Technology Cryptocurrencies

Bulk of 400 crypto exchanges to be 'wiped out' by new rules

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KEY POINTS

- New crypto rules will require exchanges to secure an AFSL from ASIC
- Of the 400 registered exchanges, most will struggle to comply
- The low bar to operate means many don't have appropriate controls

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New crypto regulations will wipe out the bulk of Australian-registered exchanges as they struggle to comply with the requirements designed to limit the scams and fraud rife throughout the industry.

The Australian government released its long-awaited regulatory regime [https://www.afr.com/companies/financial-services/crypto-exchanges-to-be-regulated-under-bolstered-licence-regime-20231013-p5ec32] at The Australian Financial Review Crypto Summit on Monday. Crypto exchanges will soon be required to hold a financial services licence issued by the Australian Securities and Investments Commission.

Stephen Jones, Assistant Treasurer and Minister for Financial Services, has released new crypto guidelines. **Peter Rae**

But industry insiders said the vast majority of the 400 crypto exchanges registered by AUSTRAC – which only requires participants to have an anti-money laundering "know your customer" policy – would find it difficult to meet the new standards.

"It's going to clear out a huge amount of the smaller players," Michael Bacina, director at Blockchain Australia, said on Tuesday. "It's also likely to spark a wave of consolidation too. We might be left with 10 or 20."

To qualify for an Australian Financial Services Licence, exchanges or brokers must hold more than $5 million in aggregate on their platform, or more than $1500 for any individual customer. ASIC chairman Joe Longo has warned it may take some time [https://www.afr.com/companies/financial-services/asic-chairman-warns-new-crypto-rules-need-more-time-20231016-p5eclp] to roll out the regulations.

Ryan McCall, co-founder and chief executive of ZeroCap, a crypto custody provider and asset manager, said the move would spark a wave of consolidation across the industry.

“We’ve already been approached by a smaller player asking if we wanted to buy them,” Mr McCall said. “It’s going to be very difficult for the bulk of them to meet the requirements.”

Crypto exchanges have been the focal point for regulators around the world following the high-profile collapse of FTX [https://www.afr.com/technology/at-least-30-000-australians-trying-to-claw-back-ftx-losses-20221113-p5bxwl] and the failure of other players [https://www.afr.com/technology/a-week-of-terra-behind-the-collapse-of-a-26b-stablecoin-20220513-p5akzt] like Celsius and Luna. Investors were stunned to learn that FTX had used customer deposits to engage in risky trading, and was unable to return customer money on demand.

Assistant Treasurer and Minister for Financial Services Stephen Jones told the Crypto Summit that crypto-specific activities like staking and tokenisation, alongside more traditional trading and fundraising, would be covered by the new guidelines.

Robbie Ferguson, co-founder and president of Immutable, a game developer, said distinguishing between exchanges that hold digital assets on behalf of customers and those that require customers to manage their own assets, was “very reasonable”.

“They correctly differentiated between exchanges and self-custodial protocols, where users manage their own private keys,” Mr Ferguson said.

“A lot of people would argue this is one of the main points of crypto.”

But managing custody of customer deposits remains a key point of tension among crypto exchanges.

“We’ve long been advocates of making sure crypto exchanges are required to keep their assets onshore,” said Adrian Przleozny, chief executive officer of Independent Reserve.

The new legislation, which is set to be introduced through the parliament next year before exchanges can begin applying, does not specify that crypto keys or assets remain in Australia.

Forty thousand Australian customers lost money in the collapse of FTX [https://www.afr.com/technology/ftx-australian-creditors-seek-353m-from-global-bankruptcy-20230720-p5dpzc]. The bulk of them are now creditors to the global entity because the crypto assets were not held in Australia.

This stands at odds with FTX Japan, where the local guidelines required the exchange to keep the assets and private keys onshore in Japan. This meant that all FTX Japan customers could have their money returned to them after the parent company’s collapse.

“We were hoping for rules that probably went a bit further,” Mr Przleozny said. “If assets are kept in Australia, customers don’t need to navigate bankruptcy laws in another country if something goes wrong.”

Independent Reserve, which holds more than $1 billion in customer assets on its exchange, secured “major payment institution licence” [https://www.afr.com/companies/financial-services/crypto-exchanges-independent-reserve-coinjar-win-regulation-offshore-20210930-p58w1i] from the Monetary Authority of Singapore in 2021.

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