

A GOLDEN AGE OF DIGITAL ASSETS: CHARTING A PATH FORWARD

HEARING

BEFORE THE

SUBCOMMITTEE ON DIGITAL ASSETS, FINANCIAL
TECHNOLOGY, AND ARTIFICIAL INTELLIGENCE

OF THE

COMMITTEE ON FINANCIAL SERVICES

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A GOLDEN AGE OF DIGITAL ASSETS: CHARTING A PATH FORWARD

Tuesday, February 11, 2025

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DIGITAL ASSETS,
FINANCIAL TECHNOLOGY,
AND ARTIFICIAL INTELLIGENCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:31 p.m., in room 2128, Rayburn House Office Building, Hon. Bryan Steil [chairman of the subcommittee] presiding.

Present: Representatives Steil, Huizenga, Emmer, Davidson, Rose, Timmons, Stutzman, Donalds, Nunn, Downing, Haridopolos, Moore, Lynch, Waters, Sherman, Foster, Pressley, Torres, Garcia, and Liccardo.

Also present: Representative Casten.

Chairman STEIL. The Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence will come to order.

Without objection, the chair is authorized to declare a recess of the committee at any time.

The hearing is titled “A Golden Age of Digital Assets: Charting a Path Forward.”

Without objection, all members will have 5 legislative days within which to submit extraneous material to the chair for inclusion in the record.

I now recognize myself for 4 minutes to give an opening statement.

OPENING STATEMENT OF HON. BRYAN STEIL, CHAIRMAN OF THE SUBCOMMITTEE ON DIGITAL ASSETS, FINANCIAL TECHNOLOGY AND ARTIFICIAL INTELLIGENCE, A U.S. REPRESENTATIVE FROM WISCONSIN

Mr. STEIL. Good afternoon and welcome to the first hearing of the House Financial Services Digital Assets, Financial Technology, and Artificial Intelligence Subcommittee. Today, we resume the work that this subcommittee started last Congress under the then-leadership of subcommittee Chairman French Hill. I am grateful to the now full committee chairman for trusting me to pick up the mantle and continue our legislative work to provide clarity for the digital assets ecosystem.

Digital assets present a clear opportunity for the advancement of financial services in the United States. This technology has the potential to modernize our financial infrastructure, enhance the dol-

lar's dominance in global markets, increase the efficiency of payments, both domestically and abroad, and provide American businesses and consumers with a faster, cheaper, more transparent way to transact in an increasingly digital economy.

Under the Biden Administration, we saw regulatory overreach and a pattern of enforcement-driven actions that stifled innovation, especially in the digital assets ecosystem. Instead of working with Congress to establish clear guidelines, the Biden Administration opted for an unpredictable and hostile approach that left American entrepreneurs, businesses, and consumers in a state of uncertainty. Agencies took inconsistent, often contradictory, actions pushing innovators offshore and threatening Americans' leadership.

This lack of regulatory clarity not only hurt American investment, but it also impacted everyday Americans. Let us be clear. The Biden Administration's approach opened the door to bad actors and left consumers more vulnerable to fraud.

While the European Union (EU) and United Kingdom (U.K.) and even developing economies have advanced regulatory frameworks in digital assets, the United States has fallen behind. Our government's failure to act could mean that the benefit of digital assets and blockchain technology will be realized elsewhere, while American consumers, entrepreneurs, and financial institutions are left navigating an uncertain landscape.

Under the Trump Administration, we will course-correct by creating a workable pathway for responsible digital asset companies to set up operations here in the United States. Encouragingly, several positive steps have already been taken. President Trump issued an executive order on digital assets. The Securities Exchange Commission (SEC) repealed Staff Accounting Bulletin (SAB) 121. The Federal Deposit Insurance Corporation (FDIC) has announced that it is reevaluating its supervisory approach to crypto-related activities. Both the SEC and Trump Administration have stood up working groups to tackle these challenges.

Last Tuesday, the White House's artificial intelligence (AI), crypto czar, David Sacks, joined Chairman Hill, Thompson, Bozeman, and Scott for a press conference, where they all agreed that it is time for both regulators and Congress to get this done.

Last week, the chairman and I released the Stablecoin Transparency and Accountability for a Better Ledger Economy (STABLE) Act, a discussion draft to provide a clear regulatory framework for the issues of payment stablecoins. We appreciate the feedback from all relevant stakeholders.

The reality is that the status quo for digital assets is untenable. Regulatory and legislative clarity is needed now. Together we can ensure that stablecoin issuers, digital asset firms, and blockchain developers operate under fair, transparent, and predictable rules in the United States. That means working together—the Trump Administration, Congress, regulators, and market participants—to craft thoughtful policies that uphold our national security, protect investors, and encourage the responsible development of digital assets in the full ecosystem.

Today's witnesses bring a wealth of knowledge and experience on these issues. I look forward to hearing their insights on how we can learn from the mistakes of the past to strike the right balance be-

tween innovation and consumer protection. Thank you. I look forward to your testimonies.

The chair now recognizes the ranking member of the subcommittee, the gentleman from Massachusetts, Mr. Lynch, for 4 minutes for an opening statement.

