



Practical Steps to Realize on Cryptocurrency in the Context of Consumer Insolvency

Toronto CAIRP Forum

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Solutions

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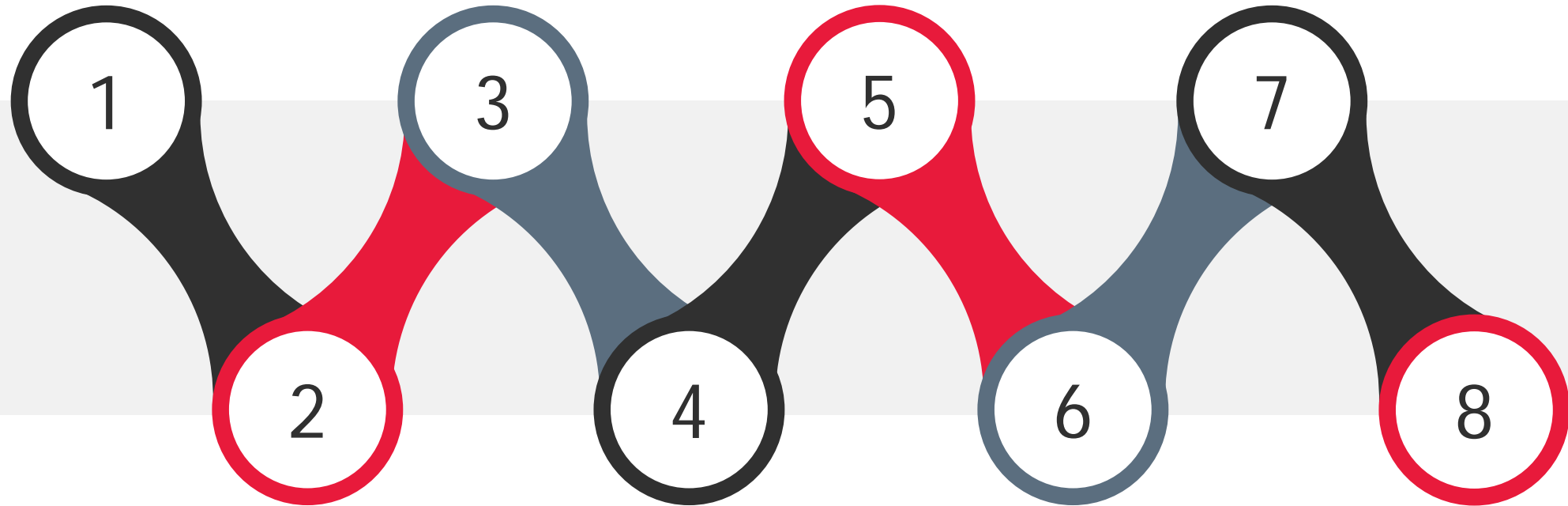
Agenda

