



Primer on Consumer Protection Frameworks

Digital currencies are an untapped, nascent sector of the fourth industrial revolution, one that is only now beginning to be fully explored and embraced. Despite operating for over a decade under the radar of governments and international institutions across the world, global actors have begun to take notice of the digital currency space.

Unfortunately, these institutions and decision makers often lack the requisite background, knowledge, or understanding of the groundbreaking potential and function that digital currencies fill. As a result, critical, yet common sense, consumer protections are often overlooked, leaving a wide swath of our electorate vulnerable to malicious, predatory actors. Although digital currencies and regulations seem diametrically opposed to one another, addressing this effectively will be critical to the long-term success and adoption of digital currencies in American society.

Overview

The Digital Currency Traders Alliance (DCTA) is a nonprofit coalition of retail investors, consumers, traders, businesses, and thought leaders in the Digital Currency space.

Our mission at DCTA is to ensure that the future of digital currency trading is open to everyone through the promotion of consumer protections, education, and the adoption of best practices.

We achieve this mission through advocating on behalf of, and giving a voice to, digital currency retail traders and investors while ensuring that we educate decision makers so that they have the requisite knowledge necessary to craft and adopt best practices that achieve the appropriate balance between growth, innovation, and consumer protections.

Consumer Protection Framework

Without clear guidance and minimum regulatory standards, we see a high potential for bad actors to prey on the misinformed, create schemes to defraud consumers, and manipulate the market for personal gain. To combat these dangers, we have identified a set of priority regulatory actions that will provide stability, protect consumers, and establish minimum operating standards - the cornerstones for growth. While it is always prudent to revisit the effectiveness of regulations in the future, we strongly feel that it is imperative that any digital currency regulatory framework includes elements of the following guidelines:

- Simplify the Tax Code:
 - Embrace Like-Kind Exchanges
 - Focus on the Conversion of Digital Currencies back to USD (especially staking and airdrops)
- Encourage Social Media Companies to Prohibit Pump and Dump Schemes
- Promote Disclosure Requirements for Paid Promoters:
 - Disclose who they are marketing for; when the marketing took place; listing the public wallet address where funds are stored; implement a prohibition period before tokens can be sold; and disclosing when tokens are sold
- Establish Minimum Standards for Exchanges:
 - Implement robust KYC/AML verification requirements
 - Set minimum uptime requirements
 - Adopt internal processes that maximize the security and effective storage of private keys
- Setting Minimum Token Standards:
 - Establish Disclosure Requirements for Individuals on a Token Project, those who serve in an advisory role, or who have a significant financial interest in the project prior to the project being listed on a regulated exchange
 - License third-party token auditing services to review and vet code for weaknesses, flaws, and backdoors
 - Subject stablecoin projects to regular third-party audits and implement minimum reserve standards such as minimum cash reserve ratio requirements.
 - Implement a Fintech Regulatory Sandbox
- Protect Consumers from Dangers of Speculative Leverage:

- Require traders to pass a test to demonstrate basic understanding of the mechanics and dangers of leverage
 - Place a cap on the amount of leverage traders can access
- Open Access to Rulemaking by Opening Process to Everyday Consumers and Investors

Compliance and Enforcement

One common concern in encouraging the adoption of consumer protections is how to encourage voluntary compliance among the existing actors and key players who form the foundation of the digital currency sector. We can get around this by implementing the following strategies:

- Adopt and Implement a Fintech Regulatory Sandbox to the Sector
- Extend FDIC Insurance Status to Actors who Enact these Protections
- Minimize Excessive Government Enforcement by Consolidating Enforcement Power in a few appropriate agencies

It is imperative that any digital currency regulatory framework at the state and federal level includes protections for the small retail consumer included as a foundational principle. That will encourage a level of innovation and economic growth which will allow the USA to secure its competitive advantage in this nascent sector. The consumer protections we outline are excellent first steps and we look forward to working with the government to further legitimize the space.