OPENING STATEMENT OF HON. STEPHEN F. LYNCH, RANKING MEMBER OF THE SUBCOMMITTEE ON DIGITAL ASSETS, FINANCIAL TECHNOLOGY AND ARTIFICIAL INTELLIGENCE, A U.S. REPRESENTATIVE FROM MASSACHUSETTES

Mr. LYNCH. Good afternoon, and thank you, Mr. Chairman. Let me be the first to congratulate you on your selection as chair of this subcommittee. I do look forward to our partnership this Congress. With the wide subject matter jurisdiction, digital assets, financial technology (fintech), and artificial intelligence, this committee provides considerable opportunity for collaboration.

I also want to thank our witnesses for your willingness to help the committee with its work.

The Trump Administration and House Republican leadership have clearly demonstrated their eagerness to enact crypto-friendly laws and regulations. As you noted, Mr. Chairman, one of President Trump's first executive orders established a digital asset working group that will be comprised of regulators handpicked by the crypto industry. In addition, just days before taking office, President Trump also issued a meme coin to further his own financial interest, so he is all in.

The crypto industry spent \$119 million in this last election lobbying Congress, and proposals such as a cryptocurrency stockpile and the prohibition of a central bank digital currency speak to the crypto industry's powerful influence. Not surprisingly, House and Senate Republicans have also announced plans to make digital assets a legislative top priority.

Nonetheless, cryptocurrencies remain highly volatile and speculative instruments that if poorly handled have the potential to destabilize our economy. I continue to have serious concerns about crypto scams, money laundering, and illicit finance uses. In 2023, Americans lost over \$5.6 billion to such scams, and illicit addresses received approximately \$40.9 billion in cryptocurrency.

On the advent of this golden age of crypto, I remind my colleagues of the crypto winter in which major companies, including Future Exchange Trading Ltd. (FTX), BlockFi Lending LLC, and Celsius Network LLC collapsed, and Sam Bank-Friedman was convicted of massive fraud. Fortunately, because of our robust securities and consumer protection laws, most of the victims of those scams were not U.S. citizens. Similarly, the damage caused by the failures of Silicon Valley and Signature Bank did not spread to our broader financial system.

I agree with most of my colleagues that a regulatory regime is needed, but not one that reflects a wish list from industry advocates. As this committee considers legislation to address stablecoins and the market structure, I hope we can have collaborative and bipartisan discussions.

We must seek input from law enforcement, the Financial Crimes Enforcement Network (FinCEN) academics and other experts to en-

sure robust consumer protection, anti-money laundering, and illicit finance safeguards are in place. I worry that by allowing the digital assets industry to access our banking system, we invite the next financial disaster.

I served on this committee during the 2008 financial crisis and watched American taxpayers be forced to bail out major financial institutions that made risky decisions in the name of innovation. The digital assets industry has had years to prove its use cases. Promises of financial inclusion, lower costs, and faster payments are better achieved through public policy solutions.

This subcommittee should focus its time on exploring legitimate innovations that have the potential to expand economic access. Last Congress, I was encouraged by the bipartisan approach to exploring artificial intelligence through the Working Group on AI, which I co-led alongside Chair Hill, and a roundtable I hosted at Massachusetts Institute of Technology (MIT), with faculty and experts. We found shared policy goals.

The emergence of international competitors such as DeepSeek demonstrate that we must move quickly to ensure U.S. competitiveness.

Additionally, I hope to continue working with my colleagues on fintech policy issues we seem to agree on. These include addressing financial data privacy, expanding data portability, reducing the cost of payments, and encouraging innovation that expands economic access and financial inclusion.

Mr. Chairman, I look forward to continuing the important work we began last Congress, and I yield back.

Chairman STEIL. The gentleman yields back.

I too look forward to working with you, Representative Lynch. I think we have a great opportunity in front of us.

The chair now recognizes the ranking member of the full committee, Ms. Waters, for 1 minute.

STATEMENT OF HON. MAXINE WATERS, RANKING MEMBER OF THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REPRESENTATIVE FROM CALIFORNIA

Ms. WATERS. Thank you very much.

While Republicans want to discuss charting a path forward on digital assets, Co-President Elon Musk and Trump continue their hostile takeover and illegally shut down the Consumer Financial Protection Bureau. I find it somewhat disheartening to hear my colleagues talk about guardrails for stablecoins or digital assets as the agency that has clawed back \$21 billion from predatory companies for harm to consumers is being dismantled.

That being said, I unveiled the fruits of nearly 3 years of work between former Chair McHenry and myself, stablecoin legislation that was jointly drafted by my staff and Chair McHenry's. I believe that this legislation provides the best foundation for moving forward to getting a Federal framework signed into law.

I thank you, and I yield back.

Chairman STEIL. The gentlelady yields back.

Today, we welcome the testimony of Mr. Jonathan Jachym, the Deputy General Counsel and Global Head of Policy and Government Relations at Kraken Digital Asset Exchange; Mr. Ji Kim,

President and Acting CEO at the Crypto Council for Innovation; Mr. Coy Garrison, Partner at the law firm Steptoe; Mr. Jose Fernandez da Ponte, the Senior Vice President and General Manager of Blockchain, Crypto, and Digital Currencies at PayPal; and Mr. Timothy Massad is a Research Fellow and Director of Digital Assets Policy Project at the Kennedy School of Government of Harvard University.

We thank each of you for taking your time to be here. Each of you will be recognized for 5 minutes to give an oral presentation of your summary. Without objection, your written statements will be made as part of the record.

Mr. Jachym, you are recognized for 5 minutes for oral remarks.

