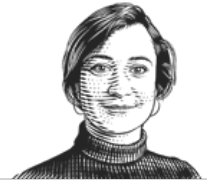


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— **Exclusive**

# Treasury pledges crypto regulation next year after FTX collapse

**Jessica Sier** *Journalist*



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Australia could become a global leader in crypto regulation after the government pledged to introduce custodial and exchange legislation that aims to prevent the crippling losses suffered by local customers in the collapse of the FTX cryptocurrency exchange.

Treasury has signalled it will open consultations to safeguard crypto custody arrangements and regulate exchanges next year, following the current “token-mapping” consultation process [<https://www.afr.com/companies/financial-services/work-to-do-treasury-to-map-crypto-tokens-ahead-of-tougher-rules-20220819-p5bbc0>] suggested by Liberal Senator Andrew Bragg last year.



Australia is investigating crypto regulation after the collapse of the FTX currency exchange. **Bloomberg**

“We are closely monitoring the fallout from the FTX collapse, including further volatility in crypto asset markets and any spillovers into financial markets more broadly,” a spokesman for Treasurer Jim Chalmers said.

“These developments highlight the lack of transparency and consumer protection in the crypto market, which is why our government is taking action to improve the regulatory frameworks while still promoting innovation.”

Legislation is expected to be introduced to parliament next year.

Custody remains one of the largest issues facing the growing number of crypto investors and businesses in Australia. It refers to where money or tokens are stored and who is responsible for keeping them secure.

“If we developed custody regulations by next year, we would be forerunners around the world,” Kate Mulligan, partner at Sydney law firm King Irving, said.

“At the moment, it’s neck and neck between Singapore and Australia in Asia, and it would be great if Australia could be a place to foster this kind of business innovation.”

## ASIC suspends licence

Custody was a key issue in the FTX collapse. Investors were shocked last week to discover their accounts with the global trading platform were frozen after revelations [<https://www.afr.com/technology/the-inside-story-of-the-collapse-of-ftx-20221111-p5bxen>] the Bahamas-based company had transferred about \$US10 billion of customers’ money to another trading business.

About 30,000 Australians are hoping to claw back losses

[<https://www.afr.com/technology/at-least-30-000-australians-trying-to-claw-back-ftx-losses-20221113-p5bxwl>] through liquidators managing the local FTX Australia subsidiary, which has been placed in administration.

On Wednesday, the Australian Securities and Investments Commission suspended the financial services licence FTX Australia had been using.

Crypto regulation has been a hot-button issue for the past two years. Last year, Senator Bragg co-authored a landmark Senate Select Committee report into digital asset regulation [<https://www.afr.com/companies/financial-services/senate-report-proposes->

[model-to-regulate-the-crypto-economy-20211020-p591jh](#)], investigating issues such as regulation and consumer protection.

The lion's share of recommendations – which were well-received by Australia's growing crypto industry

[<https://www.afr.com/technology/crypto-experts-praise-bragg-tech-report-sceptical-of-delivery-20211020-p591q7>] – were accepted by Treasury at the time.

In September, he drafted a private member's bill

[<https://www.afr.com/companies/financial-services/lib-senator-drafts-crypto-bill-to-regulate-stablecoin-digital-yuan-20220916-p5bipi>] that would require Australian-based custodians for digital

assets. In an op-ed in [<https://www.afr.com/markets/currencies/crypto-exchanges-have-no-future-in-a-libertarian-nirvana-20221115-p5bygj>] *The Australian Financial Review*, he attacks Assistant Treasurer and Minister for Financial Services Stephen Jones for showing little to no interest in digital assets, arguing last year's committee has done most of the heavy lifting already.

“It's not going to be too difficult because we're not regulating every single token,” Senator Bragg said on Wednesday afternoon.

“Rather we're looking to regulate the gatekeepers in the exchanges.”

Should Treasurer Jim Chalmers roll out crypto custodial and exchange licensing regulations next year, industry participants say it would elevate Australia to one of the few jurisdictions with firm guidelines around the fast-growing sector that is plagued by hacks and bad risk management.

Liam Hennessy from Gadens in Brisbane said: “Custody wouldn't matter as much if these exchanges were just trading US to Australian dollars because if that business falls over, the money is still in your account.

“But some crypto exchanges act more like banks and market makers, where they take customer deposits and then do all sorts of things like trading and lending with them. That behaviour needs oversight.”



Liberal Senator Andrew Bragg conducted an industry consultation last year.

The news came on the same day Brisbane-based crypto exchange Digital Surge froze customer accounts because of its exposure to the bankrupt FTX.

Digital Surge's troubles are the latest among crypto exchanges such as BlockFi and Voyager, which are teetering on the edge of bankruptcy and reflect the growing contagion across the industry [<https://www.afr.com/technology/crypto-com-withdrawals-accelerate-after-ftx-collapse-20221114-p5by0d>].

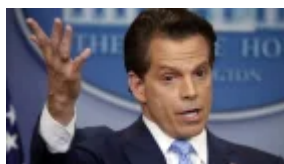
Singapore has developed a crypto exchange licensing scheme which has so far issued six licences, including to Australian-based exchanges Independent Reserve and Coinjar. [<https://www.afr.com/companies/financial-services/crypto-exchanges-independent-reserve-coinjar-win-regulation-offshore-20210930-p58wli>] The world's largest crypto exchange, Binance, was knocked back for a Singaporean licence, as was Sam Bankman-Fried's FTX.

Hong Kong is looking closely into custody arrangements, and has developed a regulatory regime for businesses managing crypto assets.

The European Union is the furthest ahead in defining different digital assets according to their function, and the United States has developed a tax environment to foster investment in crypto and web3 technology.

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