

Crypto Tax Startup Koinly Releases Guide to Educate Users on Proof of Reserves

Following the FTX crash, everyone's talking about crypto Proof of Reserves. In a dedicated guide, Koinly unpacks the tech & terminology to boost safer trading.

LONDON, UNITED KINGDOM, December 8, 2022 /EINPresswire.com/ -- The crypto space is

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Danny Talwar

notorious for its extreme ups and downs, and 2022 has been no different. Trillions have been wiped from the market capitalization of crypto, from the Terra LUNA collapse in June to the Celsius and Voyager bankruptcies and, more recently, the failure of [FTX](#) and BlockFi.

This has resulted in tens of millions of crypto investors been left high and dry. In light of the uncertainty faced by its users, cryptocurrency tax calculator [Koinly](#) has today launched an educational guide on Proof of Reserves ([PoR](#)).

Koinly's Head of Tax Education, Michelle Legge explains. "From 'bank runs' to liquidity crunches, it's been an extremely turbulent year for crypto. In a bid to show greater transparency, the term 'Proof of Reserves' has been thrown around more recently - with all major exchanges claiming they are already on board. Our research shows however that cryptocurrency investors are not as well versed in PoR as they could be."

"We have today published a Proof of Reserves guide that aims to answer the many questions our users have, while also tracking the exchanges which have currently committed to PoR audits," Legge added.

Proof of Reserves (PoR) is a method of verifying that a cryptocurrency exchange has a 1:1 backing across all digital assets that are held there. Proof of Reserves can help to provide some assurance to users of exchanges that their funds are secure and backed. Users can quickly verify that their funds are held and properly custodied by their exchange.

Koinly's Head of Tax Danny Talwar explains, "This can be done by the exchange either publishing a Proof of Reserves report to detail the amount of cryptocurrency they hold or by proving ownership of wallets on-chain via an audit or "Merkel Tree". Usually, exchanges hold most user

funds in cold storage wallets, with hot wallets for more immediate liquidity.”

“Proof of Reserves is an integral part of the crypto space, as the phrase “not your keys, not your crypto” means unless crypto investors hold their own private keys, an exchange could be loaning out deposits in order to earn yield or rehypothecate deposited funds” Talwar continued.

Compared to DeFi platforms - which show how much value a protocol holds at any point in time, centralised exchanges are usually less transparent around how user funds are held and custodied.

As deposits are held across a combination of various wallets that may or may not be disclosed, users of exchanges may find it hard to see whether their exchange is holding user deposits 1:1 or not.

“While Proof of Reserves is not a perfect solution, it is likely to force greater transparency within the space, with many exchanges now moving to show PoR or having their wallets audited by independent parties,” Koinly Head of Tax Danny Talwar stated.

It is hoped that Koinly's guide on Proof of Reserves will give its community a fast introduction to the mechanism, and highlight the exchanges which have already committed to PoR audits. These are listed clearly in a database together with the PoR type that the exchange is currently using, and links to where users can learn more from the likes of Binance, Coinbase and Kraken.

About Koinly

Koinly is a cryptocurrency calculator used by crypto investors in over 20 countries. Koinly integrates with 700+ exchanges, blockchains, and wallets to give investors an easy and accurate way to track their crypto transactions in one place. From here, Koinly calculates the total capital gains and income an investor has derived from their crypto in any financial year.

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