The Digital Asset Surveillance Case

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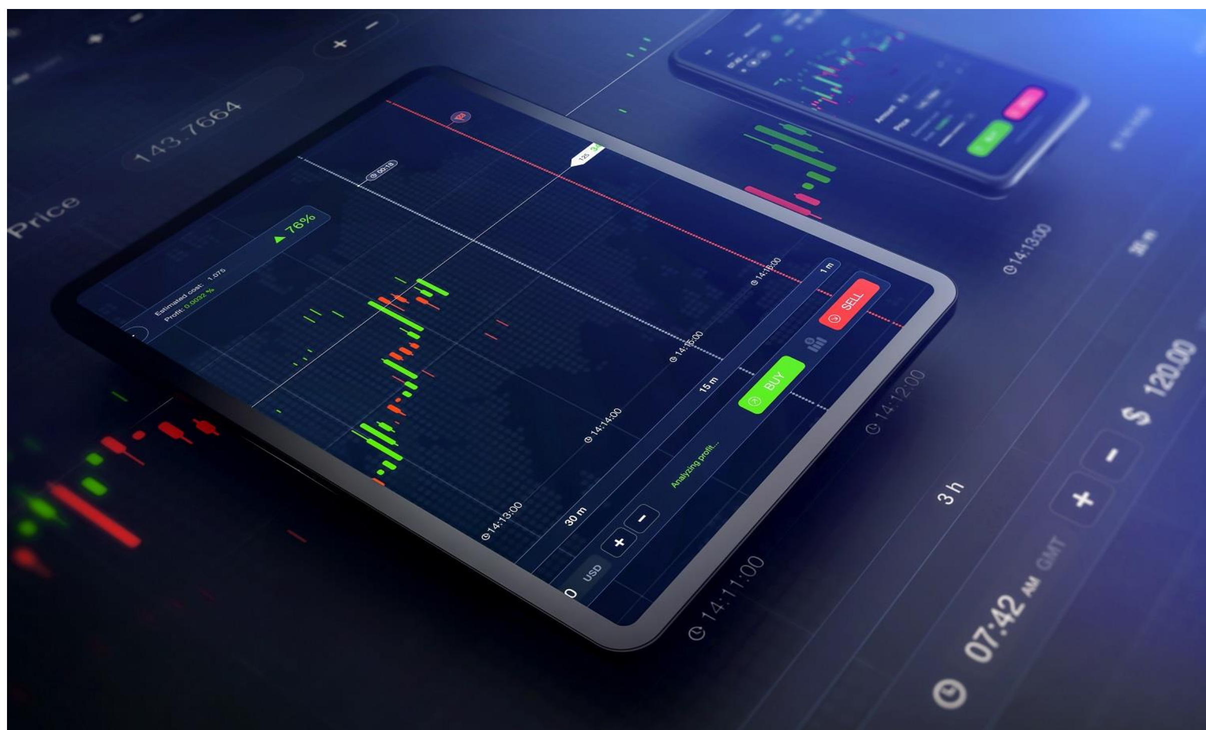
Interest in Crypto and digital assets is growing significantly throughout a broad spectrum of market players ranging from financial firms to retail investors and Central banks. Growth and development in this spectrum have made the society rethink about the nature of money and how people transit, how we can more productively engage in the market, economic and regulatory activity.

Crypto trading and trading in digital assets still happen to be very new. With that being stated the rules and regulations controlling the transactions are sparse, and professionals think it needs to remain that way. However, in reality, the markets have been exposed to money laundering, fraud, hacking and other criminal activities, and that is keeping various potential market participants on the sidelines.

Developing regulations that do not impede innovation or weed out bad actors or have unexpected consequences need time. With that being stated, development is being made in some of the jurisdictions.



In light of this, some global markets and financial services regulatory authorities, lately finalized it's Crypto asset regulatory framework governing virtual currency exchanges. In extension, various other authorities issued guidance revolving around digital token contributions and the demands for exchanges that trade and record them. Regulations are additionally forthcoming in various unions.

