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Title: **Are cryptocurrency exchanges regulated?**



The short answer depending on where you are some are, and some are not. Cryptocurrency exchanges generally fall into two categories, centralized exchanges (such as Coinbase and Binance) and decentralized exchanges (DEXs) (such as Uniswap and Pancakeswap).

Centralized Exchanges

Centralized exchanges operate as traditional registered businesses and are required to follow the laws of the countries they do business in. Each country has different regulations which apply to cryptocurrency exchanges. In the United States for instance, cryptocurrency exchanges generally need to comply with know your customer (KYC), money transmitter, securities, and commodities regulations. KYC laws require that exchanges collect customer identification, money transmitter laws require that exchanges register as money exchangers, and securities and/or commodities laws apply to exchanges selling cryptocurrencies that are deemed to be securities or commodities respectively.

If centralized exchanges want to provide additional services beyond simply trading cryptocurrencies (such as lending credit), they may need to obtain banking licenses. Furthermore, in certain subnational jurisdictions such as New York, there are special licenses such as the “BitLicense” that must be obtained which come with further restrictions (such as what currencies can be listed).

Decentralized Exchanges

Decentralized exchanges on the other hand typically have less if any regulation that applies to them. As decentralized exchanges are not registered businesses and generally do not custody funds, they are less subject to the same amount of regulation as centralized exchanges. In practice, this often means no KYC requirement or restrictions on types of cryptocurrencies or financial products (search up decentralized finance (DeFi). However, this does not mean that they are not under the radar of regulators. Regulators have been known to pressure customers and developers associated with decentralized exchanges to get their way.

How are different countries approaching cryptocurrency exchange regulation?

The regulatory approach adopted by countries fall in a spectrum that can generally be categorized as either friendly, indifferent, or hostile. Countries that have taken a friendly approach emphasize easy to follow and consistent rules that favor innovation. Countries that take a more indifferent approach leave the cryptocurrency exchanges and customers guessing as to how their activity may be treated. For the remaining countries that take a hostile approach (and I’m sorry if that’s your country), cryptocurrency exchanges may be banned or subject to highly restrictive measures.

What does this mean for you?

If you are getting started with cryptocurrency, it’s a good idea to first examine your country’s approach to cryptocurrency regulations. If you are in an unlucky case where your country is hostile and you have a passion for digital assets, I would consider moving (depending on your life needs/goals and within reason of course).

As a rule, always carefully research to identify reputable exchanges that are available in your country. As with any sector, especially an emerging one, there are numerous types of scams to watch out for. Your financial security is ultimately your responsibility. Do not be dependent on regulators to protect you. We have seen time and again even the most carefully regulated institutions can collapse. All investments regardless of asset type carry risk.