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US regulators say crypto is risky but not banned—behind the scenes, though, it’s a different story

Article

The news: Crypto firms are getting squeezed out as **US regulators are allegedly putting pressure on US banks to cut ties with digital asset firms**, per Cointelegraph.

What's happening? Various US regulators are said to be discouraging banks' involvement in the crypto markets, with a purported end goal of leaving the crypto space unbanked. Rumors are swirling that while regulators' public statements neither encourage nor discourage banks from engaging in crypto activities, behind the scenes they're putting pressure on banks to cease all such activity.

- Founders of **new crypto startups claim that they can't get a bank account** anywhere in the US.
- **Coinbase** CEO Brian Armstrong said US regulators are trying to ban crypto staking for US retail investors. News supporting that claim broke today—the Securities and Exchange Commission told crypto exchange **Kraken** to end its crypto staking program for US investors.
- **Binance** recently announced that it will only facilitate transactions in USD greater than $100,000 due to a new policy from **Signature Bank**.

What's the industry saying? Players in the crypto markets worry that US retail investors will struggle to exchange their digital assets into USD, and that the increasing pressure from regulators will cause crypto exchanges to end their US operations. However, there are views on both ends of the spectrum.

- Supporters think **the pressure will force the crypto markets to fall in line with regulatory frameworks.** Those crypto firms that don't comply will ultimately become defunct.
- Critics believe **the move will stunt the growth of the crypto markets in the US compared to the rest of the world.** They're worried that the US will fall behind in financial and technical innovation as a result. Some also believe **the lack of access to major US banks will promote more risky behaviors in the shadow banking system**.

Is your bank safe? The initiative seems geared more toward **curbing retail investors' ability to access digital asset markets**—not so much institutional investors' access. That's good news for financial institutions that have recently grown their institutional crypto divisions.

- In August 2022, **BlackRock** partnered with Coinbase to give its institutional clients crypto-trading abilities

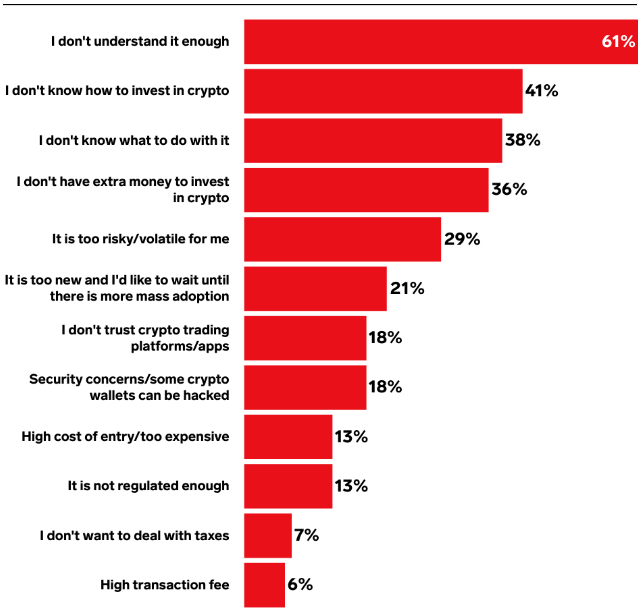
- In May 2022, **Goldman Sachs** offered its first bitcoin-backed loan, and expanded the ability shortly after to all of its institutional clients. In June 2022, it began offering institutional clients an Ether-linked forward derivative.

Our take: US regulators have been slow to regulate the crypto markets, and thus far they've only used enforcement to dictate what's right and what's wrong. But banks and crypto firms are now frustrated by the conflict between regulators' messaging through reports and their alleged behaviors.

- Regulators' attempt to shut down the crypto markets to retail investors seems like the easy way out. Instead of spending time to understand the appeal of digital assets and create controls around the industry to facilitate safe and secure banking, they're trying to wash their hands of it.
- Even if US regulators are able to deter investors from activity within the US crypto markets, digital assets aren't going to disappear. Not only will the US fall behind in a major tech advancement within the financial industry, the squeeze also could discourage nondomestic firms from doing business in the country, especially if much of the rest of the world embraces crypto.

Reasons US Adults Have Not Purchased Cryptocurrency, Oct 2022

% of respondents



Note: n=1,403
Source: Bakkt, "US Crypto Study: Wave 1," Dec 13, 2022

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