Regulations are fragmented. When it comes to the state level, countries have been issuing licences since ages, and they have been thinking forward as well. On the other hand, when it comes to the federal level, work at the Securities and Exchange Commission has been restricted to enforcement

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actions. Authorities have reported that most of it is clear to them if not all. In the meantime, various companies have determined that particular digital assets might be classified as derivatives or commodities based on the manner they are structured. For instance, Bitcoin refers to a commodity, and exchanges list a futures contract according to that virtual currency.

Most importantly, trading commissions need enhanced surveillance and vigorous enforcement to prevent and detect manipulation and fraud in these contracts. Moreover, those trading commissions have already:

- Taken necessary action upon illegal Bitcoin futures exchanges.
- Issued proposed guidance and regulations on derivative market concepts and spot market concepts within the future currency context with the interpretation of actual delivery.
- Enforced rules and regulation restricting wash trading and prearranged trades on a derivatives platform.
- Issued valuations and warnings regarding the volatility within spot virtual currency markets.

Till this end, digital asset exchanges need to leverage the same kinds of surveillance processes and technologies utilized within the conventional capital markets to avoid penalties and fines, ensure market integrity and protect investors.

New asset class, same market abuse techniques

Market abuse is not a new thing. It is as old as the inception of financial markets itself. For example, back in the 1920s, pump and dump and over-speculation schemes contributed to the 1929 crash and the economic depression. A group of investors purchased and sold stocks among themselves to build a better record of rising prices and stock volumes. It was when they sold their shares, the stock price collapsed. With response to these, the securities laws were established, and those are the foundation for the regulations in place now.

The conventional securities markets have over a hundred years of expertise dealing with manipulative scams and practices, and they have developed internal protections against them. Exchanges, brokers and regulators have surveillance units that check activity regularly and have advanced technologies that help capture and analyze abusing Market behaviour including pump and dump schemes, wash trading, spoofing, insider trading as well as layering.

Since the 2008 financial crisis regulations have turned out to become more stringent with the introduction of market abuse regulations, notably, regulators throughout the world have demonstrated their willingness to prosecute perpetrators of abuse, and various reference cases have set examples.

Many companies utilized its anti-spoofing authority in 2013 for prosecuting illegal energy trading. They have also manipulated various contracts including financial indexes, natural gas, crude oil, foreign currencies and metals. The owners of the companies utilized algorithmic trading programs for placing orders to sell futures that it deemed to execute. The process was carried out by quickly following several large buy orders at notably higher rates that were intended to cancel. This gave the market a false impression that there was high buying interest, and thus a gain of $1.4 million over two months in the process was made. Later, the energy trading companies were forced to pay $2.8 million as a fine. Also, several companies were fined for the manipulation of commodities markets.

AML and KYC compliance is not sufficient

Some exchanges mystically understand that their foundation is being covered by their Know your customer and anti-money laundering processes and technology. However, they are possibly vulnerable through the usual lack of awareness regarding market abuse techniques and the lack of rigorous surveillance technology and processes to locate it.

Every market comes with its own rules and regulations, and this brings complexity when it comes to controlling and surveillance. As digital asset trading is conducted round-the-clock globally, technically sophisticated market players perform a significant amount of trading and those transactions never get recorded on anti-money laundering screening or know your customer portal. Also, these markets are very volatile, practically as their order flow is mainly driven by retail investors who are readily unnerved by government statements and geopolitical events regarding regulation. The store of value is another volatility driver. It refers to the function by which a digital asset can be beneficial in the prospect with some anticipation. As per academic studies and media reports, manipulative schemes could be used in the digital asset markets, although nothing has yet been proven.

