

Bridging The Divide: Crypto Wealth Meets Traditional Finance

Gregory Palos – Director, Head of Financial Institutions
Asim Arshad – Director, Dispute Resolution

LawrenceStephens*



Case Study 1

Background

Instructed by an individual who purchased \$350 worth of Bitcoin in 2011 via New Liberty Exchange (now defunct). In 2022, he discovered his old laptop containing the private keys to his BTC wallet. At that time, his holdings were worth \$42m.

Challenge

The client's primary objective was to purchase a £3m property, as well as utilise surplus funds for his investment plans and early retirement. However, because the funds originated from cryptoassets, he was turned away from solicitors as they were not able to conduct source of funds/wealth checks. Additionally, the client faced debanking risk, as his bank flagged the sudden inflow of funds and indicated potential account closure.

Action

We worked closely with the client to:

- Gather contemporaneous records of original on-ramp payments to New Liberty Exchange
- Review blockchain transactions showing BTC transfers to his self-custodial wallet
- Verify wallet ownership and subsequent transfers to Kraken for liquidation
- Assist the bank with its compliance enquiries, providing detailed documentation and explanations to satisfy their requirements ensuring the client was not debanked
- Made referrals on tax, estate planning and wealth management services

Our SoF report satisfied compliance requirements, enabling the property purchase to proceed smoothly and mitigating the risk of debanking.

This case highlights how expertise in blockchain and compliance transforms complex crypto wealth into legitimate, actionable capital for traditional investments while protecting clients from banking risks.

Case Study 2

Background

An early Ethereum adopter sought to use a mix of ETH, LINK, and BTC as collateral to obtain a loan for purchasing a property. At the time, the assets had a combined fiat value of approximately £415,000, and the client aimed to secure a loan of £300,000.

Challenge

The lender agreed to provide the loan against the crypto collateral and issue funds in USDC stablecoin, which the client liquidated at a centralised exchange to generate fiat for the property purchase. Given the funds were derived from crypto, this matter required robust verification of the collateral and subsequent proceeds.

Action

We assisted the client by:

- Advising on collateral management provisions in the loan agreement
- Preparing a comprehensive Source of Funds report to verify the origin of the crypto assets and the subsequent liquidated fiat proceeds of the USDC

The transaction proceeded smoothly, enabling the client to access liquidity without selling their crypto holdings.

This case highlights the growing trend of crypto-backed lending allowing individuals to leverage long-term crypto holdings for immediate financial needs while maintaining exposure to potential future appreciation.

Case Study 3

Background

Client had fallen victim to a complex and long-running investment scam, in which he was deprived of approximately 48 bitcoin (BTC) equivalent to circa £1.4m at the time, as well as fiat funds of around £200,000. Once our client became aware of the fraud, we were instructed on an urgent basis and ex parte to seek to trace the funds using blockchain analytics and to write to the Exchanges which had been traced as recipient of the funds, and to seek their assistance.

Challenge

The scam involved multiple exchanges and (at the time) anonymous scammers. Time was critical to prevent further dissipation of assets.

Action

We acted on an urgent, ex parte basis to Trace stolen funds using blockchain analytics. Having traced the stolen BTC to mainly two centralised exchanges, we put them on notice of their receipt of the proceeds of crime and sought their cooperation. We also applied to the High Court for emergency relief including:

- Proprietary Injunctions over the BTC and fiat funds
- Disclosure Orders to identify the account holders at the exchanges identified as receiving the stolen BTC
- Worldwide Freezing Orders against the scammers.

We obtained judgment for £4.1m (reflecting the increase in value of BTC since the time it was stolen) and have since recovered significant funds for the client and are actively pursuing recovery across further jurisdictions.

This case demonstrates how combining blockchain expertise with legal strategy can deliver results in complex fraud scenarios turning near-total loss into enforceable recovery.

Case Study 4

Background

Individual successfully bid for a commercial property at auction, intending to fund the purchase with proceeds from cryptocurrency investments. The client had already paid a 10% deposit and was served a notice to complete within a strict deadline.