Basics of Cryptocurrency
and Wallet Types

Valuation Challenges

Five Approaches
to Realization

Crypto Scams



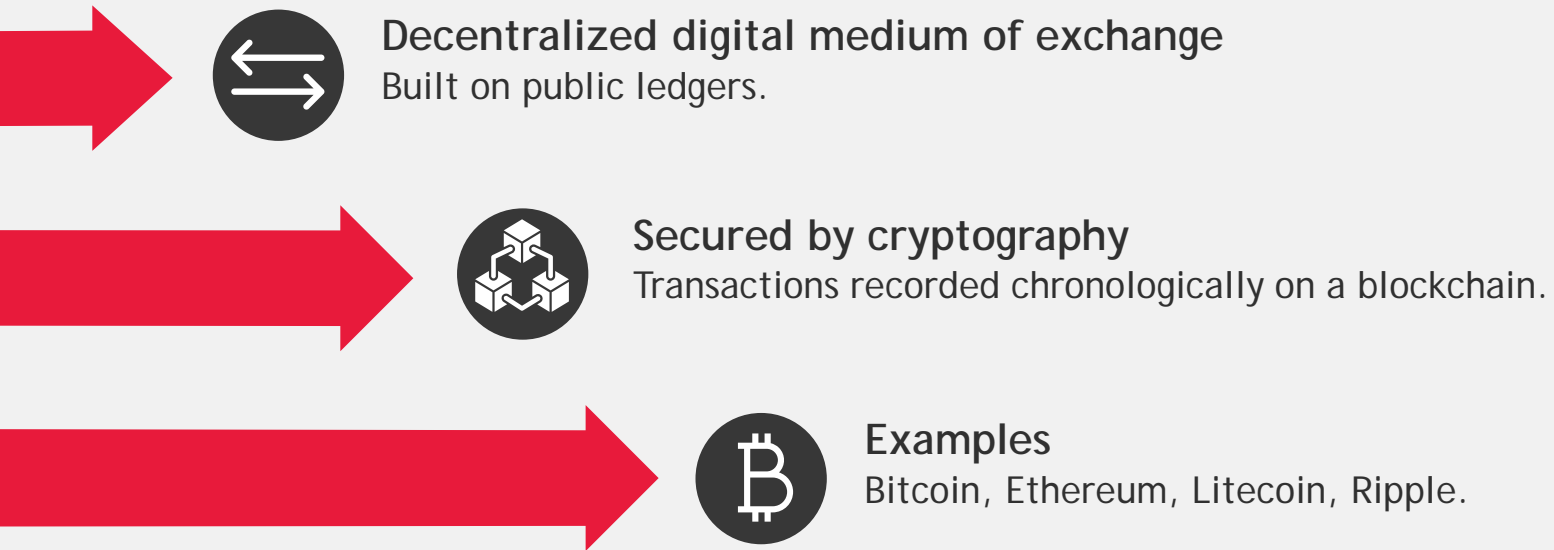
Canadian Regulatory
Landscape

Tracing and Custody

Risks and Pitfalls

Final Thoughts

What Is Cryptocurrency?



Types of Cryptocurrencies



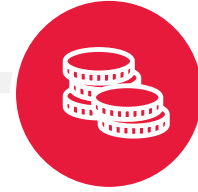
Layer-1 coins

Native tokens of blockchains (e.g., Bitcoin, Ethereum).



Altcoins and tokens

Utility or governance tokens on other networks (e.g., MATIC, DOGE, UNI).




Stablecoins


Value pegged to fiat currencies (e.g., USDT, USDC); used for trading and as a digital analogue to cash.

Why it Matters in Insolvency


Crypto ownership is rising; Trustees are seeing more cryptocurrency assets in filings




General adoption is increasing and set to rise significantly.



2025 BoC report showed that approximately 13% of Canadians own some form of crypto (up 5% from 2020).



75% of crypto holders are 35 or younger. Expected to rise to 30% in 2028!



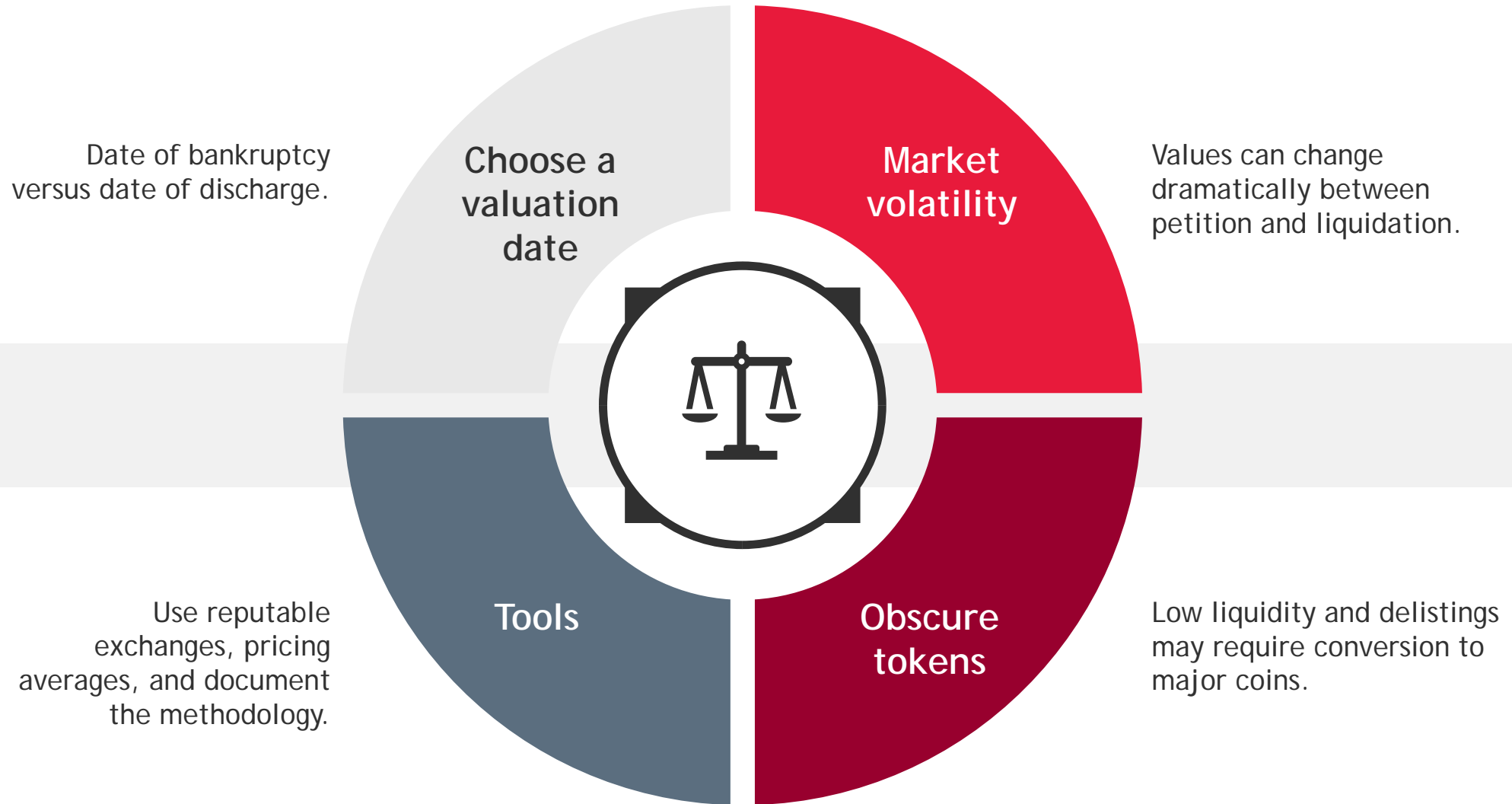
BTC dominates at 60% of holdings.

