

After FTX collapse, pressure builds for tougher crypto rules

Reuters



Representations of cryptocurrency Bitcoin are seen in this illustration, August 10, 2022. REUTERS/Dado Ruvic/Illustration/File Photo



Dec 2 (Reuters) - Regulators must step in to protect crypto investors after the collapse of FTX, financial industry executives and lawmakers said at the [Reuters NEXT conference](#) this week, the latest call for tougher oversight of a sector prone to meltdowns.

Policymakers have for years highlighted the need for effective rules on the crypto industry, pointing to risks to consumers after a string of big market crashes and corporate failures.

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But cryptocurrencies and related businesses remain mostly unregulated.

The European Union regulations [designed to bring crypto to heel](#) are expected to take effect in 2024, but the United States in particular still lacks overarching rules.

The collapse of [Sam Bankman-Fried's FTX](#) was the biggest in string of big crypto-related failures this year. It sparked a cryptocurrency rout and has left an estimated 1 million creditors facing losses of billions of dollars.

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"The collapse of something as major as FTX just illustrates the importance of transparency, importance of appropriate regulatory protection, regulatory requirements for all financial activities," Laura Cha, chairman of Hong Kong Exchanges and Clearing ([0388.HK](#)) said.

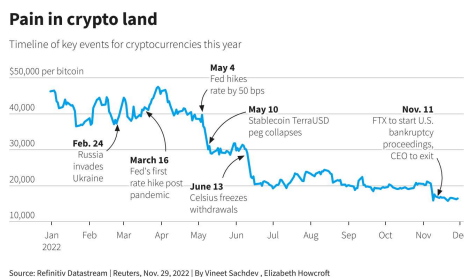
New York Stock Exchange President Lynn Martin said institutional investors will be unlikely embrace crypto without clearer rules.

"There was no regulatory framework, and an institutional investor is not going to really dip their toe in a meaningful way in a market unless they understand what the regulatory framework is," Martin said.

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Some crypto investors share these concerns.

"Regulators could have posted a lot more guidance for crypto," said Brian Fakhoury at crypto venture capital fund Mechanism Capital.



Reuters Graphics

REGULATORY CATCH-UP?

The crypto sector hit a record value of almost \$3 trillion late last year, before market turmoil prompted by rising interest rates and a string of industry blow-ups wiped more than \$2 trillion from its valuation. Bitcoin, the biggest token, is down by three-quarters from its record high of \$69,000.

This extreme volatility has not done the crypto sphere any favours in terms of winning broader support in the financial services industry.

"I don't think it's a fad or going away but I can't put an intrinsic value on it," Morgan Stanley ([MS.N](#)) CEO James Gorman said at Reuters NEXT. "I don't like investing in things that have a range of outcomes or putting clients in it."

After FTX's collapse, regulators in the United States as well as finance industry executives and crypto entrepreneurs are focused on the need for a workable set of rules and greater transparency.

Nasdaq CEO ([NDAQ.O](#)) Adena Friedman called for a balance in regulation between protection and innovation - a common refrain among mainstream businesses involved in crypto.

Nasdaq, whose crypto custody arm is expected to launch in the first half of 2023, pending regulatory approval, has provided trading and surveillance tech to crypto exchanges for several years.

"Now is the time for regulation to catch up and make sure that as we go forward, to have safety and soundness, but we also allow for innovation and a nimble ecosystem," Friedman said.

India's Finance Minister Nirmala Sitharaman said the collapse of FTX underscored the need for greater visibility on often-anonymous crypto transactions.

The FTX collapse "shows the importance of a well-framed regulation," Sitharaman said, "so that countries can be clearly aware of by whom, for what for these transactions are happening. Who's the end beneficiary?"

Crypto entrepreneur Justin Sun said investors seldom have clarity on how funds at crypto companies are used.

"For a lot of exchanges and lending providers and institutions in the space, (there's) a lack of transparency. The customers basically have no idea where the funds are allocated," said Sun, founder of Tron cryptocurrency.

Investors "can lose their life savings in seconds, but they have no idea where their money goes." he said.

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