

# Cryptic Regulation of Crypto-Tokens

New York Fed Conference on FinTech  
September 2023

Joshua Gans, University of Toronto & NBER

**Could anyone have predicted the  
need for regulation?**





**Terra Luna**



**Terra Luna**



**Celsius**



**Terra Luna**



**Celsius**



**FTX**



**Terra Luna**



**Celsius**



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Scientific and technical expertise concentrated in US.

# Good regulatory process

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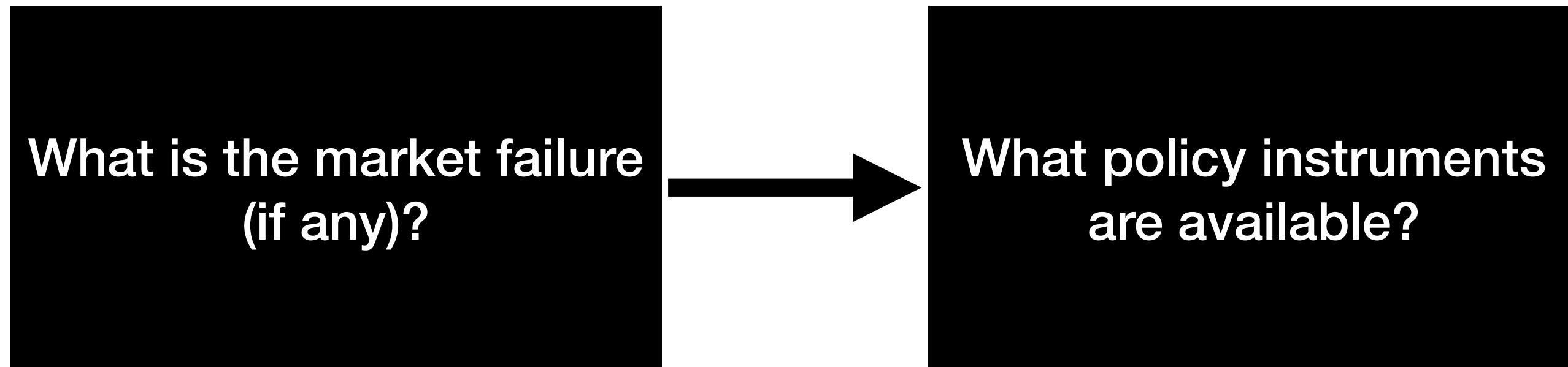
What is the market failure  
(if any)?

# Good regulatory process

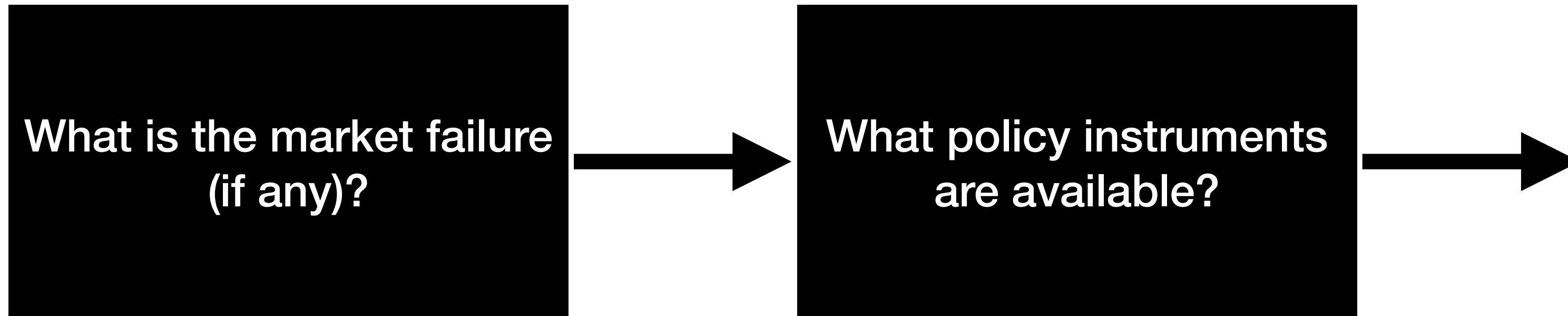
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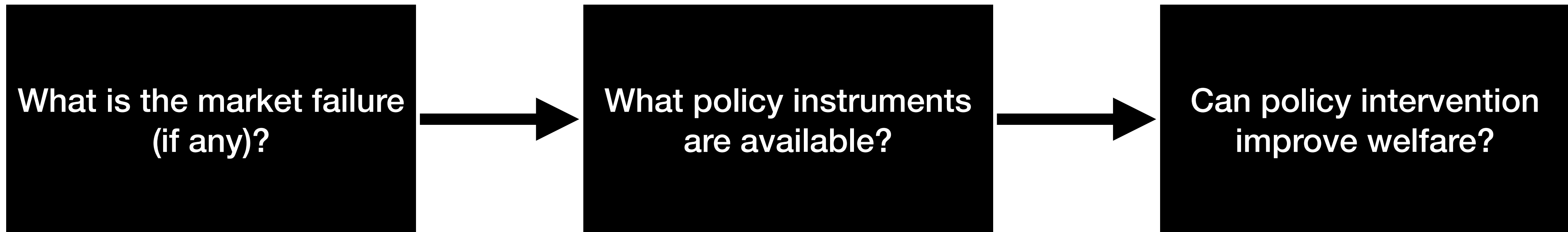


