Cryptocurrencies

SEC's New Crypto Czar Wants Coin Industry to Step Out of Shadows

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July 30, 2018, 4:00 AM EDT
Updated on July 30, 2018, 8:15 AM EDT

- Valerie Szczepanick tries to get firms to talk to regulators
- Key challenge is Bitcoin enthusiasts’ distrust of government

The U.S. Securities and Exchange Commission is well known for bringing landmark cases against the biggest names in finance.

But its powers to punish individuals and companies can also be intimidating, something that’s very much on the mind of Valerie Szczepanik, the SEC’s new top official overseeing the nascent cryptocurrency industry. In taking her new job last month, she left the regulator’s vaunted
enforcement division and joined a less renowned SEC unit that oversees initial public offerings and other corporate stock sales.

A key reason for the less-confrontational approach: digital-token enthusiasts’ deep mistrust of government. They’re hesitant to discuss their business with the SEC’s market cops out of fear of being investigated, or even worse, shut down. If the the regulatory was going to get firms on the fringes of finance to engage, its crypto czar couldn’t be in a threatening role.

"We want people to come talk to us," Szczepanik, 51, who practices jiujitsu in her spare time, said in an interview. "When I’m in meetings with folks, I want them to see me as someone who’s interested in communication and back and forth, and looking to encourage innovation that helps investors and the markets."

Szczepanik’s June promotion to be the SEC’s first-ever senior adviser for digital assets reflects a recognition of the challenges posed by virtual coins. Billions of dollars are pouring into largely unregulated tokens each month, much of it coming from small-time traders.

**The ICO Party Is Raging**

Money raised by initial coin offerings is surging despite SEC warnings

Investors’ excitement stems in large part from Bitcoin’s meteoric rise. The SEC has shown it’s less jazzed about the world’s biggest cryptocurrency. Last week, the regulator issued its latest rejection of a Bitcoin exchange-traded product, citing concerns that manipulations might be widespread. Szczepanik was involved in the decision.

Other agencies have also determined that crypto merits a targeted response, as the Justice Department and Commodity Futures Trading Commission have each appointed their own point-people on virtual coins. It might be one of the few areas that watchdogs agree merits more oversight, not less, amid President Donald Trump’s deregulatory agenda.

After Crypto Booms, Busts and Crackdowns, What’s Next?: QuickTake

Szczepanik said much of her work, at the request of SEC Chairman Jay Clayton, is focused on coordinating all the agency’s work on crypto across its various divisions. Major policy matters on her plate include:

► Initial coin offerings, in which companies raise money from investors by selling digital tokens. The SEC is concerned the ICO market is rife with pump-and-dump scams, Ponzi schemes and other types of misconduct. While the agency has brought some cases, critics question why there haven’t been more. The amount of money being thrown at token offerings is staggering, despite efforts by the SEC to slow things down. Last month, ICOs raised a record $5.6 billion, according to data compiled by CoinSchedule.

► Determining whether certain coins are securities that should be subject to the same tough trading and disclosure rules as stocks. Such SEC announcements have resulted in traders making, or losing, big sums of money within seconds.

► The ongoing debate over a Bitcoin exchange-traded fund, which crypto investors are desperate for because it could bring trading to the masses by opening the market up to mutual funds and institutional investors.
Szczepanik, a 20-year SEC veteran, said she’s always been drawn to technology, and started looking into cryptocurrencies for the regulator about six years ago. Back then, Bitcoin was often embraced by those who wanted to buy goods outside the regulated banking system or drug dealers and other criminals who wanted to hide illicit transactions.

"A few of us really were digging in," Szczepanik said, referring to her early involvement in the field. She said she recalled reading a crypto-project white paper and thinking "if this ever actually gets deployed into the universe, then the SEC will be very busy."

Her early interest has made Szczepanik among the better-known regulators to crypto insiders. There are also indications it may have led to unusual attention. While it could be a coincidence, months before Szczepanik took her new SEC job, someone spray-painted "ICO" on her apartment building's mailbox, according to a person familiar with the incident.

U.S. Crypto Regulatory Fight Has Everything But Rules: QuickTake

Szczepanik doesn’t have the typical profile of a government securities lawyer. Besides her interest in Japanese martial arts, she holds an engineering degree and was accepted to a University of Pennsylvania doctoral program.
The virtual-currency industry’s reluctance to engage hasn’t gone unnoticed at the SEC’s highest levels. Republican Commissioner Hester Peirce said in an interview that she’s heard that people were hesitant to approach the agency because it “meant going through enforcement.”

William Hinman, a former Silicon Valley lawyer who runs the SEC’s corporation finance division that Szczepanik joined in June, said he’s hopeful her transition will lead to changes. A persistent SEC frustration is that firms aren’t registering their ICOs with the regulator as securities, despite threats of enforcement actions.

"Early days in this space, a lot of the activity just didn’t come into any other division other than enforcement," Hinman said. "Folks weren’t coming to us and saying, 'Oh, I have a security, let me register it with corporation finance.'"

Hinman himself got attention from crypto investors last month when he gave a lengthy speech on what makes a digital asset a security. Deep into his remarks, he said that he didn’t think it made sense to subject Ether trades to federal securities laws. The second-most valuable digital currency surged 12 percent after his comments.

Those kinds of price moves, and growing interest among hedge funds and other traders, has encouraged more traditional financial firms to dabble in cryptocurrencies. Intercontinental Exchange Inc., the owner of the New York Stock Exchange, has been working on a trading platform that would let investors bet on Bitcoin, two people familiar with the matter said in May. And Goldman Sachs Group Inc. has been preparing a Bitcoin trading business.
The presence of established, regulated players could help pull crypto out of the shadows, giving authorities better insights into what’s going on. But if the market remains opaque, the SEC might get more aggressive, Szczepanik warned.

“What we’re hoping is people will want to come into compliance,” she said. “If there’s no effort to do that, if instead folks choose to ignore applicable laws, we might take a different tack.”