STATEMENT OF JONATHAN JACHYM, DEPUTY GENERAL COUNSEL AND GLOBAL HEAD OF POLICY & GOVERNMENT RELATIONS, KRAKEN DIGITAL ASSET EXCHANGE

Mr. JACHYM. Chairman Steil, Ranking Member Lynch, committee Ranking Member Waters, thank you for the opportunity to testify today. My name is Jonathan Jachym, and I serve as Global Head of Policy and Government Relations at Kraken. Our business was founded in San Francisco over 13 years ago and has steadily grown into one of the world's largest and most trusted digital asset exchanges.

I have served in my current role for over 3 years and spent the prior 15 years in private sector roles based in the United States and Europe, including over a decade of experience with two of the largest traditional market infrastructure groups.

Kraken has invested heavily in supporting effective policy outcomes around the globe. This includes engagement with governments, regulators, and our industry partners across the United States, EU, U.K., Canada, Australia, and many other developed and emerging markets.

Here in Washington, we have continued to support our leaders in Congress in passing foundational market structure legislation necessary to regulate centralized intermediaries and secondary market transactions.

Kraken's role in the digital asset ecosystem is diverse. Today we serve over 15 million customers around the world. We custody over \$42 billion in assets on our platform. We have a team of over 2,000 professionals across 60 countries that support the 24/7/365 global nature of the users and markets that we serve.

We advance our mission to expand the adoption of cryptocurrencies in 3 key areas. First, we operate a centralized exchange for crypto markets. We offer a staking program and related products and services.

Second, we power traditional market investment allocation into digital assets. This includes derivatives offerings in eligible jurisdictions, the world's leading benchmark provider, which powers a majority of the exchange-traded products that have been approved for trading here in the United States and other major markets. We also operate a novel State-chartered bank, which offers institutional custody under an innovative Wyoming legal framework.

Third, our on-chain's business includes our wallet and Layer 2 blockchain called Ink, which serves as a seamless bridge to decen-

tralized finance (DeFi) for our new frontier of innovative developers and users.

Despite the growth in our markets and years of bipartisan work in Congress, the United States has fallen behind other jurisdictions in passing fundamental rules for centralized intermediaries. The opportunity and urgency for legislative and regulatory clarity is here.

Meaningful progress has been made despite the failed and harmful policy approaches we saw in the last administration, which included regulation by enforcement and downward pressure through the banking system. This slowed or halted responsible growth and deterred investment, job creation, and innovation in the United States.

Among many important topics, I would like to highlight a few key components that are central to effective market structure policy frameworks. First, Congress should grant spot market authority to the Commodities Futures Trading Commission (CFTC) to regulate centralized intermediaries and secondary market transactions in digital commodities.

Second, effective disclosure requirements will provide transparency and customer protection.

Third, we must avoid blunt application of centralized rule books to decentralized protocols that do not have centralized governance systems, infrastructure, or management. Policymakers must continue to evaluate and craft best practices and distinct policy approaches to address DeFi.

The leadership from many distinguished members of this committee has proven that good crypto policy is not partisan. Speaking from my own experience the last several years and on behalf of my colleagues at Kraken and around the industry, we are incredibly encouraged to see Congress and the administration now working together toward regulatory clarity.

The United States must pass rules that are fit for the U.S. markets, but there is often great value in learning from other jurisdictions that have already advanced foundational rules of the road for centralized intermediaries.

As we look ahead, U.S.'s leadership and international cooperation will be necessary to avoid market fragmentation and support the inherently global nature of the digital asset ecosystem. Industry consensus and nonpartisan collaboration is critical for the United States to accelerate toward these goals. We look forward to continuing to support these efforts.

Again, I thank you for the invitation and look forward to our discussion.

[The prepared statement of Mr. Jachym follows:]

Testimony By

Jonathan Jachym, Global Head of Policy and Government Relations, Kraken

Before the
U.S. House Financial Services Subcommittee on Digital Assets, Financial Technology, and
Artificial Intelligence

"A Golden Age of Digital Assets: Charting a Path Forward"

Tuesday, February 11, 2025, 2:30pm

Chairman Steil, Ranking Member Lynch, and members of the subcommittee:

Thank you for the opportunity to testify before you today.

My name is Jonathan Jachym. I am the Global Head of Policy and Government Relations at Kraken. Our business was founded in 2011 in San Francisco and built on principles of security and customer protection.

Over the last 13 years, Kraken has steadily grown into a diversified, global digital asset business serving over 15 million customers around the world on a 24/7 basis. Our mission is to accelerate the adoption of digital assets so the world can achieve financial freedom and inclusion. We have led the way on developing industry best practices even when the regulatory landscape remained unclear.

After many years of legislative debate, we are at a moment when this 119th Congress can galvanize the positive shift from contention towards non-partisan consensus on U.S. digital assets policy. We are before Congress today to deliver a message of urgency to finalize market structure legislation that will create a clear regulatory framework for centralized intermediaries.

Towards that goal, my testimony today focuses on three main topics:

- I. Kraken's role in the global digital asset marketplace;
- II. key components of an effective U.S. legislative framework for centralized intermediaries; and
- III. our experience with policy advancements in major jurisdictions around the world.

I. Kraken's role in the global digital asset markets

Kraken has a team of over 2,000 professionals across 60 countries. Our geographic diversity is a competitive strength and aligns us with the global nature of our markets and the dynamic community of customers and innovators we serve.

