

[Your Company Name]  
[Your Address]  
[City, State, Zip Code]  
[Date]

[Client Name]  
[Client Address]  
[City, State, Zip Code]

## **Subject: Advisory on Counterparty Risk in Digital Asset Transactions**

Dear [Client Name],

This letter serves to advise you on the inherent counterparty risks associated with digital asset transactions and the necessary precautions required to mitigate these exposures.

### **1. Definition of Counterparty Risk**

In the context of digital assets, counterparty risk is the probability that the other party involved in a transaction (such as an exchange, liquidity provider, or custodian) will fail to fulfill its contractual obligations, potentially resulting in a total loss of assets.

### **2. Key Risk Areas**

- **Insolvency:** The risk that a platform or entity becomes bankrupt, leading to the freezing or loss of client funds.
- **Operational Failures:** Technical glitches, security breaches, or hacks targeting the counterparty's infrastructure.
- **Regulatory Risk:** Legal actions against a counterparty that may impede their ability to process withdrawals or settlements.
- **Lack of Insurance:** Many digital asset counterparties do not provide the same protections as traditional FDIC-insured banking institutions.

### **3. Recommended Mitigation Strategies**

- **Due Diligence:** Conduct thorough audits of a counterparty's Proof of Reserves, financial transparency, and regulatory compliance.
- **Diversification:** Avoid concentrating significant holdings with a single exchange or custodian.
- **Self-Custody:** Utilize hardware wallets or multi-signature cold storage solutions to reduce reliance on third parties.
- **Limit Exposure:** Only maintain the amount of capital on third-party platforms necessary for immediate trading or operational needs.

### **4. Acknowledgment of Risk**

Digital asset markets are highly volatile and less regulated than traditional financial markets. By proceeding with these transactions, you acknowledge that you understand the risks of

counterparty default and that [Your Company Name] is not liable for losses caused by the actions or failures of third-party entities.

Please contact us if you require further clarification or a detailed risk assessment of your current counterparties.

Sincerely,

[Your Signature]

[Your Printed Name]

[Your Title]