Challenge

The client's solicitors withdrew from the purchase, citing their inability to verify the source of funds and conduct the enhanced due diligence required. Without immediate action, the client faced losing the deposit and the property, along with potential reputational and financial consequences.

Action

We were instructed and completed a comprehensive Source of Funds (SoF) report, leveraging blockchain expertise to trace and validate the origin of the client's crypto wealth. This included:

- Reviewing historical on-ramp transactions
- Verifying wallet ownership and transaction flows
- Cross-referencing exchange records and liquidation history

Our report satisfied compliance requirements, enabling us to work closely with our real estate team to proceed with the conveyancing and complete the transaction within the deadline. The client retained the property and avoided significant financial loss.

This case demonstrates how nuanced expertise and robust SoF reporting can transform compliance hurdles into successful outcomes, bridging crypto wealth into traditional forums with confidence.

Case Study 5

Background

A well-known software programmer participated in the Ethereum presale, purchasing 100,000 ETH at \$0.14 per coin. With the growth of ETH, his holdings reached a value of approximately £300m. As part of his wealth planning, he made gifts of 1,500 ETH each (approx. £4.5m at the time) to 30 close friends. We were instructed by one such recipient who wished to use the gifted ETH to purchase a property.

Challenge

The property transaction required a Source of Funds (SoF) report to satisfy compliance requirements. This meant verifying not only the recipient's funds but also the provenance of the gifter's wealth, including his original genesis ETH allocation.

Action

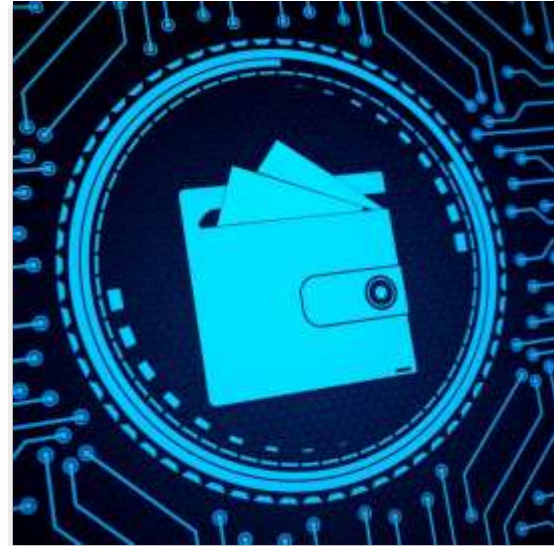
We conducted a comprehensive SoF process:

- Verified the gifter's genesis allocation of ETH during the presale
- Traced the ETH holdings through blockchain records to confirm legitimacy
- Followed the chain of transactions from the gifter to the recipient
- Prepared a detailed report detailing the origin and transfer of funds

Our report satisfied all compliance requirements, allowing us to proceed with the client to complete the property purchase.

This case demonstrates how blockchain expertise and nuanced compliance reporting enable crypto-derived wealth, even when received through gifts, inheritance, or other non-investment channels, to be integrated into traditional financial transactions.

Crypto Wealth Challenges



Crypto Wealth vs Access

Many crypto millionaires face difficulties accessing basic financial services despite having significant digital wealth.

Moving crypto wealth into more 'traditional' forums is fraught with friction points on both sides. Crypto wealth holders struggle to move funds into banking systems, purchase real estate, invest in private equity, acquire luxury assets like art or cars.



Outdated Compliance Frameworks

Traditional financial regulations are not equipped to handle the speed and complexity of cryptocurrency transactions.

Essentially, a collision of cultures, processes, and expectations.