We continually strive to offer the most secure and transparent execution platform, deepest liquidity, and the best user experience in our markets. In 2024, clients entrusted us with \$42.8 billion of assets on our platform with total trade volume of \$665 billion. Kraken is consistently named one of the most secure places to buy and sell digital assets due to our robust security for client assets.¹

¹ For further information on our risk management, security, and client protection standards, see "Industry-leading security protects your investments," <https://www.kraken.com/features/security>; and

Kraken has invested in setting the industry standard for transparency.² In 2014, we pioneered a market leading Proof of Reserves process to allow customers to independently verify their holdings are backed by fully reserved assets.³

There are notable market and regulatory trends that serve as a foundation for policymakers:

- **Spot markets** - Spot crypto markets have recently reached over \$3.5 trillion in market capitalization.⁴ Over 80-90% of the transactions in digital asset markets are executed via centralized intermediaries.⁵ A majority of the volume and trading on centralized intermediaries remains in the most established digital assets. As noted later in my testimony, many other jurisdictions have already advanced or finalized rules for centralized intermediaries and oversight over secondary market transactions.
- **Traditional markets** - There has been significant growth in institutional and retail adoption in digital asset markets supported by the risk management role of derivatives and more recent emergence of Exchange Traded Products (ETPs) listed on traditional markets.
- **Decentralized finance** - Decentralized finance (DeFi) innovation continues to grow via onchain ecosystems which have vastly different structures and policy considerations relative to centralized intermediaries or traditional markets. The DeFi community is leading on best practices and effective policy solutions to support responsible innovation.

Kraken serves our customers and community of innovators across all three of these areas:

- **Our established role as a centralized intermediary for spot digital asset markets** - At the heart of our business is our centralized spot crypto exchange, where users can trade major fiat currencies like USD and EUR for digital assets, or engage in crypto-to-crypto transactions. Today, we offer over 300 digital assets for trading. Kraken ranks among the top exchanges by market share in our core regions—primarily Europe and North America. We offer market leading intermediary services for crypto custody and staking, among other products and services to support our customers.
- **Facilitating digital asset growth in traditional markets** – CF Benchmarks, a Kraken company, is the world's leading global benchmark provider and is an FCA-regulated Benchmark Administrator. Our trusted, global benchmarks serve as reference rates for the majority of approved digital asset ETPs in the U.S., and are used as the settlement index for major derivatives exchanges.⁶ These products and services support risk management and expand adoption and ownership in digital asset markets through traditional regulated products. Kraken also offers crypto derivatives trading in eligible jurisdictions through regulated platforms.

² "Announcing the 2023 Kraken Transparency Report,"

<https://blog.kraken.com/news/announcing-the-2023-kraken-transparency-report>.

³ Kraken, "Proof of Reserves," <https://www.kraken.com/proof-of-reserves>.

⁴ Coin Gecko, "Global Cryptocurrency Market Cap Charts," <https://www.coingecko.com/en/global-charts>.

⁵ The Block, "DEX to CEX Spot Trade Volume (%)," <https://www.theblock.co/data/decentralized-finance/dex-non-custodial/dex-to-cex-spot-trade-volume>.

⁶ CF Benchmark indices supports ETFs/ETPs listed in the U.S., Europe, Canada, Brazil, Australia, and Hong Kong. <https://www.cfbenchmarks.com/>.

- **Powering the future of onchain markets** – Decentralized, or “onchain,” markets remain the frontier of digital asset innovation. Kraken operates a cutting edge Layer 2 (L2) blockchain, Ink, which serves as a seamless bridge to DeFi. Ink empowers users to move onchain with confidence supported by appropriate compliance tools and technology. As a single, integrated ecosystem, Ink simplifies user engagement with top-tier DeFi applications (dApps), protocols and communities, making it easier for developers and users to build and access new opportunities onchain.

Kraken continues to invest heavily in regulatory licensing, compliance, and supporting effective crypto policy development around the world. In the U.S., Kraken maintains a registration as a Money Services Business with FinCEN and holds over 40 state money transmitter licenses. We were the first digital asset business to receive a Special Purpose Depository Institution (SPDI) charter with the Wyoming Division of Banking. We also hold licenses and registrations in the United Kingdom, European Union, Canada, and Australia, among many other developed and emerging markets.

II. Charting a path forward: Congress should pass legislation to create a regulatory framework for centralized intermediaries, building on many years of bipartisan work.

We are excited to embark on a new era of policymaking in the U.S. and end the regulation-by-enforcement approach of the past. Following many years of industry engagement, education, hearings, legislative drafting and debate, we have seen significant bipartisan consensus in Congress for enacting a strong regulatory framework for centralized intermediaries that protects consumers while enabling blockchain-based innovation.

Building on the years of progress in the House and Senate, the U.S. now has a clear opportunity to advance an effective framework for regulating centralized intermediaries. Among many other important policy issues, we note three foundational components that are central to an effective market structure framework:

