Private Securities and alternative trading must learn from the history of financial markets

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Rialto Markets COO Joel Steinmetz


Fintech award winner says crypto insider trading case is the opening shot in a long-awaited 'crypto war'

NEW YORK, NEW YORK, UNITED STATES, December 21, 2022 /EINPresswire.com/ -- There is currently a deafening roar coming from the world of cryptocurrency; a fear that after the FTX debacle regulation will be forced upon it and change it forever.

But if there is one thing history has taught us, it is that change does not always deliver the damage feared at the time.

Let's travel back to a time that most in the crypto world don't even realize existed.

A time before FDX's Sam Bankman-Fried even knew the difference between the letters 'E', 'C', and 'N' (Electronic Communications Networks a form of alternative trading systems).

It was 1997 and regulators instituted the ECN Rule.

It was remarkably controversial at the time and threatened to undermine the very foundation upon which the stock market was built. We won't go through the rule in its entirety but just call out a couple of essential components.

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> *Joel Steinmetz COO & Co-Founder Rialto Markets*

Back in 1997, prices available for stock trading were different for institutions and retail investors. The 'quote' that defined the price at which a security could be bought or sold was not actually the price at which an institution bought or sold that security. So regulators required the public display of all orders. Imagine that! Joe the bartender could actually buy stock at the same price as the fund manager at Fidelity.

Another component of the ECN Rule was that the playing field for access had to be level. You couldn't just say: "I'll trade with him but not her." So not only were retail investors able to get the prices available to institutions but they were able to play on the same field.

The reaction at the time? Panic! Bedlam! 'Institutions who are managing money for individuals are going to have terrible performance'. 'The market is going to dry up!'. These rules seem so basic now but there was a time where they were thought of as market busting rather than transformative.

Broken down to its simplest form, retail investors were being disadvantaged by market structure. They could not get investment in certain opportunities and, if they somehow were able to, they could not exit those investments because markets were restricted.

The regulators stepped in to protect the retail investors. That was, at least, the visible storyline. In reality, the regulators accomplished so much more.

The protections established created a paradigm shift in US market structure that catapulted the markets to greater liquidity and greater levels of efficiency. It spurred significant improvements in technology, operational efficiency, trading systems, risk management tools and more.

The alternative and private markets today find themselves at a similar crossroads.

Far advanced in their technological capabilities – much more so than the public markets of the pre-ECN days – they still struggle with operational efficiency and expansion of access.

Recent events have shown that historical events and solutions can be leveraged and learned from. Protection for all investors and investments is time proven to improve and expand markets, not hinder their growth.

Private and alternative assets need to address two essential elements: Market structure and investment vehicles.

Market structure needs to focus on creating an environment in which investors feel the entities providing the services act in ways that do not harm them and that there is authoritative oversight to assure compliance. Market structure needs to oversee not only the markets but its participants, establishing rules which require compliance, oversight to assure compliance, and punishment for lack of compliance.

Investment vehicles also need regulation. Companies taking investor money who operate with no accountability to those investors is simply unacceptable.

There are rules and regulations that define the requirements. The market needs oversight and enforcement of these rules.

Steve Philp
World Digital Foundation
07973159065
email us here
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