditor is, matters more than a custodian's own security-page description of its practices. Their answer: ____________

THE ONE LINE

Every question above has a paper answer somewhere. Diligence is the act of getting the paper, not the claim.

SECTION 04

Reading a custody attestation without being misled by it

Custody marketing language is dense with words that sound precise and often are not, unless you ask what they specifically mean for this custodian's setup.

"Insured." Says nothing about what is covered, the limit, or the exclusions, until the policy itself is reviewed. "Insured" and "adequately insured for this fund's holdings" are different claims.

"Cold storage." Describes offline key storage generically. It does not by itself describe how keys are generated, how many people or systems must cooperate to move funds, or how storage is physically secured.

"Segregated." Can mean assets are held in a wallet structurally separate from the custodian's own assets and other clients' assets, which matters if the custodian becomes insolvent, or it can mean only an internal accounting separation with no such legal protection. The difference is significant and worth asking about directly.

"Multi-signature" or "MPC." Multi-signature and multi-party computation are both methods that require more than one key or key share to move funds, reducing single-point-of-failure risk. They are not interchangeable and not automatically equivalent in security; ask which is used and how the shares or signers are distributed.

THE REFLEX WORTH BUILDING

Every term in this section is a category, not a guarantee. The fiduciary obligation described in Section 02 is discharged by finding out what the term means for this specific custodian's specific setup, not by confirming the term was used.

THE ONE LINE

"Insured" and "segregated" are categories a custodian fits into many different ways. The diligence is finding out which way.

SECTION 05

Sub-custody and where the chain can break

CSA guidance extends the fund manager's confirmation obligation to sub-custodians as well as the primary custodian, and this is where diligence most often stops short in practice.

Sub-custodian. A second entity the primary custodian relies on to hold some or all of the assets, common where a custodian uses a specialized third party for a particular asset or jurisdiction.

Why the chain matters. A fund manager's diligence on the primary custodian tells you nothing about a sub-custodian one layer down, unless the diligence explicitly follows the chain. Regulatory guidance addresses this directly: the fiduciary obligation extends to satisfying yourself about sub-custodian arrangements, not only the entity you contract with directly.

The practical version of the question. Ask plainly whether any portion of the assets is held by a sub-custodian, name it here: ____________________, and repeat the Section 03 questions for that entity too.

> **WHERE THIS MOST OFTEN GOES WRONG**
>
> A fund manager who diligences the custodian named on the fund's marketing materials, without asking whether that custodian in turn relies on a sub-custodian, has left a real gap in exactly the place the guidance is most explicit about closing it.

A sub-custody chain is not automatically a problem. Specialization is often the reason it exists: a primary custodian may rely on a sub-custodian with deeper expertise in a particular asset or jurisdiction. The diligence obligation is to know the chain exists and evaluate every link in it, not to treat any sub-custody arrangement as a red flag on its own.

THE ONE LINE

The name on the fund's marketing page may not be the last entity actually holding the keys. Ask the chain all the way down.

SECTION 06

Where this fits your existing process

None of this replaces a firm's existing due-diligence or compliance process. It is a lens to bring to a process that already exists, sized to what makes crypto custody diligence different from a conventional fund review.

- [ ] **Custody has its own line in the diligence file.** Not folded into a general operations review, given how much of a crypto fund's actual risk sits at this layer specifically.
- [ ] **Documents are on file, not summaries.** The insurance policy itself, the audit report itself, the sub-custody agreement itself, per Sections 03 to 05.
- [ ] **A revisit date is set.** Custody arrangements, insurance limits, and sub-custody relationships can change after an initial allocation decision; the confirmation obligation does not end at onboarding. Next review: ____________
- [ ] **Evasive answers were escalated, not smoothed over.** A custodian or fund manager who answers the questions in Section 03 with marketing language instead of documents, per Section 04, has told a careful reviewer something worth recording on its own.

WHERE TO GO DEEPER

Two companion guides in this series sit alongside this one. Fiduciary Duty and Client Crypto Interest works through the broader duty of care this custody diligence sits inside. What Advisors Are Actually Seeing gives the 2026 adoption data for context on how often this question is now coming up.

THE BOUNDARY, STATED PLAINLY

This guide summarizes public Canadian Securities Administrators guidance for educational purposes and turns it into questions for a diligence conversation. It is not investment, financial, tax, legal, estate-planning, or compliance advice, does not evaluate any specific fund or custodian, and does not replace your firm's own due-diligence process or the advice of qualified counsel.

END MATTER

Where to go from here

NEXT STEP

Position Clarity's advisor bundle applies the same documented, defensible diligence standard to a client's own holdings. Schedule a demo at positionclarity.ca/advisor-demo.

Educational only. This guide summarizes public Canadian Securities Administrators guidance and turns it into questions for a custody diligence conversation. It is not investment, financial, tax, legal, or estate-planning advice. For decisions about your own situation, consult qualified professionals. Position Clarity never asks for seed phrases, private keys, or passwords. Not registered with any Canadian securities regulator.

Sources and further reading

- CSA Staff Notice 81-336: Guidance on Crypto Asset Investment Funds That Are Reporting Issuers (retrieved 2026-07-08)
- Canadian securities regulators outline expectations for investment funds holding crypto assets (plain-language companion to CSA Staff Notice 81-336) (retrieved 2026-07-08)
- CSA Staff Notice 21-333: Crypto Asset Trading Platforms, Terms and Conditions for Trading With Clients (the retail-facing platform layer, distinct from the fund-custody guidance above) (retrieved 2026-07-08)

Custody terminology is described generically. It does not evaluate, endorse, or characterize any specific custodian or fund. References to CSA guidance are at the notice level rather than pinpoint section citations.

MORE FROM THE FREE LIBRARY

More free guides for advisors and fiduciaries, built to this same standard: the 2026 adoption data and the fiduciary duty framework that sit alongside this one. Browse them at **positionclarity.ca**.
Verified as of July 2026.

DOCUMENT ID `grd-790d1` **VERSION** `v2.14` **AS OF** `July 2026` **PREPARED BY** `Position Clarity, positionclarity.ca`

Position Clarity. Same standard as the Position Clarity Review. Same instruments across every Position Clarity document.

Not registered with any Canadian securities regulator.