1. **Spot market authority for the CFTC** – CFTC oversight over centralized intermediaries and secondary market transactions, complemented by effective disclosure requirements, will create a durable approach for supporting innovation and protecting customers. Congress should avoid unnecessarily fracturing spot markets along bifurcated or complex jurisdictional lines. The Administration, SEC, and CFTC should enhance and accelerate cooperation towards this legislative goal.
2. **Clear exemptions from centralized intermediary rules for decentralized protocols** – Similar to the approach taken by other major economies, the U.S. should not apply centralized intermediary rules to decentralized protocols. Open and transparent decentralized blockchain networks do not have centralized governance systems, infrastructure or management. Applying traditional registration and reporting requirements designed for centralized intermediaries would be both impractical and contrary to the well-established fundamental freedoms in our internet-based economy. Rather, the industry and policymakers must continue to evaluate and craft best practices and distinct policy approaches that account for the unique characteristics of DeFi.
3. **Regulatory clarity for staking as a service** – Staking is a novel and fundamental part of securing proof-of-stake (PoS) blockchain networks. Staking protects consumers,

allows them to maximize the economic potential of their digital assets, and strengthens blockchain networks generally. Without staking, many PoS networks would struggle to attract validators, weakening security and limiting scalability, ultimately hindering broader adoption and innovation. It is critical that U.S. policymakers provide legal certainty for intermediaries that offer staking as a service given its indispensable role in supporting the growth of the digital asset economy. We encourage coordination with other major jurisdictions that have set a clear policy direction for staking service providers.

We commend the Trump Administration and new leadership at our U.S. regulatory agencies for taking swift and meaningful steps towards advancing effective policymaking in the U.S. This includes appointment of a Crypto and Artificial Intelligence Czar, establishment of the Crypto Council, and formation of the SEC Crypto Task Force. Following its early pioneering leadership in derivatives market policy for digital assets, the CFTC continues to lead initiatives on establishing a framework to regulate spot crypto markets in addition to driving new policy thinking around the role of digital assets in established derivatives markets.

With the Administration, independent federal agencies and Congress working together, there is a clear and critical opportunity for the U.S. to accelerate and finalize legislation this year.

III. Other major markets have advanced clear rules and regulations for centralized intermediaries in the digital asset markets.

Policymakers in major markets we serve have already advanced clear rules for centralized intermediaries. These jurisdictions did not attempt to bluntly apply traditional securities rules to the rapidly evolving digital assets markets. Similar to the legislative approaches that have been introduced and advanced in the U.S. House and Senate, other jurisdictions have developed new categories of digital asset definitions and rules that can adapt to the fast pace of innovation in the digital asset ecosystem.

Congress must develop U.S. rules fit for the U.S. markets, but can also draw on the experience from other markets that have advanced rules for regulating centralized intermediaries. We note the following examples from other markets where Kraken has been actively engaged:

- **European Union (EU)** – The EU proposed the Markets in Crypto-Assets (MiCA) regulation in September 2020 and finalized it in 2022.⁷ Over the past two years, policymakers have proposed and finalized a comprehensive set of regulations for centralized intermediaries. MiCA became effective on December 30, 2024.⁸

MiCA provides a unified and comprehensive regulatory framework for digital assets allowing firms - both stablecoin issuers and centralized intermediaries - to operate across the 27 EU member countries. While MiCA incorporates elements from traditional finance rulebooks, it is a tailor-made framework designed specifically for the unique nature of digital asset markets and the firms operating within them.

Kraken has held country-specific licences in Europe which developed prior to MiCA. With EU-level legislation and regulation now finalized, we are pursuing approval as a

⁷ European Commission, "Crypto-Assets," https://finance.ec.europa.eu/digital-finance/crypto-assets_en.

⁸ ESMA, "Markets in Crypto-Assets Regulation (MiCA)," <https://www.esma.europa.eu/esmas-activities/digital-finance-and-innovation/markets-crypto-assets-regulation-mica>.

Crypto Asset Service Provider (CASP) to advance our EU operations across the entire market.

- **United Kingdom (UK)** – In 2023, HM Treasury launched a consultation on a comprehensive framework for digital assets, which recognized digital assets as a distinct asset class and called for a bespoke regime for staking.⁹ Over the next 18 months, the Financial Conduct Authority (FCA) will issue over a dozen consultations to develop and finalize regulations. These rules are expected to be finalized next year, allowing centralized intermediaries to be fully authorized within the FCA regulatory perimeter.

Similar to MiCA, traditional rules for centralized intermediaries were used as a starting point, but the UK framework has been tailored to account for the unique characteristics of digital assets. Kraken was one of the first digital asset firms to secure the digital asset registration with the FCA and will continue to support the development of the new framework through the rulemaking phase this year.

- **Canada** – Similar to traditional financial market regulation in Canada, individual provinces and territories have developed their own frameworks for digital asset regulation via new approaches and exemptions from traditional rules. Coordination is managed across provinces and territories through the Canadian Securities Administrators (CSA). The CSA finalized a regulatory framework for digital assets in 2023, which required centralized intermediaries to register with a provincial regulator in order to provide centralized products and services across Canada, such as exchange offerings and staking.¹⁰

Kraken has been operating with a Pre-Registration Undertaking (PRU) administered by the Ontario Securities Commission (OSC) while pursuing approval as a Crypto Trading Platform (CTP). We are continuing to engage and support the OSC and CSA as the Canadian regulatory framework evolves.

Many other jurisdictions have already moved forward with market structure frameworks for centralized intermediaries. For example, Switzerland, Japan, Hong Kong, the United Arab Emirates, Singapore, Brazil, Turkey, and Bermuda are among jurisdictions that have finalized regulatory frameworks for centralized intermediaries. Other jurisdictions such as Australia, Argentina and India are currently developing and advancing their frameworks.

After many years of legislative work, the time has come for Congress to pass market structure legislation to ensure the U.S. remains at the forefront of innovation and the next era of the global financial markets. This will also support U.S. regulators with greater ability to engage their foreign counterparts in order to rationalize cross-border market access models and international standard setters, such as IOSCO, to drive harmonization in areas that are critical to supporting the global nature of the digital asset markets.

