# Self-Regulation in Crypto Rises as Governments Stumble Through Legislation

financemagnates.com on 04.04.2018 12:10

•••

While some voices in the crypto community argue that regulating cryptocurrency defeats the purpose of crypto in the first place, many others see regulation as a positive thing for the industry in the long run. They believe that regulating crypto will legitimize the industry, and while this likely means that cryptocurrency's volatile, wild-west reputation will change, the industry as a whole will likely gain more stable value over a longer term.

This is evidenced by the passage of Japan's Virtual Currency Act (VCA) in April 2017. The act legally legitimized both Bitcoin and Ethereum as forms of payment and provided some legal protections for cryptocurrency users, which caused a greater number of individuals and companies to start using both BTC and ETH. The influx of new users that caused the rise of BTC and ETH throughout May and June of 2017 is often credit to the VCA.

In terms of crypto regulation, however, the Japanese government has always been light-years ahead of the rest of the world. Some believe that this is caused by the infamous hack of the Japan-based Mt Gox exchange several years ago; the hack forced the government to examine how to appropriately regulate cryptocurrency long before everyone else did.

## Self-Regulatory Bodies Form to Prevent Botched Legislation, Promote Sustainable Industry Practices

Now, governments across the globe are scrambling to figure out how to appropriately regulate cryptocurrency. The problem is that the vast majority of government officials have little or no understanding of or experience with cryptocurrency or blockchain technology. In the worst cases, this can lead to ineffective or overly-restrictive legislation, legislation that stifles the growth of the industry or fails to protect companies and investors.

To prevent ill-informed regulations from being formed, cryptocurrency firms around the world have moved to form self-regulatory bodies. These associations serve several purposes: they act as a way to educate and inform the governments of the world about what appropriate regulation of cryptocurrency should look like, they self-institute measures to protect themselves and users, and ultimately help the crypto industry grow down a sustainable path.

# A Growing Number of Self-Regulatory Bodies Are Appearing Across the Globe

One of the first instances of a self-regulatory body for the crypto industry appeared in India with the formation of DABFI, the Digital Asset and Blockchain Foundation of India, in February 2017. Zebpay, Unocoin, Coinsecure, and Searchtrade joined forces and appointed international law firm Nishith Desai Associates to help the firms develop regulations for the crypto industry, which DABFI approached the government with last year.

Seven of the largest cryptocurrency firms in the world made headlines in February when they joined to form CryptoUK. In an interview with Finance Magnates, CryptoUK Chairman Iqbal Gandham said that the formation of the organization was a response to the fact that "the status [of cryptocurrency regulation] in the EU–as with any country in the world right now–is very fluid [at the moment]." He explained that he'd "be happy to say that [CryptoUK is] taking more of a leadership position on [cryptocurrency regulation]."

According to a CoinTelegraph report, CryptoUK is forming a "code of conduct that will help prevent money laundering and other illegal activities involving Bitcoin and other cryptocurrencies, as well as better protect customers."

Firms in Croatia and Slovenia are exploring a efforts to form self-regulatory bodies of their own. According to a Bitcoin.com report, Croatian UBIK (Udruga za Blockchain i Kriptovalute) is working to create "a focused and strong community of people involved with the blockchain technology and the domain of cryptocurrency in Croatia." Slovenian blockchain firms, including Viberate, have joined to form Blockchain Alliance CEE.

Despite active regulatory measure from the Japanese government, the 16 government-registered crypto exchanges in Japan have announced the formation of their own self-regulatory body to "bolster trust in an industry rocked by a $530 million digital money heist in January," referring to the Coincheck hack. According to a Reuters report, the name and the date of registration with the Japanese Financial Services Agency are not yet known, but a source said that "the body would be set up this spring."

# Exchanges Build Their Own Regulations as Authorities Stumble in Their Efforts to Legislate

With or without collaboration from self-regulatory bodies, some governments have already taken their turns at regulation with varying degrees of severity. Some, like China, have gone the way of the iron fist, banning ICOs and exchanges outright. Others have taken a mixed approach–for example, South Korea banned ICOs, but has (so far) allowed domestic exchanges to continue operating.

Acting with slow and rather calculated decisions, the United States has begun its own journey towards comprehensive crypto regulation. The SEC has taken action against crypto firms and ICOs that it deemed as fraudulent, and announced several weeks ago that all cryptocurrency exchanges must register with the agency.

However, some confusion has ensued after several government bodies within the US began saying some contradictory things about the way that cryptocurrency is being regulated.

In early March, the SEC declared that ICO tokens were legally classified as securities; around the same time, an open letter from FinCEN to Oregonian Senator Ron Wyden declared that ICOs could be considered as money transmission. Within the same week, Federal Judge Jack Weinstein of New York ruled that ICO tokens could be legally classified as commodities.

> What a nightmare this is. SEC says "all ICOs" its seen are sales of securities, but FinCEN says they are "generally" money transmission.
>
> But by law, they can't be both.
>
> As an industry, we must do a better job of educating our governments.https://t.co/KUaX6uoehs … @coincenter
>
> — Marco Santori (@msantoriESQ) March 6, 2018

The regulatory confusion in the US has caused US-based crypto firms to tread lightly, working to become as compliant as possible. US-based exchanges in particular have also begun to take their own self-regulation more seriously.

Even before the regulatory confusion the United States, the California-based GDAX exchange recognized the need for a public set of guidelines on how GDAX chooses the assets it lists on its platform. Thus, the GDAX Digital Asset Framework was published in early November of 2017 to provide greater transparency to users as well as to act as an regulatory example for other exchanges and legislators.

"We are committed to supporting more assets, but our priority is always to protect customer funds and comply with regulatory requirements," a statement from GDAX read when the guidelines were published.

Several exchanges have also recently decided to begin de-listing coins that are deemed fraudulent. Earlier this week, Binance announced that it would be removing the Centra Token (CTR) from its platform "in light of the information released earlier today relating to the controversial and fraudulent acts by members associated with the Centra Tech team."

> CTR Risk Announcementhttps://t.co/CxfXqEX5Sr pic.twitter.com/Dw3TUdXaND
>
> — Binance (@binance) April 3, 2018

Bittrex also announced in mid-March that it would be delisting more than 80 coins because of a lack of sufficient liquidity. "Limited trading volume on the exchange or potentially suspicious trading activity" is listed as a reason for token removal on the exchange, in addition to "evolving regulatory standards and other compliance issues," "poor implementation of use cases or poor reception by community," and others.

Coinbase also temporarily suspended the trading of Bitcoin Cash in response to widespread allegation of insider trading on the BCH network.

# Self-Regulation for Crypto Spreads Across Industries

Self-regulation has been something of a trend within the cryptocurrency industry as well as within other industries that interact with crypto in some way.

For example, in response to a lack of government action on crypto regulation, some banks in the United States and across the world began restricting their customers' ability to complete crypto-related transactions. Swedish bank Nordea reportedly went as far as prohibiting its employees from owning or trading cryptocurrencies.

Social media firms have also begun restricting or even banning advertisements for cryptocurrency-related products from their sites. Google, Facebook, Twitter, and MailChimp have all instituted their own sets of rules for what is and isn't allowed.

In any case, it will probably be several years before regulations across these industries and governments are in alliance with one another. Until then, we can hope that the confusion doesn't interfere too much with healthy growth of the industry.