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## Delaware Judge Rules on Prime Trust Assets

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A U.S. bankruptcy judge has ruled that all assets held by Prime Trust at the time of its Chapter 11 bankruptcy filing, including cryptocurrencies and fiat funds, are part of the bankruptcy estate. This decision prevents customers from reclaiming individual digital assets held with the company and subjects those assets to creditor distribution under standard bankruptcy proceedings.

Prime Trust, once a prominent crypto custody firm, collapsed in June 2023 following the discovery of a massive financial shortfall. Nevada regulators found that the company had over \$82 million in missing customer fiat deposits while holding only around \$3 million in liquid cash. Although Prime Trust also possessed tens of millions of dollars in digital assets, much of it was either illiquid or locked in inaccessible wallets. According to court filings, the firm's liabilities are estimated between \$100 million and \$500 million, while its total assets are valued at approximately \$50 million to \$100 million.



The recent court decision, issued by Judge J. Kate Stickles of the U.S. Bankruptcy Court for the District of Delaware, follows months of legal arguments over whether customer-held cryptocurrencies should be treated as property of the estate or as customer-owned assets. Customers contended that their assets were held in custody and should be returned to them directly. However, the court found that due to the commingling of customer funds and the absence of individualized claims, the assets must be distributed equitably among creditors.

Coinbase and other industry players had submitted legal briefs asserting that customers of crypto custodians should retain ownership rights under Article 8 of the Uniform Commercial Code, which governs financial assets held through intermediaries. The court acknowledged these arguments but declined to apply them in this case.

The ruling sets a significant precedent for future crypto bankruptcy cases by reinforcing that digital assets held by custodians may not be treated differently from traditional financial assets. It highlights the risks investors face when placing assets with third-party custodians, particularly in the absence of clear custodial agreements and segregation of funds.

As Prime Trust's bankruptcy proceedings continue, customers are now considered unsecured creditors and will likely recover only a portion of their lost funds, depending on the final estate valuation and approved distribution plan. The decision underscores the importance of regulatory clarity and stronger safeguards in the evolving digital asset custody sector.