⁹ HM Treasury, "Future financial services regulatory regime for cryptoassets," <https://www.gov.uk/government/consultations/future-financial-services-regulatory-regime-for-cryptoassets>.

¹⁰ Canadian Securities Administrators, "Staff Notice 21-332," https://www.osc.ca/sites/default/files/2023-02/csa_20230222_21-332_crypto-trading-platforms-pre-reg-undertakings.pdf.

Chairman STEIL. Thank you, Mr. Jachym.
Mr. Kim, you are recognized for 5 minutes.

**STATEMENT OF JI HUN KIM, PRESIDENT AND ACTING CEO,
CRYPTO COUNCIL FOR INNOVATION**

Mr. KIM. Thank you, Chairman Steil, Ranking Member Lynch, and members of the subcommittee, for the opportunity to testify today on how the United States can best chart its path forward to ensure a golden age for digital assets. I believe that achieving this goal will require a comprehensive Federal legislative framework for digital assets.

I am pleased to represent the Crypto Council for Innovation, CCI, a global alliance of industry leaders across the digital asset space. CCI is grateful that so many Members of Congress recognize the need for United States to lead when it comes to digital asset innovation.

Under the leadership of this committee, we experienced great bipartisan progress during the 118th Congress. I respectfully submit that it is critical for Congress to continue such efforts to provide the digital assets industry with the needed clarity to ensure continued growth and leadership in the United States.

Over the past 15 years, digital assets have evolved from a topic of curiosity to transforming financial services and how we architect future economic systems. The approvals of spot bitcoin and Ethereum Exchange-traded Funds (ETFs), growing retail and institutional participation, and increased adoption of digital assets signal an industry not only meeting its potential but changing how we live.

Indeed, the global digital asset market has seen substantial growth, with a market cap that currently exceeds \$3 trillion. The stablecoin market alone has gone to over \$200 billion, demonstrating the increased use of digital rails for payments.

Tokenized assets and new blockchain-based transaction rails can improve financial access and inclusion, reduce counterparty risk, improve operational efficiencies and lower cost. The industry is working to improve the legacy financial system and software gaps that have harmed historically disadvantaged populations.

Against this backdrop, other major jurisdictions have recognized that we are in a race to the top in harnessing and benefiting from this new technology. These jurisdictions are delivering exactly what the U.S. digital assets industry has been requesting, regulatory clarity through a thoughtful, tailored regulatory regime that recognizes the potential of digital assets.

To that end, it is imperative that the United States build upon the progress made during the 118th Congress and ensure U.S.'s leadership in digital assets at the global level. Increased clarity regarding regulatory expectations will unleash further innovation and ensure that American markets remain the envy of the world.

CCI is encouraged by this administration's early efforts to catalyze further digital asset development in the United States, including recognizing digital assets as a national priority in the recent executive order. More still needs to be done, however, to unwind the significant damage and uncertainty caused by a regulation-by-enforcement approach under the prior administration.

Unfortunately, during Chairman Gensler's tenure, the SEC brought over 125 enforcement actions related to digital assets but issued no clear guidance or rulemaking to clarify when an asset is, in fact, a security. This lack of regulatory clarity has driven companies offshore to jurisdictions with more defined rules and less ambiguity. If a regulatory approach is pushing lawful businesses to move offshore, this must change, and we believe that change has begun.

In the interest of time, I will briefly outline the specific steps I view as critical to achieving the golden age of digital assets in the United States.

First, Congress must pass market structure legislation to clarify when a digital asset is a commodity or security and to give clear statutory authority to the CFTC to regulate the spot markets for digital commodities. Legislation should also address risks associated with digital assets markets, technology and provide key consumer protections.

Second, Congress should establish a comprehensive framework for the regulation and supervision of stablecoin issuers. Such a bill should also consider rationally integrating effective State-based regulatory models. Accomplishing this would realize the powerful potential of dollar-backed stablecoins and providing individuals with more choice in payments while further solidifying the global role of the U.S. dollar.

Finally, Congress and the administration should prioritize supporting the development of decentralization and DeFi technologies. Policymakers should recognize the importance of self-custody solutions and software which enable individuals to securely manage their own digital assets.

Congress can unleash digital asset innovation through forward-leading legislation. This is the surest way to guarantee that the United States commands the digital asset future while best protecting consumers and fostering economic growth.

Thank you so much again for the opportunity to testify, and I look forward to your questions.

[The prepared statement of Ms. Kim follows:]

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Denver | London | Brussels | Hong Kong

WRITTEN TESTIMONY OF
Ji Hun Kim
President & Acting CEO
Crypto Council for Innovation

BEFORE THE
United States House of Representatives Committee on Financial Services
Subcommittee on Digital Assets, Financial Technology and Artificial Intelligence

IN A HEARING ENTITLED

A Golden Age of Digital Assets: Charting a Path Forward

February 11, 2025
2:30 PM EST

Thank you, Chairman Steil, Ranking Member Lynch, and members of the Subcommittee for the opportunity to testify today on how the United States can best chart its path forward to ensure a golden age for digital assets. I believe that achieving this goal will require a comprehensive federal legislative framework for digital assets.

