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beset by months of price declines.

Nov. 14, 2022



By Christopher Condon, Bloomberg News (TNS)

U.S. Treasury Secretary Janet Yellen said the [implosion of Sam Bankman-Fried's FTX crypto empire](#) reinforced her view that the market for digital assets required “very careful regulation.”

“It shows the weaknesses of this entire sector,” Yellen said Saturday in an interview with Bloomberg News.

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Yellen, who spoke on her way to the Group of 20 leaders summit in Bali, Indonesia, contrasted the case with developed financial markets, where rules better protect investors.

“In other regulated exchanges, you would have segregation of customer assets,” Yellen said. “The notion you could use the deposits of customers of an exchange and lend them to a separate enterprise that you control to do leveraged, risky investments—that wouldn’t be something that’s allowed.”

Bankman-Fried conceded in a Twitter thread on Nov. 10 that FTX had “poor internal labelling” of customer accounts.

President Joe Biden signed an executive order in March directing a number of federal agencies including the Treasury to devote more attention to the study and prospective regulation of digital assets.

While lamenting losses for retail investors, Yellen said the FTX debacle could have been worse if crypto were more embedded in the financial system.

“At least it’s not deeply integrated with our banking sector and, at this point, doesn’t pose broader threats to financial stability,” she said.

Yellen also responded to a question on another issue by saying a regulatory tool criticized by big banks wasn’t the only factor constraining liquidity in the \$24 trillion Treasury securities market.

Treasury debt outstanding has climbed by about \$7 trillion since the end of 2019. But big financial institutions haven’t been as willing to serve as market-makers, burdened by the supplementary leverage ratio, or SLR, which requires capital to be

set aside against a bank's balance sheet holdings, including ultra-safe Treasuries. The

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“But how do we address this given its about safety and soundness?” she said. “It has some relevance, obviously, to the Treasury market but it’s not the one and only thing, and I think it’s really up to the Fed to weigh those considerations.”

(Photo by Alex Wong/Getty Images/TNS)

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Digital Currency

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