How CFTC Rules Protected a Crypto Business

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The collapse of FTX was a devasting blow to the crypto world. Billions of dollars in crypto assets were lost. The head of the company, Sam Bankman-Fried, has been convicted of seven counts of fraud and conspiracy and awaits sentencing with more than 100 years a possibility. Nevertheless, LedgerX, a still-solvent subsidiary of FTX went up for sale at the end of 2022 and is still operating. This is about how CFTC rules protected a crypto business from the parent company's light-fingered owner.

What Is LedgerX?

LedgerX is a clearinghouse and exchange that provides Bitcoin futures, options, and swaps and both options and swaps for Ethereum. It operates in the US and its territories and in selected foreign jurisdictions. According to the LedgerX website, twelve million contracts have been traded on the exchange with more than $1.1 billion in value. LedgerX has both institutional and retail clients. These folks have been operating since 2014 and first got their CFTC (Commodity Futures Trading Commission) licenses in 2017. LedgerX was a subsidiary of FTX.

Why Did LedgerX Survive?

When FTX collapsed and declared bankruptcy there were billions in losses. There were three problems in this situation. Crypto winter drove the values of crypto currencies down. Many crypto businesses, including FTX worked on the assumption that the values of crypto currencies would, despite recurring volatility, keep going up for years and years. And Sam Bankman-Fried who ran FTX used customer assets as his own. He moved assets around in his business to cover up losses. LedgerX survived intact because the CFTC required it to hold customer assets separate from company assets. The CFTC is, in fact, working to **increase protections** for traders who trade at crypto exchanges directly and not through a broker. The point is that while FTX fell apart its management was unable to glom onto customer funds at LedgerX in their attempts to keep FTX afloat.

Expansion of CFTC Regulatory Scope to All Crypto Exchanges

The rules that LedgerX had to abide by had to do with trading crypto futures, options, and swaps. The rules that the CFTC is drafting would apply to all crypto exchanges and all clients who trade directly with the exchange and not through a broker. Anyone who has their assets with a broker is not subject to an exchange mismanaging their crypto. There could be a problem with the broker but that is another issue. The point is that by requiring the exchange to hold customer assets separate from client assets, those assets are protected.

Will This CFTC Rule Help Protect Crypto Traders and Investors?

No regulations can protect traders and investors who fall prey to FOMO and make dumb trades or investments. These kinds of regulations will not help keep crypto out of another crypto winter. What such rules will do is keep light-fingered folks from taking your crypto assets meant for trading and investing and using them as their own! None of this is telling a crypto investor or trader how to trade or seeking to invade anyone's privacy. It is about preventing outright theft of your assets by setting up limits so that folks who handle your money cannot use it for their own purposes.

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