I am pleased to represent the Crypto Council for Innovation (CCI), a global alliance of industry leaders across the digital assets space. We believe that constructive partnership between government and business stakeholders is critical to crafting sound policy and regulation that benefits consumers, investors, and industry. We use an evidence-based approach to support governments that are shaping and encouraging the responsible regulation of this innovative technology. I am particularly grateful for the engagement and leadership of so many on this Subcommittee.

CCI is grateful that so many members of Congress recognize the need for the U.S. to lead when it comes to digital asset innovation, including on establishing a comprehensive federal regulatory framework. We experienced great bipartisan progress during the 118th Congress, including the historic passage of the Financial Innovation and Technology for the 21st Century Act (FIT21) and advancing the Clarity for Payment Stablecoin Act in the House, and I respectfully submit that it is critical for Congress, including this Subcommittee, to continue and complete such efforts to provide the digital assets industry with the necessary clarity and certainty to ensure the U.S.'s continued growth and leadership in this space.

Against this backdrop, my testimony aims to: (i) highlight the recent growth of the digital assets industry and increased adoption as we enter a potentially historic era of innovation in the U.S.; (ii) detail how other leading jurisdictions and financial centers have made progress to provide regulatory clarity to the digital assets industry and in turn attract increased activity; (iii) emphasize the need to build on the bipartisan progress from the 118th Congress while undoing significant harms resulting from prior “regulation by enforcement” approaches; and (iv) make recommendations to inform a comprehensive legislative framework for digital assets, including with respect to stablecoins and market structure.

A Golden Age for Digital Assets and Related Technologies

We are entering a new phase of digital asset growth and innovation that can benefit individuals, companies, and our economy. Over the past fifteen years, digital assets and blockchain technologies have evolved from a topic of curiosity to transforming financial services and how we architect future financial and economic systems. The approvals of spot Bitcoin and Ethereum ETFs, growing retail and institutional participation, and increased adoption of digital assets and blockchain technology in traditional finance and payments signal an industry not only meeting its potential but changing how we live.

Indeed, the global digital asset market has seen substantial growth, with increasing participation from both retail and institutional users. The total digital asset market capitalization currently exceeds \$3.25 trillion.¹ The stablecoin market alone has grown to over \$200 billion,² with daily transaction volumes surpassing billions of dollars, demonstrating the increased use of digital rails for payments. A recent survey found that approximately 20% of Americans have owned or traded digital assets, with younger demographics leading the trend.³ By one estimate, digital asset ownership has nearly doubled in the three years since the end of 2021. In 2025, approximately 28% of American adults, or about 65 million people, own digital assets.⁴

Growth in interest and use of digital assets is based on the benefits these technologies provide. Digital assets and blockchain technologies are already improving how individuals and businesses are able to access and engage in financial transactions. Tokenized assets and blockchain-driven transaction networks enhance financial access and inclusion, reduce counterparty risk, increase transparency, improve operational efficiencies, and lower costs. By leveraging these

¹ Forbes (no date) *Cryptocurrency prices today by market cap*. Available at: <https://www.forbes.com/digital-assets/crypto-prices/?sh=66ee3c2c2478> (Accessed: February 4, 2025).

² Forbes (no date) *Top Stablecoins Coins today by market cap*. Available at: <https://www.forbes.com/digital-assets/categories/stablecoins/?sh=473affe11cd0> (Accessed: February 4, 2025).

³ Slaughter, Justin and Little, Dominique (2024) ‘October 2024 Public Opinion Poll,’ Available at: <https://www.paradigm.xyz/2024/10/october-polling> (Accessed February 8, 2025)

⁴ <https://www.security.org/digital-security/cryptocurrency-annual-consumer-report/>

advancements, the industry seeks to modernize the legacy financial system and address long-standing disparities affecting lower-income and historically underserved communities.

For example, digital assets, including increasingly stablecoins, allow for low-cost and efficient cross-border transactions, making it easier for firms to make payments and for individuals in collapsing economies or authoritarian regimes to purchase goods and services. Stablecoins pegged to fiat currencies, like the U.S. dollar, are rapidly becoming a preferred medium of exchange in regions with volatile local currencies and limited banking infrastructure. Additionally, humanitarian initiatives, such as distributing aid to refugees through stablecoins have demonstrated the reliability, efficiency, and security of this technology in high-risk environments.⁵ CCI has further chronicled a number of digital asset use cases that have helped to enhance financial inclusion, including one fintech that uses AI to calculate credit score and decentralized finance (DeFi) technologies to provide loans to people in Colombia.⁶

Another reason for the popularity of stablecoins is the absence of high fees charged by financial institutions. Traditional financial institutions typically charge 5% to 12% for remittances.⁷ By utilizing digital assets, these fees can be reduced to 1% of the total cost, with transfers completed in a few seconds rather than days.⁸ This results in significant savings that can be reinvested in local economies.

A Global Race to the Top

Against this backdrop of impact and potential, major economies and jurisdictions, such as the European Union, United Kingdom, Japan, and Singapore have recognized the importance of harnessing this technology and have implemented tailored regulatory frameworks. While facilitating digital asset growth and innovation is by no means a zero-sum game, these jurisdictions have taken significant steps to engage with the digital assets industry to establish new tailored rules and regulations and attract investment.

⁵ UNHCR USA (2023) 'UNHCR wins award for innovative use of blockchain solutions to provide cash to forcibly displaced in Ukraine,' The UN Refugee Agency, 23 March. Available at: <https://www.unhcr.org/us/news/press-releases/unhcr-wins-award-innovative-use-blockchain-solutions-provide-cash-forcibly>.