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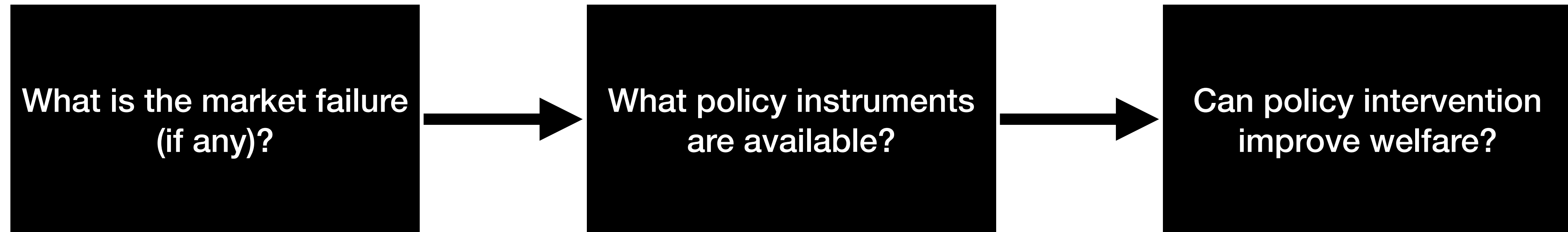




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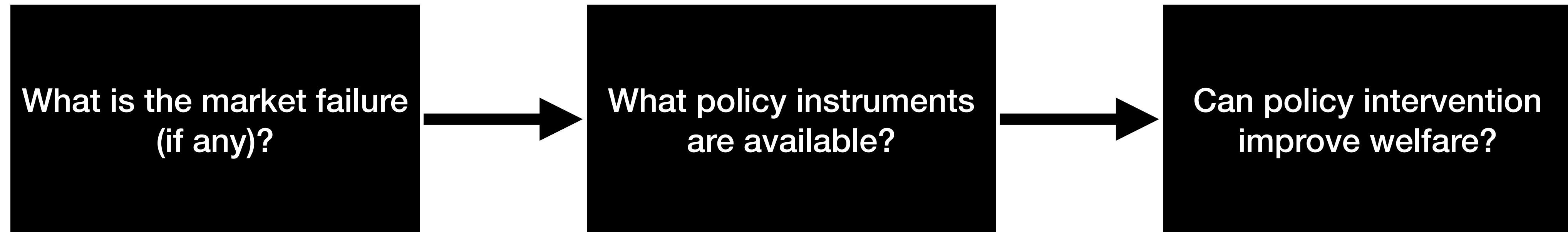


