

June 10, 2021

Political

Crypto Faces Calls for Increased Regulation

Executive Summary: Recent cyberattacks demanding ransom in digital coins, high market volatility, and lack of consumer protections have spurred policymakers calling for increased regulation in the crypto industry.



Issue

At yesterday's Senate Banking Committee hearing, there was bipartisan concern regarding cryptocurrencies including: their use in illicit activities; lack of consumer protections; high market volatility; and negative environmental effects.

In addition to growing Congressional concern, the Biden Administration has signaled its interest in increased crypto regulations. Last month, Securities & Exchange Commission (SEC) Chairman Gary Gensler urged Congress to pass legislation to protect investors and provide oversight over the space. Earlier this week, National Security Advisor Jake Sullivan said that the G7 needs to address how *"to deal with the cryptocurrency challenge which lies at the core of how these ransomware attacks are carried out."*



Impact

Over the last month, Bitcoin has lost over a third of its value and other cryptos—Ethereum, Doge coin and Coinbase—saw large drops as well. Increased

regulations could dampen investor confidence with an effect across the crypto sector.

The calls for increased regulations come at a pivotal time for cryptos, with policymakers preparing to make critical decisions. The Office of the Comptroller (OCC) is conducting a review of the previous Administration's decision allowing Anchorage, Paxos, and Protego (3 cryptocurrency firms) to become national trust banks with conditional charters and the SEC is considering applications for a Bitcoin exchange-traded fund (ETF).



Next Steps

Although the Administration and Members of Congress have offered little in the way of concrete regulation/legislative action to date, we believe that this issue will remain a priority.

Acting Comptroller of the OCC Michael Hsu has called for a joint meeting of Federal agencies and Administration officials citing fragmented and disjointed jurisdiction as a hinderance to the regulatory process. With bipartisan support and negative headlines, it is not a question of if there will be additional regulations in the crypto space but when.

More Information, Below

When Gensler testified before Congress, he said that he wants to bring *“similar protections to the exchanges where you trade crypto assets as you might expect at the New York Stock Exchange or Nasdaq.”* Gensler's stance surprised some crypto proponents who predicted that he would be an ally as he is well-versed in cryptocurrencies, unlike many Administration or Congressional officials.

Senator Elizabeth Warren (D-MA), in a Bloomberg interview, said that we need basic consumer protections, offering credit fraud/scam protections as an example of a simple protection not offered by cryptocurrencies.

Yesterday's Senate Banking hearing was meant to cover the possibility of a central bank digital currency (CBDC) in the United States. The majority of Democrat Senators cautiously supported the idea as a means to combat high bank fees that disproportionately affect low-income groups and provide accounts to millions of unbanked Americans. In her opening statement, Warren said that a CBDC *“could help improve financial inclusion, efficiency, and the safety of our financial system—if that digital public money is well-designed and efficiently executed, which are two very big ‘if’s’”*

There was far less support from Republicans on the Committee with Senator Pat Toomey (R-PA) saying *“We don't need a state-sponsored bank interfering with this successful free enterprise system.”* However, he did support a private sector solution for a CBDC-like product in order to achieve the same inclusion goals laid out by other Members of the committee.

Senator John Kennedy (R-LA) expressed concern over the creation of a CBDC that could overshadow the existing currency and place the Fed in competition with private banks. Garnering sufficient Republican support will be essential to creating a CBDC as Federal Reserve Chairman Powell has indicated that the Fed will not proceed with digital currency without Congressional support. The effect of a CBDC on stable coins remains to be seen, though several witnesses asserted that a digital dollar would essentially render them useless.

There is some movement on the issue in Congress. Last month, "[The Eliminate Barriers to Innovation Act](#)," passed the House. The bipartisan bill would form a working group of SEC and Commodity Future Trading Commission (CFTC) officials to analyze and offer recommendations to improve United States' current digital asset legal and regulatory framework.

Later this month, the House Financial Services Committee will hold a hearing entitled "*America on 'FIRE': Will the Crypto Frenzy Lead to Financial Independence and Early Retirement or Financial Ruin?*"

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