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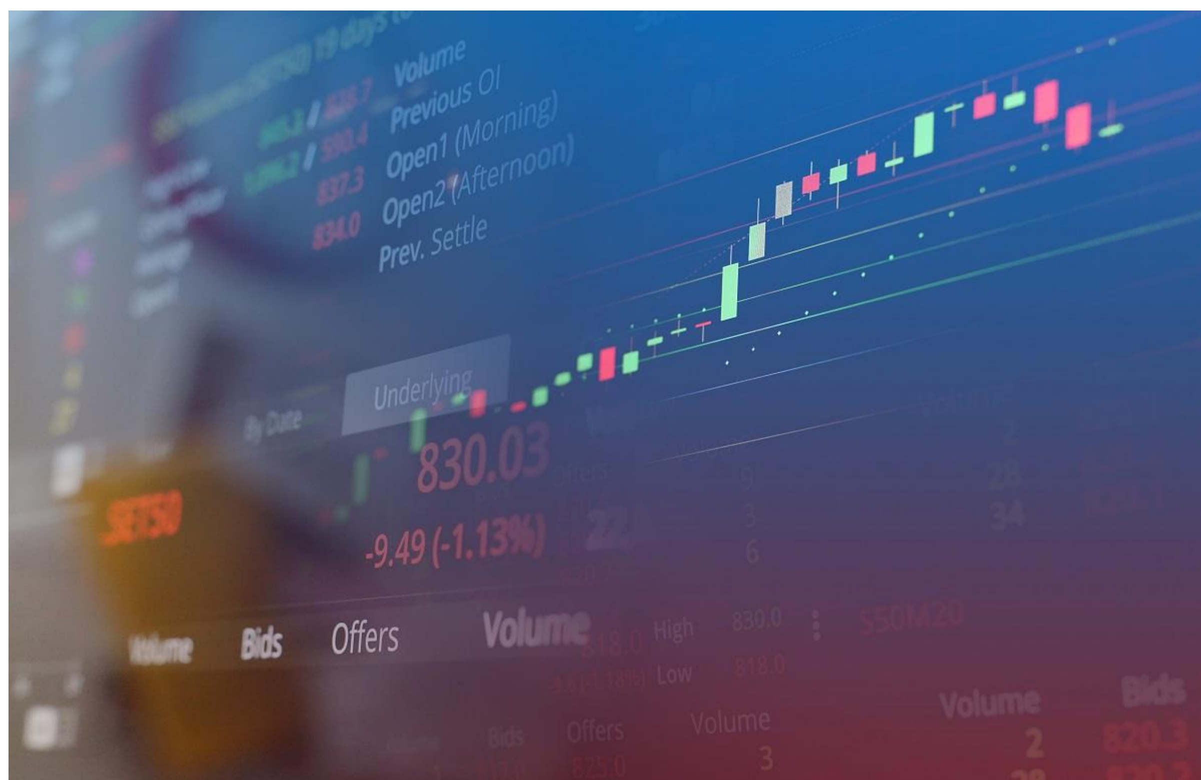
How Can PayBito Help?

As Crypto assets become, more mainstream and mature Crypto trading will likely become faster. Due to the increase in significant trading volume, humans will not be able to analyze events efficiently. Also, they will not be able to depend on standard statistical techniques and data aggregation to understand the patterns of market abuse.



PayBito has years of expertise in developing technologies and such programs for surveillance are allowing them for various asset classes like fixed income, equities and more. Our smart alerts concentrate on proactive discovery with intelligent analysis of market information. We believe that revealing the intention behind an activity of trading lies of utmost importance, so PayBito incorporates behavioural analysis by applying contextualization, reviewing series, identifying emerging trends and highlighting them against the norms. PayBito invests strongly in developing its technology roadmap, and the upcoming versions of our technologies combine machine intelligence which scores incoming alerts according to the likelihood that the alert will point an analyst to take additional action.

Finally, it helps digital asset exchanges to implement surveillance processes, technology and foster transparency that contribute to orderly and fair trading and investor protection. If that is well operated, transparent markets will anticipatedly attract the highest number of market participants with the highest trading volume. This will instil confidence within the public who are investing and turn out to be the best liquidity pools for digital assets.