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House Financial Services Committee Takes a Hard Look at PWG Stablecoin Report

At a hearing before the House Committee on Financial Services, representatives considered legislative recommendations from the November 2021 President's Working Group ("PWG") Report on stablecoins. (*See* also Majority Staff Memorandum.) As previously covered, SEC Chair Gary Gensler and CFPB Director Rohit Chopra supported the recommendations and pledged that their agencies will take action to address the risks identified in the report.

Under Secretary for Domestic Finance Nellie Liang testified on those risks which include: (i) the risk of stablecoin runs; (ii) payment system risks; and (iii) the risks due to concentration of economic power. Ms. Liang reiterated the PWG Report recommendations including: (i) limiting issuance of stablecoins to insured depository institutions; (ii) giving supervisors of stablecoin issuers the authority to set risk management standards; and (iii) establishing measures to reduce concerns regarding concentration of economic power. She emphasized that "[bank] regulation provides a tested regulatory model that would protect against the prudential risks of stablecoins."

Ms. Liang also reported that Financial Stability Oversight Council was evaluating stablecoins for potential systemic risks, which may lead to the designation of certain stablecoin arrangements as "systemically important payment activities." She concluded that policy should not only focus on digital assets themselves but also on the regulation of intermediates like custodial wallet providers, and the systemic risks stemming from investors leveraging against digital assets.

UK and U.S. Financial Authorities Work on CCP Resolution Issues

Senior officials from the Bank of England, the FDIC, the CFTC, the SEC, and the Federal Reserve Board reviewed joint progress on (i) central counterparty ("CCP") resolution issues and (ii) the development of detailed operational planning to support prototype resolution strategies for UK and U.S. CCPs.

OFAC Issues Ethiopia Sanctions Regulations

OFAC issued sanctions regulations to implement President Biden's Executive Order 14046 “Imposing Sanctions on Certain Persons With Respect to the Humanitarian and Human Rights Crisis in Ethiopia.”

Further, OFAC stated it intends to issue more comprehensive regulations in the future, including "additional interpretive guidance and definitions, general licenses, and other regulatory provisions." The Ethiopia Sanctions Regulations will take effect upon publication in the Federal Register on February 9, 2022.

Separately, OFAC amended its regulations to implement the Federal Civil Monetary Penalties Inflation Adjustment Act of 1990 for the year 2022, which adjusts for inflation, the maximum amount of civil monetary penalties. This amendment will take effect upon publication in the Federal Register on February 9, 2022.

DOJ Charges Two Individuals with Conspiracy to Launder Billions in Stolen Cryptocurrency

The DOJ charged two individuals with conspiracy to commit money laundering and conspiracy to defraud the United States, related to cryptocurrency stolen during a 2016 hack of Bitfinex, a virtual currency exchange.

The criminal complaint against the two individuals alleges that they utilized various "sophisticated laundering techniques," including: (i) utilizing fictitious identities for online accounts; (ii) using computer programs to automate transactions; (iii) depositing the stolen crypto funds into "accounts at a variety of virtual currency exchanges and darknet markets and then withdrawing the funds"; (iv) converting bitcoin into other cryptocurrencies by using a practice called "chain hopping"; and (v) using "U.S.-based business accounts to legitimize their banking activity."

The DOJ stated that it seized over $3.6 billion in cryptocurrency linked to the hack.

Individual Settles FINRA Charges for Churning and Excessive Trading Violations

An individual formerly associated with several broker-dealers settled charges pertaining to brokerage account churning and excessive trading.

According to an uncontested Offer of Settlement ("Settlement"), from 2014 through 2020 the individual churned and excessively traded nine different accounts for seven customers in an effort to generate additional fee commissions. FINRA Enforcement stated that the individual exercised the same short-term transactions across all accounts, sometimes using margin, which caused the customers to pay approximately $1.6 million in fees and other trading costs while suffering $1.1 million in losses. In doing so, the individual generated $1.5 million in commissions for himself and the associated firms. FINRA Enforcement had alleged that the individual acted with intent to defraud his customers and did not consider their best interests when engaging in the trades.

According to the Settlement, the individual was found to be in violation of SEA Rule 10b-5, FINRA Rule 2020 ("Use of Manipulative, Deceptive or Other Fraudulent Devices"), FINRA Rule 2010 ("Standards of Commercial Honor and Principles of Trade") and FINRA Rule 2111 ("Suitability") and as a result has been barred from associating with any FINRA member.

Primary Sources

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5. Joint Readout of Principals' Meeting of UK and U.S. Authorities Regarding Central Counterparty Resolution
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7. OFAC: Ethiopia Sanctions Regulations
8. Executive Order 14046
9. OFAC: Inflation Adjustment of Civil Monetary Penalties
10. DOJ Press Release: Two Arrested for Alleged Conspiracy to Launder $4.5 Billion in Stolen Cryptocurrency
11. FINRA Offer of Settlement: William Nicholas Athas

National Law Review, Volume XII, Number 40