

Rewriting the “Wild West” Narrative

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Digital asset exchanges can benefit from regulation

One of the main barriers to the adoption of digital assets has been a lack of trust. Institutions, leading investors and high-net-worth individuals have been wary of digital assets because of a “Wild West” reputation – not enough regulation, identities shielded, and a lack of protections for investors targeted by bad actors.

The **Chainalysis 2020 Crypto Crime Report** detailed how criminals have used over-the-counter (OTC) brokers to launder money on cryptocurrency exchanges. Chainalysis traced \$2.8 billion in Bitcoin that moved from criminal entities to exchanges in 2019 alone.

These unsavory activities by some involved in the crypto markets have contributed to a negative image of the whole industry. Statements from government officials confirm this. In May 2021, SEC Chairman Gary Gensler told Congress, “Right now there’s not a market regulator around these crypto exchanges. And thus there’s really not protection against fraud or manipulation.”

In September 2021, the U.S. Treasury Department **announced its first set of sanctions** against an exchange for facilitating ransomware payments. This move potentially heralds an era of greater regulatory scrutiny of digital asset exchanges and their customers.

Choosing to embrace regulation

Bullish is determined to rewrite the “Wild West” narrative. Our exchange is a regulated option for digital asset trading, with Anti-Money Laundering (AML), Know Your Customer (KYC) and Know Your Transaction (KYT) practices.

Bullish customers will be screened on applicable KYC criteria, and their transactions will be subject to ongoing monitoring and periodic KYC reviews. On the retail side, we will implement an automated process. Retail customers will onboard via our platform — they will be required to supply government-issued identification, information about their financial background, conduct what we call a ‘liveness’ test, and undergo sanctions checks.

We have been granted a Distributed Ledger Technology (DLT) license in Gibraltar, where the government has developed a principles-based DLT regime tailored to cryptocurrency businesses. In principles-based regulation, a company has flexibility in how to design its controls. What’s important is that diligent measures are taken to mitigate risk.

In addition, Bullish is registered as a Money Services Business (MSB) pursuant to the Bank Secrecy Act (BSA), administered by the Financial Crimes Enforcement Network (FinCEN). FinCEN, a project of the U.S. Department of the Treasury, operates domestically and internationally, and it consists of three major players—law-enforcement agencies, the regulatory community, and the financial services community. FinCEN's mission is to safeguard the financial system from illicit use and combat money laundering.

Gaining trust through regulation

Some cryptocurrency enthusiasts are skeptical toward the adoption of AML and KYC measures, given the anonymity and freedom from government oversight they have historically enjoyed. Bullish takes the opposite view. We believe regulation is an essential step for raising the comfort level of institutional investors and the greater financial community.

Cryptocurrency exchanges that embrace regulation will lead the pack as digital assets mature into a mainstream asset class.