

THE UNEASY RELATIONSHIP BETWEEN REGULATORS AND CRYPTOCURRENCIES

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The following article is based on findings from “[Financial Services at the Crossroads of Digital Transformation](#),” our collaborative report with Forbes Insights.

The FinTech world is abuzz with controversies and media reports about the impact of virtual, digital, and/or cryptocurrencies such as Bitcoin, LiteCoin, and Ethereum and their underlying technology, the blockchain. Many consumers now hold some form of digital coin, token, or other cryptocurrency, and FinTech companies are rushing in to allow consumers to use these assets in the same way that they would otherwise use traditional payment methods such as credit, debit, and prepaid cards.

A survey of 200 financial and legal executives revealed that 55% of respondents viewed virtual and cryptocurrencies as the industry's most promising new technology, above both artificial intelligence and predictive analytics. At the same time, cryptocurrencies were most commonly cited as the new technology presenting the highest legal risks, according to 69% of respondents.

Currently, cryptocurrencies are receiving a great deal of regulatory scrutiny. Concerned that consumers are being misled or even defrauded, or that such products are being misused by criminal forces, regulators have placed their initial focus on licensing, securities law, and anti-money laundering compliance. Both the SEC and the CFTC have consistently voiced these concerns and have recently taken significant enforcement actions relating “initial coin offerings.” This has led many issuers to instead pursue a “security token offering” where the coins or tokens are issued in compliance with Regulation D or similar securities-law requirements.

The regulatory landscape for cryptocurrencies or other tokens is changing quickly and care must be taken to monitor changing developments in both regulatory and enforcement positions. Eager to innovate but risk-averse, many financial institutions are taking a wait-and-see approach to digital transformation — studying how they work and what potential they may hold, once regulators grow more comfortable.

K&L Gates has partnered with Forbes Insights again to conduct an in-depth study on how technological disruption and an ever-changing regulatory environment are impacting executives in the financial services industry, and what challenges and opportunities those trends present. Drawn from a detailed survey of 200 financial and legal executives, the report addresses topics including the impact of digital transformation, competition from non-traditional companies like FinTechs, forces of risk, and future outlooks on the industry.

[Download the report >](#)

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