SEC Commissioner Argues for Relaxed Cryptocurrency Regulations

Justin Szilard

September 20, 2018

SEC Commissioner Hester M. Peirce recently gave a speech at the Cato Institute's FinTech Unbound Conference where she discussed the importance of allowing cryptocurrencies to thrive without heavy SEC interference to foster innovation to benefit investors and consumers.

Ms. Peirce is known for being on the dissenting side of the SEC ruling to not allow Bitcoin ETFs to be traded and for doing so, she joked that she earned the nickname 'CryptoMom'. She elaborated by making an analogy of her cryptocurrency regulatory views to being a "free-range mother" vs. being a "helicopter mom" since "certain achievements are possible only if we take risks". She went on to highlight how there is often an urge by regulators to over-implement regulations to not only to protect these investors and consumers, but also protect themselves since it is often regulators that get blamed when things go wrong and individuals lose money.

She then transitioned to discussing how the cryptocurrency community has the ability to regulate itself if it is allowed to expand by regulatory agencies.

"What authority do we have to require that assets underlying securities be regulated as if they were securities? Even if we had this authority, private markets can and do regulate themselves. The crypto community includes lots of people who are very willing to speak up, criticize one another, and bring to light technological, corporate governance, and other perceived weaknesses in cryptocurrencies."

She then continued to discuss why the SEC should allow cryptocurrency financial products to proceed with minimal additional regulations since this will foster greater innovation.

Light regulations would benefit consumers and investors

Ms. Peirce then discussed five main points that she believed would make the SEC "more nimble in dealing with fintech innovations that are intended to create more opportunities for investors to gain exposure to [regulated] markets". First she discussed that since "regulators are neither entrepreneurs nor technologists" they should "bring innovative solutions into the financial markets with an appropriate degree of humility". She added that it would be beneficial for new financial products to be tested in the marketplace where real strengths and weaknesses can be discerned by investors. Plus, "they can benefit from the transparency and rules that govern market interactions" rather than be pushed to hazier underground markets. This led to her second point that the SEC decisions to not allow cryptocurrency financial instruments will cause investors to "seek out such innovations in less-regulated, or unregulated, spaces, such as foreign-registered products that lack the transparency that trading under [SEC] rules would provide".

Her third point highlighted the importance of the SEC defining rules clearly since "[i]nnovators are often reluctant to ask for regulatory permission for fear of getting an adverse response" or an unclear response. Next, her fourth point said that the SEC should shift their investor protection role "to expanding investor access to [regulated] financial markets, including through innovative technologies". She drew attention to mobile trading and digital advice as ways that investments are becoming more accessible by more individuals. Finally her fifth point was the difference between regulators and innovators and how regulators should not pretend that they know what is best for innovation.

She then discussed how regulations cost businesses money and time investments and thus, "innovation is crowded out by such regulatory investments" and particularly smaller firms. She then highlighted how the SEC offers some solutions such as "no-action relief, which promises that the staff will not recommend an enforcement action on a certain set of facts", but these action tend to get expensive. She finished by discussing how cryptocurrencies are an innovative and revolutionary field and likely to change the investment world in the coming years and thus it is important for regulators to have humility so they do not over-regulate and slow down innovation at the cost of consumers and investors.

Dash offers innovation in a transparent way

Dash is striving to provide revolutionary Digital Cash to consumers around the world via its record low transaction fees, fast confirmation times, and great security. Dash has enabled this via its Decentralized Autonomous Organization (DAO), which publicly votes on which projects to fund and not fund via the Treasury. Dash has been committed to transparency as exemplified by Dash Core Group (DCG) that holds quarterly calls to discuss development progress with the community. Then DCG has to continuously renew its funding, which makes them beholden to act in the network's best interests or risk not getting funded. Dash evolving to offer more transparency than other coins to respond to investors' concerns is an example of self-regulation within the market that Ms. Peirce discussed in her speech.

Dash has also pursued transparency and compliance by seeking a 'no-action' letter from the SEC to further assure consumers and investors that Dash is a currency rather than a security. Dash also exemplifies its commitment to transparency by ensuring that AML/KYC tools are available for merchants that require it for their businesses. These features have allowed Dash to differentiate itself from other cryptocurrencies that are either not as innovative and/or not as transparent to allow consumers and investors to use Dash either as an everyday currency or as an investment, while also complying with regulatory rules.