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The Three Big Transitions Reshaping Finance

By Stephen Deane Sept. 2, 2021

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Ever since Covid disrupted our lives, two themes have emerged. First, a feeling that we are living in an antechamber to a new and still-undefined era. And second, a pattern of hybrids, from homes converted into hybrid spaces of living/working/schooling, to expectations of a new office hybrid that will mix virtual and in-person meetings.

But what about the world of finance and securities markets? There, too, we can find patterns of transition and hybrids. Consider three phenomena that began before Covid but have exploded in growth since then: digital assets, Robinhood, and SPACs.

Start with the rise of cryptocurrencies, digital tokens and other such assets, which remain very much in a transitory stage (like the "Wild West," SEC Chairman Gary Gensler recently observed). Even as the crypto asset class has grown to an estimated $1.6 trillion, basic questions remain unanswered. Are digital tokens securities or commodities? Are decentralized finance platforms really securities exchanges? Are data miners and other digital service providers really broker-dealers? Should the SEC permit Bitcoin ETFs? And who should regulate these products, services and entities—the SEC, the CFTC, or banking regulators?

Gensler has called on Congress to give the SEC "additional authorities to prevent transactions, products, and platforms from falling between regulatory cracks." Specifically, he wants "additional plenary authority to write rules for and attach guardrails to crypto trading and lending." And the U.S. House has passed a bill (H.R. 1602, the Eliminate Barriers to Innovation Act of 2021), which would require the SEC and CFTC to establish a working group on digital assets.

Some of what passes as crypto innovations pretty clearly seems to be old-fashioned investment

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products dressed up in digital garb. That would include any stablecoins that function like money market funds and those tokens that fall within the definition of a security. Nonetheless, there is no denying that crypto mixes digital technology with traditional forms of finance in a hybrid of innovation.

Second, consider Robinhood, which has exploded into view along with Redditor-fueled moonshot trades in meme stocks. Its proclaimed mission "to democratize finance for all" may invite skepticism, but the company can make a strong claim to having attracted a surge of first-time retail investors, representing a younger and more ethnically diverse customer Robinhood's sleek mobile app—and its arsenal of gamification tools to entice and engage customers. But do the nudges and gamification tools cross the line into the realm of investment advice?

"Once individuals become customers, Robinhood relentlessly bombards them with a number of strategies designed to encourage and incentivize continuous and repeated engagement with this application," the Massachusetts state securities regulator alleges in a lawsuit against Robinhood. The complaint points to several such techniques, from celebrating customer trades with confetti (a practice Robinhood has since abandoned) to plying customers with lists of most-traded and most-popular securities on its platform.

Should practices like these be subject to the