

FTX and Binance: How latest crypto scandals could influence public opinion on digital currency regulation

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True believers in cryptocurrency have had a rough few weeks. The US government just [fined Binance](#)—the world's largest crypto

exchange—US\$4.3 billion (£3.4 billion) for its involvement in money laundering.

It forced the firm to accept [intrusive monitoring](#) and demanded that its secretive boss, Changpeng Zhao, step down and pay a personal fine of \$50 million. Zhao, known as CZ, has been called the [most powerful man in crypto](#).

The industry is still reeling from the conviction of Zhao's bitter rival, Sam Bankman-Fried, earlier in November on seven counts of fraud and conspiracy. His company FTX—previously the second-largest [crypto](#) exchange in the world—collapsed in November 2022. SBF, as he is commonly known, could theoretically face more than 100 years in jail when he is sentenced [in March 2024](#). Several other [former leading crypto executives](#) are also under investigation or being prosecuted.

Crypto has just squared off against the US state, and at halftime the result is state power 2—crypto 0. After this display of muscular regulation on one side of the Atlantic, what is the future of crypto regulation in the UK?

The UK government has repeatedly [vaunted its ambition](#) to make the UK a global crypto hub. The new minister for the City of London, Bim Afolami, [doubled down](#) on this message shortly after taking up his post, warning regulators against going overboard. Speaking at a Financial Times event on global banking, he said, "If you're regulating a market, in any area, there's no point in having the safest graveyard". And then added, "It's really important that we don't tar every crypto business as being like FTX or Binance."

This attitude could put Afolami and the government on a collision course with UK regulator the Financial Conduct Authority (FCA). Former FCA chair Charles Randell [recently criticized](#) the government's plans for

treating crypto like any other financial investment, saying they risked normalizing crypto even though fraud "is a feature, not a bug" of much of the sector.

Changing opinions about financial regulation

The government would say that its view is the democratically legitimate one—no one has elected the FCA. But research shows British people may respond to revelations of wrongdoing in the sector by wanting to regulate crypto more severely.

Through the [Banklash](#) research project, my colleagues and I have studied what happens to public opinion about financial regulation when people are exposed to news about financial scandals, such as the [payment protection insurance scandal](#) in the UK. We found that in multiple countries, the public has clear views about financial regulation, and that when they read about scandals, their [demand for regulatory stringency increases](#).

Such changes in public opinion are not simply abstract experimental effects. In a separate article, Harvard professor Taeku Lee and I [have shown](#) how a US Congress [investigation of Goldman Sachs'](#) role in the [global financial crisis](#) drew public attention to malfeasance by big banks and the position of political parties on it. In the wake of this explosion of publicity, Republicans dropped their filibuster of [the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act](#), which was the biggest reform of US financial regulation since the 1930s. Two years after the financial crisis, defending the unpopular big banks was not a hill the Republicans wanted to die on.

We have followed up this research with a study this year of British attitudes towards cryptocurrency. Our new work, which has not yet been published in an academic journal, suggests that the FCA is more in tune

with British [public opinion](#) than the government. Among the four countries we surveyed in March 2023—with responses from more than 36,000 people—British respondents expressed the highest level of support for crypto regulation. Americans want the least, while France and Germany fall in the middle.

As part of the same study, we also investigated how consuming media coverage of the FTX scandal affected those attitudes. Reading about the scandal caused a significant increase in the appetite to regulate crypto among Brits, starting from an already high base. This is the same effect we found in other areas of financial regulation in our earlier research.

Understanding opinions about crypto

It seems reasonable to expect that the recent demonstrations of malfeasance by CZ and SBF will lead to a toughening of public attitudes about the regulation of crypto. Despite the fact that cryptocurrency is perceived as an esoteric topic, people have views about it.

UK politicians would be well-advised to take these views into account when trying to balance demands for regulatory stringency and the economic defense of London's status as an international financial hub. The US government has flexed its regulatory muscles without concern for damaging the appeal of its crypto market, although of course that market is much larger.

Political leaders in the UK should not deceive themselves that the general public doesn't understand these issues. There will be an election next year. And as Bankman-Fried and Zhao have discovered, you can fool some of the people some of the time, but you can't fool all the people all the time. Even on a subject as apparently baffling as crypto.

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