Risk Comparison

Trusts, Investment Advisors, Money Market Funds and Banks

	State-Regulated Trusts	Money Market Funds	Investment Advisors	Federal Reserve Member Banks	Non-Member Banks
Rehypothecation of Customer Funds	**No** Not allowed - assets held directly for beneficiaries.	**Some Cases, Regulated** Rehypothecation allowed in some cases but regulated; assets are typically short-term debt instruments.	**Possible, but Rare** Registered Investment Advisors are generally prohibited from hypothecating without written consent and must inform the client of the terms	**Yes** Customer deposits may be leveraged and used for proprietary investment and lending purposes without requiring customer approval.	**Yes** Customer deposits may be leveraged and used for proprietary investment and lending purposes without requiring customer approval.
Allowable Assets	**Conservative Only** Conservative and stable (cash, short-term T-bills, overnight repos), reducing market risk.	**Mostly Conservative** Typically holds cash equivalents, T-bills, and commercial paper; less diversification compared to broader funds. Can hold up to 5% in illiquid securities and can change investment criteria with 30-days notice.	**Various - Market Risk** Wide range of securities, increasing exposure to market volatility.	**Various** Includes a variety of assets, such as loans and securities, regulated by the Fed, but riskier than trusts.	**Various - Credit Risk** Includes loans and other financial products, increasing credit risk.
Insolvency Protections	**Yes** Strong legal frameworks protect beneficiaries' interests.	**Some** Not insured by FDIC; regulated under SEC rule, offering some credit risk protections, but insolvency remains a possibility.	**None** Insolvency protections for customers of New York State Trust Companies are stronger than for those of investment advisors, as New York Banking Law § 100 explicitly protects customer assets from creditors in insolvency, while SEC Rule 206(4)-2 under the Investment Advisers Act of 1940 requires customer funds be held by qualified custodians but provides no direct creditor protection for assets held by investment advisors' custodians.	**Only to FDIC Limits** Federally insured by FDIC up to $250,000, often offering more protection than non-fed banks, but trusts offer stronger legal protections.	**Only to FDIC Limits** Deposit insurance may apply, but protections are generally weaker than trusts.
Customer Asset Segregation	**Required** Under NY law, digital trusts must segregate customer assets from their own, maintain 1:1 backing, and adhere to strict fiduciary and custodial responsibilities to prevent commingling as outlined by NYBL Sec 100-c, Article 3, and NYDFS virtual currency Guidance.	**Yes** Customer funds must be segregated from the sponsor's assets through the use of separate custodians.	**Varies** Not always required to fully segregate client assets.	**No** Commingling of customer deposits with bank assets is standard practice.	**No** Commingling of customer deposits with bank assets is standard practice.
Leverage Limits	**No Leverage is Allowed**	**Some** Money market funds are generally not leveraged, but certain types may use limited leverage to increase returns.	**Varies** Can vary widely; some use significant leverage.	**High** Allowable leverage range of 16.67x to 25x	**High** Allowable leverage range of 11.11x to 25x

