

The Hidden Conflicts of Interest Reshaping Digital Asset Risk

As digital asset firms expand across trading, custody, and advisory, hidden conflicts of interest are becoming a first-order risk for allocators.

GEORGE TOWN, GRAND CAYMAN, CAYMAN ISLANDS, March 19, 2026 /EINPresswire.com/ -- [CV5 Capital](#), a CIMA-regulated institutional fund platform specialising in the launch and operation of hedge funds and digital asset funds, has published a new governance and risk article examining the structural conflicts of interest embedded in multifunction digital asset firms and their implications for institutional investors, fund managers, and counterparties.



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The firms that will define institutional digital asset infrastructure over the next decade will be those that chose structural integrity over short-term revenue diversification.”

David Lloyd, Founder and CEO

The article, titled "The Hidden Conflicts of Interest Reshaping Digital Asset Risk," sets out how leading digital asset firms now routinely operate across multiple business lines simultaneously, including market making, proprietary trading, prime brokerage, custody, token advisory, and DeFi yield management, often within the same legal entity or tightly affiliated group structure. While these firms present the multifunction model as a competitive advantage, the resulting web of conflicts is rarely disclosed with the granularity that institutional allocators would require in any other context.

A Structural Problem, Not an Isolated One

CV5 Capital's analysis identifies several high-risk conflict patterns that have become common across the digital asset industry. These include firms that offer institutional market making alongside discretionary managed account strategies, giving the trading desk direct insight into

client order flow. They also include DeFi yield vault operators that simultaneously earn advisory fees from the protocols whose tokens populate those vaults, creating a direct incentive to allocate depositor capital based on commercial relationships rather than investment merit.

Other patterns flagged in the article include prime brokerage operations affiliated with proprietary trading desks, OTC desks connected to custody operations, and staking service

providers that also run validator infrastructure. The article notes that while any single conflict might be manageable with proper disclosure and governance, firms operating across five or six such business lines simultaneously create a risk surface that is both large and opaque.

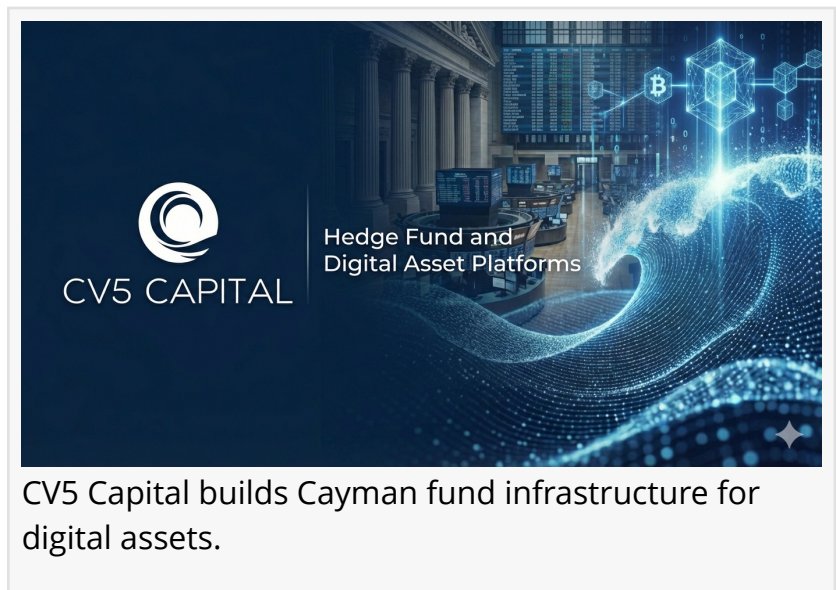
Jurisdictional Fragmentation Compounds the Risk

The article highlights how regulatory arbitrage amplifies the conflict problem. A single firm may hold a licence in one jurisdiction for fund management, operate its trading desk through a lighter-touch regime in a second jurisdiction, and run DeFi treasury operations through a foundation structure in a third that sits outside conventional financial regulation altogether. Each entity may be technically compliant with the rules applicable to it, but the conflicts between them, and the information flows that connect them, may face no regulatory oversight at all.

CV5 Capital's analysis argues that this structure is increasingly being used not merely to minimise compliance cost, but to minimise the scrutiny applied to activities that, if conducted within a single regulated entity, would require explicit conflict management frameworks, internal controls, and client disclosure.

Post-2022 Lessons Remain Unlearned

The article draws a direct line from the collapse of FTX, which was at its core a conflict of interest failure involving an exchange, market maker, venture fund, and lending desk operating with shared capital pools and opaque intercompany flows, to the multifunction structures still prevalent in 2026. While the most egregious models have been dismantled, CV5 Capital argues that the underlying commercial incentives driving firms to expand across service lines remain unchanged, and the regulatory oversight that would force genuine conflict management remains patchy. The firms operating these structures today are often larger, more institutionally credible, and more sophisticated in appearance than their predecessors.



CV5 Capital builds Cayman fund infrastructure for digital assets.

Five Questions Allocators Should Be Asking

The article outlines five areas of inquiry for institutional investors and counterparties engaging with digital asset firms. First, requesting a complete map of every business line and revenue stream across all affiliated entities. Second, examining how information is controlled between those business lines and whether Chinese Wall arrangements exist in practice, not just on paper. Third, scrutinising compensation structures across the organisation to determine whether incentive alignment reinforces or undermines conflict management. Fourth, examining advisory relationships where a firm is simultaneously advising protocols and trading or investing in associated tokens. Fifth, assessing what the firm actually does across all offices, entities, and affiliates rather than evaluating only the specific service being provided.

CV5 Capital's Structural Approach

CV5 Capital positions structural separation as the foundation of institutional credibility. The firm operates exclusively as a regulated fund formation and governance platform, providing independent infrastructure, compliance support, and institutional-grade governance to fund managers launching under the CV5 Digital SPC and CV5 SPC umbrella structures. CV5 Capital does not trade, does not run proprietary strategies, and does not provide market making, token advisory, or DeFi yield management services.

"The firms that will define institutional digital asset infrastructure over the next decade will be those that chose structural integrity over short-term revenue diversification," the article concludes. "That distinction is already visible if you know where to look."

The full article is available at cv5capital.io/insights.

About CV5 Capital

CV5 Capital is a CIMA-regulated turnkey fund formation platform based in the Cayman Islands, specialising in the launch and operation of institutional hedge funds and digital asset funds. The platform delivers institutional-grade infrastructure including legal structuring, governance, fund administration, banking, custody, compliance, and regulatory reporting, enabling managers to focus on raising capital and generating performance. For more information, visit cv5capital.io

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