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Will Regulators Kill Crypto?

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Pretty much everyone in the world of crypto resisted governmental regulation for years. Then financial stresses brought on by crypto winter caused the collapse of many crypto businesses. Along the way it became clear that there were a lot of poor business practices in the previously burgeoning world of crypto. There was wishful thinking to the degree that people really believed crypto would go up forever. And respected leaders in the crypto world were committing outright **fraud** with client assets. The crypto world started to think that regulation would not be such a bad thing. Now, as the SEC and CFTC bear down on Coinbase and Binance many are starting to wonder, will regulators kill crypto?

What Are Regulators Doing to Crypto?

In general, what regulators in the US and elsewhere are doing is telling crypto businesses they need to play by the same rules as traditional financial businesses. While the European Union is issuing a comprehensive set of **new EU crypto rules**, the US Congress has not acted to better define the rules that crypto must live under. Thus, US regulators such as the Commodity Futures Trading Commission and the Securities and Exchange Commission are acting. They have taken and are taking crypto businesses to court in order to get them to comply with the rules that apply to stock and commodity trading businesses.

How Will Compliance with Regulations Affect Crypto Businesses and Investors?

This depends on what aspects of crypto are concerned. For example, money laundering is a concern of the government. **Crypto transaction mixing** services that help people like North Korean hackers hide ill-gotten gains are targets of government regulators. In this same regard, crypto businesses are expected to know their customers and not allow unknown entities to move money in and out of their exchanges or DeFi operations. Full compliance with regulations will simply mean that crypto plays by the rules and keeps terrorists and international criminals from using their services. Other regulations may be more difficult for crypto businesses.

SEC Wants Separation of Business Functions by Coinbase

Coinbase is the biggest crypto exchange operating within the USA. It is being sued by the SEC which contends that a great many crypto tokens are actually securities. And Coinbase has been functioning as a securities clearinghouse, a securities exchange, and a broker-dealer all at the same time. In the world of security trading (stock markets) these are separate functions carried out by separate entities. Each function has its own set of regulations and its own set of registration requirements. The SEC wants Coinbase to break these functions apart under different business entities and both properly register and follow the rules for each function. They also want Coinbase to reimburse clients for acting as a middleman in trades and for its staking service. Having to comply with regulations and break up its business would be a real pain for Coinbase. But having to go back and pay millions or billions of dollars retrospectively for doing things wrong by current rules could bankrupt the business.

Crypto Tokens As Securities or Commodities

Who ends up with regulatory authority over crypto entities will depend on how a given token is classified. The SEC is using a Supreme Court decision as a guide. If someone buys a virtual currency in order to fund a company or project and expects to profit thereby, that will make a virtual currency a security. If this argument holds up in court these crypto tokens will be classified as securities, SOL, ADA, MATIC, FIL, SAND, AXS, CHZ, FLOW, ICP, NEAR, VGX, DASH, and NEXO. Every one of these is traded on Coinbase. Using the same argument the SEC sees Bitcoin as a commodity.

Will There Be Anywhere to Trade Cryptocurrencies?

The process of bringing crypto businesses like exchanges and DeFi companies under regulation may be messy. How much it hurts active crypto businesses will partly depend on the degree to which they have to compensate investors and clients for prior actions. However, going forward we do not see the crypto world going away or being materially hurt. Rather, making crypto transparent and secure for those who invest and trade in this realm is likely to ensure its long-term growth and success.

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