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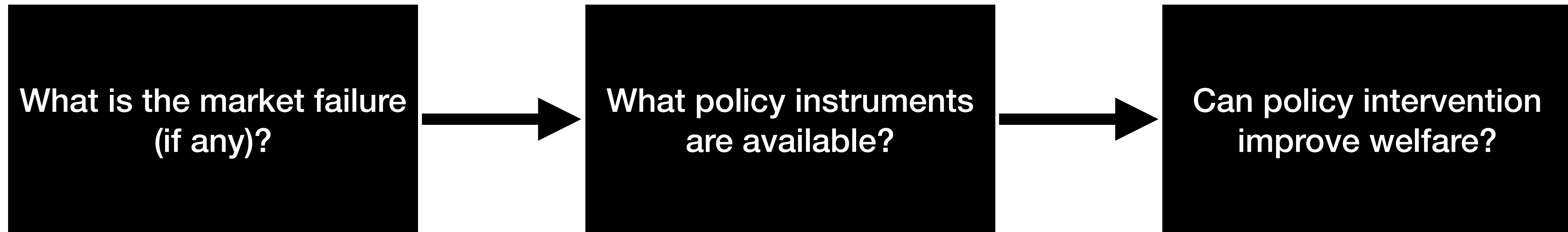
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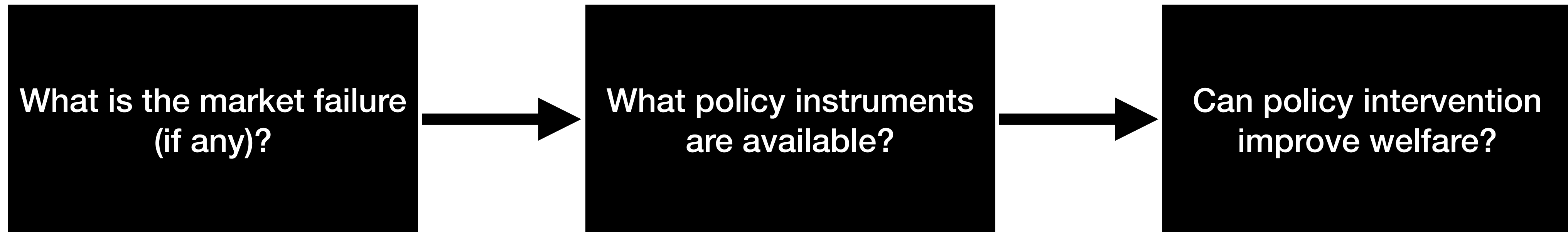
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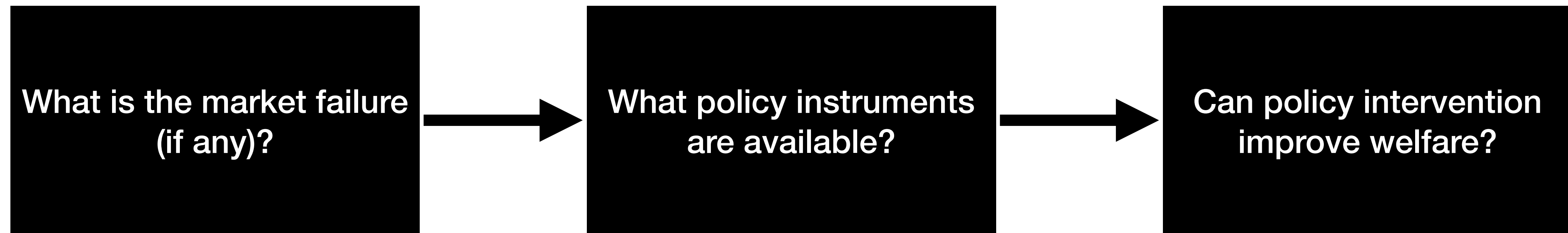
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1. Not make things worse
2. Provide certainty for decision-makers
3. Reduce the costs of regulation by encouraging good behaviour

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- Crypto-tokens can be recorded in a decentralised manner on **blockchains**.

# When are crypto-tokens useful?

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“Although the underlying technologies are a clever solution for the problem of how to execute transactions without a trusted authority, crypto assets currently do not offer widespread economic benefits.

They are largely speculative investment vehicles and are not an effective alternative to fiat currency. Also, they are too risky at present to function as payment instruments or to expand financial inclusion.”

*2023 Economic Report of the President*

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  - Incentives

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# What market failures may arise?

- Payment efficiency
  - Energy consumption
  - Network effects
- Information asymmetries and market safety
- Criminal activity

**What policy instruments are available?**

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- Prohibition and taxation

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- Securities law

“If it quacks like a duck and looks like a duck ...”





Yuri at around the world



# The Ducks

Owned by [yurilchuk](#)

1 view 2 favorites



Sale ends September 12, 2023 at 1:31 PM

Current price

**15 ETH** \$27,845.10

Buy now

Make offer

## Price History



No events have occurred yet  
Check back later.

**Can a reasonable person navigate this?**

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  - but in a permissionless proof of stake blockchain those credits are enabling processing and have a natural equilibrium outcome.

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- Securities law
- Banking regulation
- Tax treatment

**Can policy intervention improve welfare?**

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- Raising funds
- Incentivising co-innovation
- Regulatory uncertainty



palgrave▶pivot

# The Economics of Blockchain Consensus

Exploring the Key  
Tradeoffs in  
Blockchain Design

Joshua Gans

palgrave  
macmillan

@joshgans  
joshuagans.com