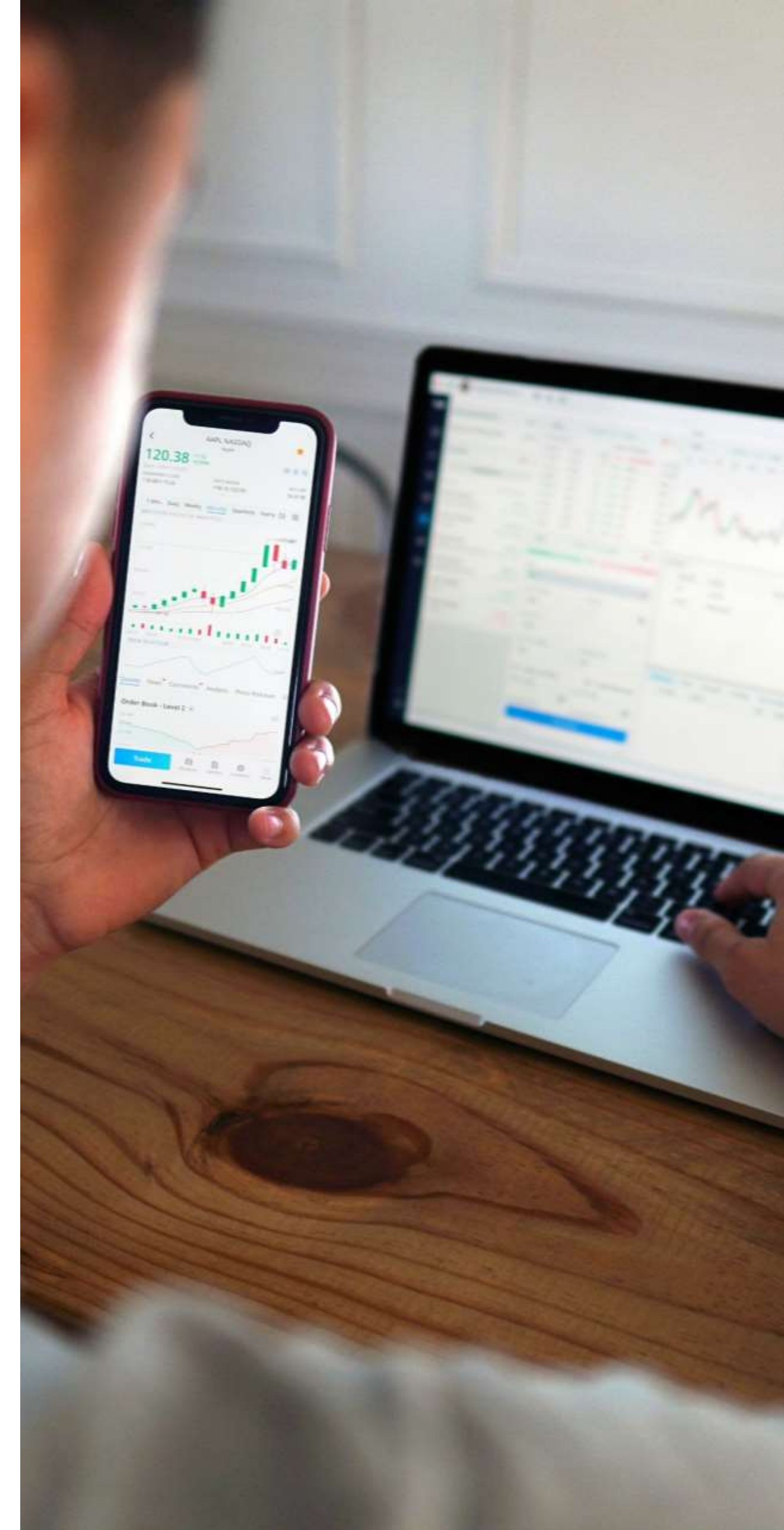
Institutional Disconnect

The gap between crypto users and traditional financial institutions causes mistrust and missed opportunities.

The net result is that potential crypto prospects are unfairly written off as too risky or complex, making it challenging for these individuals to move or use their funds in a traditional finance setting.

What Are Cryptoassets?

