



## There is opportunity in crypto - but for now it's fraught with risk

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### **Governments are paying lip service to regulating digital assets yet are failing to tackle the issue that there is no one to target when things go wrong.**

Bim Afolami addressed the UK Cryptoasset Business Council on the terrace of the House of Commons at the beginning of last year. The then City minister had an air of someone already eyeing the packing cases as he said that the government would introduce regulation “aimed at protecting consumers”.

You read that correctly; hardly a revolution. Fast-forward to last December and the City minister, Tulip Siddiq — by then also eyeing the packing cases but for different reasons — launched the Financial Conduct Authority’s (FCA) discussion paper on cryptoasset regulation. Siddiq has now gone and the consultation will close next month.

In the middle of that civil service process dropped the second coming of President Trump. If there was ever a time to take heed of the old adage “if you are not at the table, you are on the menu” it is now.

What the FCA’s paper fails to engage with is that inward-looking domestic regulation aimed at protecting consumers in the UK, while laudable, misses the point. There is plenty of lip-service to the “borderless” nature of crypto trading, but there is little sign that the government knows what that means or has any insight into what is happening beyond its own borders.

What is happening is fast-moving, alarming and festooned with both risk and opportunity.

Russia is now one of the biggest miners of crypto — seeing it as an opportunity to both evade sanctions and promote the de-dollarisation of world trade. Then there are territories that promote themselves as cryptoasset hubs. Gibraltar is a good example of somewhere with effective, balanced regulation. There are plenty of less good examples.

The UK is clearly aiming for consumer-led regulation — requiring that they are warned clearly and early of the risks of what they are buying into. The reality in most crypto trades is that there is no one obvious and available to seek redress from. Even if you find a target, they will likely be domiciled outside the UK. Therefore, UK regulation appears to aim at discouraging consumers rather than giving them a remedy.

Now the Biden “head-in-sand” policy is no more, the US government led by Trump is embracing digital assets. But make no mistake, lofty ideals of consumer protection will not shape the US approach, so we need to be, if not at the table, at least on the phone.

The US needs to see the wider strategic significance of digital assets and that getting it right aligns with America first. Only then will UK regulation have a chance of being effective.

For now, just bear in mind; cryptoassets are a true non-recourse investment. And hold on, because this could be a white-knuckle ride.



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