

## Cabinet News and Views

Informed analysis for the financial services industry



### Senator Wyden Seeks Information from Crypto Exchanges Regarding Their Financial Stability and Customer Protections in the Event of Bankruptcy



By **Rachel Rodman**  
Partner | Global Litigation



By **Kendra Wharton**  
Associate | White Collar Defense and Investigations

On November 29, U.S. Senator Ron Wyden (D-OR), Chairman of the Senate Finance Committee, sent requests for information to the CEOs of six of the largest crypto exchanges. The requests seek information about the safeguards each exchange has put in place to protect customers' assets in the event they file for bankruptcy or otherwise experience financial distress.

Chairman Wyden's inquiry comes on the heels of bankruptcy filings by FTX, one of the largest crypto exchanges, and several other crypto platforms. His requests note that FTX's bankruptcy, in particular, has reportedly left close to one million customers facing significant losses of their assets.

Media reports have also suggested that insufficient controls may have caused or contributed to FTX's collapse. To that end, Chairman Wyden is seeking information from the exchanges about their implementation of safeguards designed to protect customer assets, including, but not limited to:

- Segregation of customer assets from institutional assets;
- Restrictions on the use of customer assets for purposes other than those specifically disclosed to customers;
- Controls designed to ensure adequate liquidity in the event of increased customer withdrawals;
- Policies and procedures designed to prevent potential market manipulation, including wash trades;

- Policies and procedures designed to prevent the misappropriation of customer data by officers, employees and affiliated entities engaged in institutional or personal trading; and
- Support for industry initiatives and/or legislation to create protections for customers, such as an industry-funded insurance fund.

Chairman Wyden is also seeking information from the exchanges about their financial condition, including their current balance sheets and audited financials, as well as information about any insurance policies carried by the exchanges that could benefit customers in the event of bankruptcy, theft or hack.

Chairman Wyden has previously expressed concern that strict regulation of crypto assets could unnecessarily hamper innovation. His inquiry suggests that Members of Congress who previously supported lighter regulation for crypto assets may be spurred into action by recent events.

---