Minimizing Settlement Risk in Cryptocurrency Transactions

Adam Hilkemann, Akin Gump

Seeking liquidity, confidentiality and reduced slippage, large market participants have pushed the over-the-counter (OTC) cryptocurrency exchange volume to exceed, by some estimates, $12 billion daily. With settlement fees starting in the low single digits, as a percentage of trade size, and large block trades being messaged via unexpected platforms – most notably Skype – it is increasingly important for buyers and sellers to manage and minimize their settlement risk. Key protective measures include retaining reputable intermediaries via executed agreements – instead of “click-through” or oral/informal agreements – both for the arranging OTC desk and a separate and trustworthy escrow agent. Often, purported “escrow” services may be offered via an affiliated provider or through the OTC desk itself via a separate agreement (but without actual escrow of funds) and should be avoided. Unusual, changing and last-minute settlement instructions are also red flags or the mark of an inexperienced operator. Caveat emptor.