

Brothers in 2008 learned this lesson in the absolute hardest way. Additionally, in 2023, counterparties of Credit Suisse and Deutsche Bank were sufficiently scared into thinking about it. Every company that uses derivatives must have a robust counterparty risk management program, particularly if they are on the long side of a powerfully performing asset such as bitcoin.

The investment bank isn't the only source of counterparty risk in the case of the bitcoin ETF. One has to consider the provider of the ETF itself. For example, if the company is hedging with the IBIT ETF, offered by BlackRock, there is a possibility that BlackRock will fail to deliver the bitcoin exposure. This is an unheard-of risk in the case of, say, the S&P 500, but it is a very real risk in the case of bitcoin if every aspect of the chain isn't managed carefully. The key risk is that the custodial partner (currently Coinbase) mismanages the keys and ultimately cannot spend the bitcoin they bought due to what I'll call "cryptographic error." If you've ever lost a password, you have always had someone to call to reset it. In bitcoin, you either hold the private keys and can prove it, or you can't, and if you can't, you are *not* spending the bitcoin. BlackRock will have no way of returning the value to the holders of the ETF. This is a serious risk and not to be taken lightly. It is important to do extensive due diligence on every link of the chain when it comes to who is managing the bitcoin that you will be depending on. A company will require a robust program that has BlackRock prove they can provide digital signatures on a regular basis that prove