Regulatory Landscape in Canada



Valuation of Crypto Assets

How, When & Where?



Tracing Crypto Assets

Blockchain explorers

Tools like Etherscan and Blockchain.com to view transactions.



Wallet addresses

Public, alphanumeric public keys that identify holdings.



Analytics

View balances, ERC-20 tokens, gas fees and transaction histories.



Confirm ownership

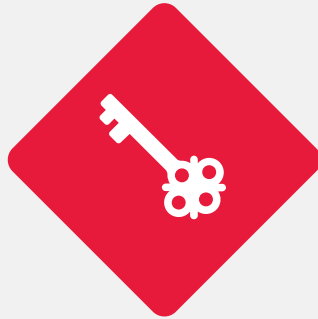
Combine blockchain data with disclosure and KYC documents.



Private Keys, Seed Phrases and Custody

Private key

secret alphanumeric number used to authorize transactions.



Seed/recovery phrase

12-24 words used to reconstruct a wallet.



Non-custodial wallets

user stores keys; may be hot (online) or cold (offline).



Custodial wallets

service holds the keys; user has permission but not full control.



Realization Approach 1:

Settlement/Repurchase Agreement



Debtor “buys back” the equity from the Estate.



Trustee determines FMV
(CoinGecko,
CoinMarketCap)



