The US Acting Comptroller of the Currency Calls for a Conservative Approach to Crypto Regulation

Subheadline: Michael Hsu urges for the adoption of a neutral regulatory approach to the crypto industry through rigorous interagency efforts to minimize the effects of its yet-studied risks.

On October 11, the United States Acting Comptroller of the Currency, Mr. Michael Hsu shared his view on the controversy around the regulation of cryptocurrencies in the US finance and banking systems and beyond to economic regulators, government officials, and the private sector.

According to Hsu, cryptocurrency, as an emerging technology, should be governed with risk management taking priority over the pursuit of potential opportunities. He considered this approach misguided, given the crypto-asset industry's reliance on 'hype and bootstrapping to grow', a point he emphasised in his statement about the growing market's fear of missing out (FOMO):

"Promises of innovation and inclusion often mask crypto's promotion of a gold rush vibe that exploits people's fear of missing out on the next Google or Amazon."

For Hsu, FOMO does more harm than good, as it hinders a balanced approach to the emerging industry by encouraging trends without sufficient understanding of the still-developing financial instrument.

Hsu believes crypto assets can be brought within the financial regulatory perimeter through one of two approaches: taming or accommodation. However, discussions with fellow financial regulators led him to conclude that accommodation could result in crypto assets becoming too deeply integrated into the financial system. By contrast, Hsu believes a taming approach could help minimise risks as the industry continues to evolve.

Explaining how taming could work in practice, he emphasised the need for greater interagency collaboration, with regulators pooling insights from individual studies to develop a more comprehensive understanding of the risks and opportunities associated with crypto assets.

He also pointed to supervisory monitoring and interagency discussions as key ways to clarify three critical areas of the crypto-asset industry:

1. Managing the liquidity risk of deposits from crypto-asset firms, including stablecoin issues
2. Finder activities especially centered on crypto trade facilitation
3. Crypto custody.

In all, Hsu recognizes the role of blockchain technology in bringing promising novelties like programmability, composability, and tokenization to the fore. However, he holds strong the need for a conservative approach to the incorporation of crypto assets into the US and, extensively, the pan-global regulatory perimeters through interagency efforts.