- Simply put, they are digital assets that leverage cryptography for securing transactions and allowing for decentralised control.
- Not really a currency – they are not legal tender, nor are they universally accepted, and do not function like currencies (i.e. not issued by any central government or financial institution).
- They do have properties like that of currencies e.g. can be used as a medium of exchange.
- Also share characteristics of commodities e.g. can be seen as stores of value and investment and heavily impacted by market supply and demand.
- They also have the characteristics of payment systems- they leverage blockchain technology which allow for secure, peer-to-peer transactions without intermediaries, reducing cost and increasing speed.
- Legally speaking, cryptoassets are a form of property.



Cultural and Structural Differences

Crypto Wealth Characteristics

Crypto wealth holders are young, self-made, and operate within decentralised digital ecosystems.

One of the starkest differences between traditional finance and crypto is the speed at which wealth can be created. Traditional investors may need years to accumulate fortunes, but crypto HNWIs can generate substantial gains in months, weeks, days or even hours.

Traditional Financial Institutions

Traditional institutions are typically used to steady and centralised models of predictable wealth accumulation and control.

Cultural and Structural Divide

Differences in expectations and processes cause compliance challenges, distrust and engagement reluctance.



Misconceptions About Crypto

- Crypto is only used by criminals
- Crypto is anonymous
- Crypto is untraceable

Every transaction made is recorded on the blockchain and can be traced through the public ledger which provides an unprecedented level of transparency.

Crypto is not anonymous and it is possible to trace and potentially link an address to an identity through pattern analysis or by associating it with a service that requires personal information, like an exchange.

The transparent and immutable nature of the blockchain means that you essentially have the perfect audit trail to view and verify source of wealth/ source of funds.

Taken into consideration, crypto is an undesirable way to launder money or conduct criminal enterprise compared to traditional methods.



AML Risk In Crypto: A Hurdle That Requires Expertise

Increased AML Risks

Crypto's "anonymous" and decentralised nature amplify AML risks beyond traditional financial environments.

Challenges in Compliance

Traditional AML systems struggle with crypto's complexity and lack of central control, leading to default suspicion.

Need for Specialist Expertise

Expert knowledge and contextual understanding are essential for accurately assessing crypto AML risks.

Effective Due Diligence

With the right information and expertise, the blockchain allows for transparency on every transaction that someone has done, from start to finish, and allows you to see the accumulation of wealth and discern how it was done.



Bridging The Gap & Unlocking The Opportunity

Verifying Source of Wealth/Funds

Crypto source of wealth requires new approaches to CDD.

Compliance requirements need to be adapted to target and obtain the right information.

Effectively onboarding high-net-worth individuals in crypto demands a nuanced approach and requires framing the complexities of their portfolios within the right context and a fluent understanding of the crypto space.

Source of funds due diligence for crypto clients seeks answers to the same fundamental questions as in traditional finance:

Where the money comes from?

How was it earned?

Who are the counterparties?

What are the risks?

The nature of those answers is often very different, shaped by the unique mechanisms and pace of the crypto ecosystem.



Extracting The Opportunity

By leveraging deep expertise in blockchain analytics and crypto transaction tracing, we can effectively address AML and compliance friction points.

Crypto SoF reports provide clarity and legitimacy, enabling crypto wealth holders to access traditional financial services, and allowing traditional financial institutions, wherever they may be, to on-board and serve crypto HNWI with confidence and compliance assurance.

The net result is that legitimate wealth which was once isolated within the crypto ecosystem can now flow confidently into traditional financial channels fuelling property purchases, banking relationships, investments, and broader economic participation across jurisdictions.





Gregory Palos

Director
Head of Financial Institutions

T: +44 (0) 20 7563 1556
M: +44 (0) 7809 502036
E: GPalos@lawstep.co.uk



Asim Arshad

Director
Dispute Resolution

T: +44 (0) 20 7563 1560
M: +44 (0) 7720 160683
E: AArshad@lawstep.co.uk

50 Farringdon Road
London EC1M 3HE

+44 (0)20 7936 8888

www.lawrencestephens.com

LawrenceStephens*