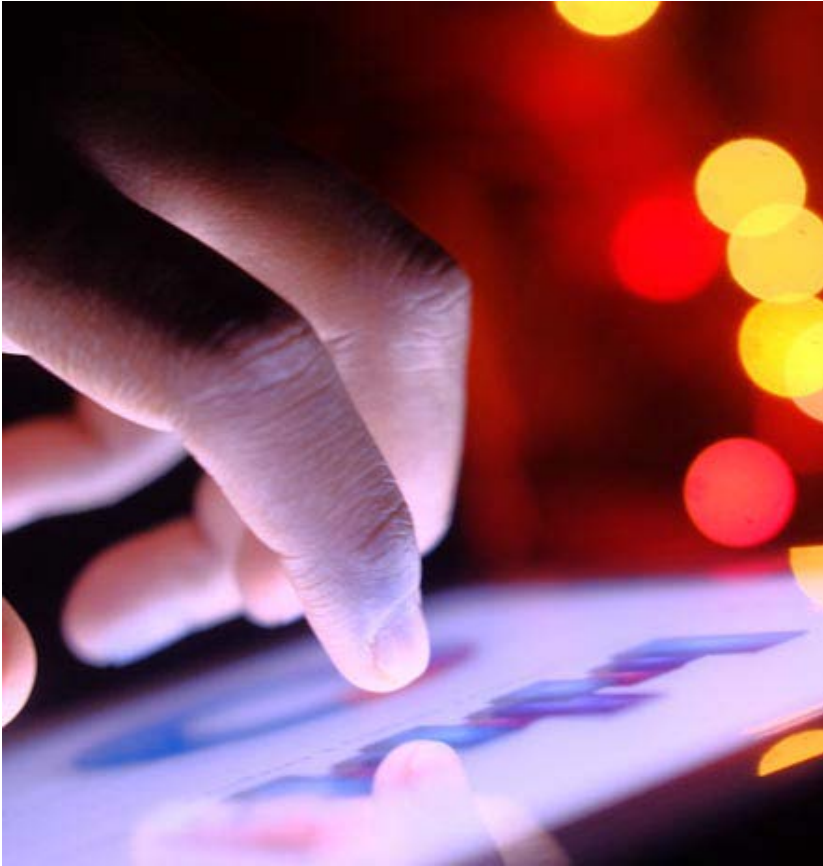
Payment made directly to
the Estate, upfront or in
Installments.



Implications of
increase/decrease in value for
debtor and the Estate.

Realization Approach 2:

Client Liquidation



Debtor sells crypto on a compliant exchange and remits fiat proceeds.



Suitable for liquid, mainstream coins (BTC, ETH, stablecoins).



Requires documentation of transaction and valuation.



The simplest method (of liquidation) is for the debtor to sell their crypto themselves.

Realization Approach 3:

Trustee Wallet or Exchange Account Setup



Trustee creates a dedicated wallet (hot or cold) and provides the public address to the debtor.



Debtor transfers crypto to this address; trustee controls the private keys.



Use multi-signature and secure storage to reduce risk.



Particularly useful where the debtor has no means to off ramp into CAD.

Realization Approach 4:

In-Office Walk-Through/LIT Assisted Liquidation



Useful where the debtor is unsure how to trade, sell, withdraw Crypto into fiat/CAD.



Trustee observes & verifies the transaction, confirms amounts and values



Wallets alone cannot off-ramp to CAD; funds must be sent to a compliant exchange for liquidation/off ramp to CAD



Requires the Trustee or staff have knowledge of the wallet, exchange, trading platform that holds the cryptocurrency and how to navigate it.

Realization Approach 5:

Direct Communication with Exchange



Trustee contacts custodial exchange to freeze funds.



Requires court order, KYC documents and proof of trustee authority.



Limited to regulated exchanges; DeFi platforms may not cooperate.



When assets are held on a custodial exchange, trustees may be able to **contact the exchange directly** to freeze (transfer the underlying crypto/off ramp highly dubious prospect). Typically requires court order and proof of the trustee's appointment insufficient (but start there).

Risks and Pitfalls

General Considerations with Cryptocurrency



Wrong network transfers

Sending tokens on the wrong blockchain can result in permanent loss.



Key/phrase mismanagement

Lost or stolen private keys mean lost funds.



Hidden assets and fraud

Debtors may conceal holdings or use privacy coins.



Market volatility

Rapid price swings can impact realizations.

Security and Privacy Considerations



Data protection

Safeguard sensitive client information.



Avoid sharing private keys

Never email or store keys unencrypted.



Use secure networks & devices

Avoid use of public wifi and public PCs.



Comply with privacy laws

PIPEDA and provincial requirements.

Red Flags: Crypto Scams

Spotting Scam Exchanges/Trading Platforms

- Deposit to release funds
- Unrealistic returns
- Urgency/pressure
- Withdrawal problems

Common Scam Types

- Phishing & fake websites
- Rug pulls & pump-and-dumps,
- Giveaway
- Romance scams

Unrecoverable Assets

- Documents efforts to investigate recoverability
- Debtor should file police report
- Report to Canadian Anti-Fraud Centre, FINTRAC, Securities regulators

Final Thoughts and Q&A

Summary

- Crypto is a growing asset class
- Trustees must understand technology and regulation

Key takeaways

- Ask about crypto
- Document everything
- Act quickly
- Prioritize security

Call to action

- Continue learning
- Share experiences and prepare for more crypto-related files

Q&A

Thank You!

Special thanks to the CAIRP planning committee for putting on a wonderful Forum