⁶ Mills, L. (2024) 'How is crypto supporting humanitarian aid work?,' Crypto Council for Innovation, 22 June. Available at: <https://crypto4innovation.org/how-is-crypto-supporting-humanitarian-aid-work/>.

⁷ Rodima-Taylor, D. (2023) 'The uneven path toward cheaper digital remittances,' *The Online Journal of the Migration Policy Institute: Migration Information Source* [Preprint], (June 22, 2023). Available at: <https://www.migrationpolicy.org/article/cheaper-digital-remittances>.

⁸ Alo, K.O. (2020) 'How Bitcoin is helping African migrant workers and their families save money,' *Forkast*, 9 March. Available at: <https://forkast.news/cryptocurrencies-remittance-africa-blockchain-bitcoin-money-transfers-fees/>.

For example, the EU's Markets in Crypto-Assets Regulation (MiCA) has established a comprehensive regulatory framework intended to establish a harmonized set of rules for issuers, intermediaries, and other participants in the digital assets ecosystem. MiCA went into effect and became applicable at the end of 2024 and focuses on stablecoins and digital asset exchanges. The UK has long aimed to become a global digital asset hub. With a renewed focus on growth and innovation, the UK Government, through the HM Treasury (HMT), has provided important regulatory clarity on staking, and the Financial Conduct Authority (FCA) has published an ambitious roadmap, detailing a full timeline for the introduction of a complete digital assets regulatory regime for implementation from 2026.⁹ The FCA is also actively supporting digital asset firms starting and scaling in the UK, by extending pre-application support.¹⁰ Similarly, Japan has been actively revising its regulatory approach to digital assets with a focus on investor protection and market stability.¹¹ Recent developments include tax reforms to incentivize digital asset investment and amendments to the Payment Services Act to accommodate stablecoins. Finally, Singapore has also taken a proactive stance, with the Monetary Authority of Singapore (MAS) granting licenses to numerous digital asset service providers and issuing guidelines on various aspects of digital asset activities.¹² Indeed, these jurisdictions are delivering exactly what the U.S. digital assets industry has been requesting: regulatory clarity through a thoughtful, tailored regulatory regime that recognizes the potential of digital assets, while balancing consumer protections and national security.¹³

It is important for the U.S. to build upon the progress made during the 118th Congress and ensure U.S. leadership in digital assets at the global level. The first, critical steps towards this are establishing a national policy to foster innovation and creating a comprehensive legislative framework. Such action can ensure the U.S. regains its competitive footing alongside other leading jurisdictions and makes best use of the incredible talent and resources our country

⁹ Financial Conduct Authority (2024) *FCA Crypto Roadmap*, Financial Conduct Authority. Available at: <https://www.fca.org.uk/publication/documents/crypto-roadmap.pdf>.

¹⁰ Rath, N. (2025) *Letter from FCA to the Prime Minister regarding a new approach to ensure regulators and regulations support growth*, Financial Conduct Authority. Available at: <https://www.fca.org.uk/publication/correspondence/fca-letter-new-approach-support-growth.pdf>.

¹¹ GMO-Z.com Trust Company (2024) 'Japan's regulatory shift in cryptocurrency and digital assets,' *Medium*, 31 October. Available at: <https://medium.com/gmo-z-com-trust-company/japans-regulatory-shift-in-cryptocurrency-and-digital-assets-1bde466818b> (Accessed: February 6, 2025).

¹² Yee, L. and Kim, S. (2024) 'Redefining boundaries: MAS consults on new regulatory framework for digital token service providers under the FSMA,' *Duane Morris and Selvam*, 18 October. Available at: <https://blogs.duane-morris.com/duane-morris-and-selvam/2024/10/18/redefining-boundaries-mas-consults-on-new-regulatory-framework-for-digital-token-service-providers-under-the-fsma/>.

¹³ The impact of that clarity is further reflected in the recent growth in blockchain developers and users within those jurisdictions. See, e.g., Electric Capital (2024) '2024 Crypto Developer Report,' December 12, 2024. Available at: <https://www.developerreport.com/developer-report?s=developer-report>.

enjoys. It is also important to note that we are in the early innings of increased traditional finance adoption of digital asset and blockchain technologies to enhance the efficiency, transparency and security of market infrastructure. Tokenized assets can be securely traded in real-time through such systems, reducing settlement, counterparty, and other operational risks.¹⁴ As discussed below, increased clarity regarding regulatory expectations will unleash further innovation and ensure that American markets remain the envy of the world.

The New Administration and Congress: A Strong Start with More Work to Be Done

CCI is encouraged by the new Administration's early efforts to catalyze further digital assets development in the U.S., including rescinding SAB 121 and issuing a new White House Executive Order. President Trump's recent Executive Order highlights the strategic importance of digital asset innovation and recognizes that a comprehensive federal regulatory framework is needed. Indeed, the Order specifically states that the policy of the new Administration is "to support the responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy." As part of this initiative, the Order established the "Working Group on Digital Asset Markets," tasked with recommending regulatory and legislative proposals with respect to digital assets and proposing a federal regulatory framework governing the issuance and operation of digital assets.¹⁵

These actions signal a commitment to fostering innovation and recognizing the potential of digital assets for economic growth and global leadership. However, more still needs to be done, to unwind the significant damage caused by the previous administration's "regulation by enforcement" approach. The prior SEC leadership was quick to broadly assert its enforcement authority and suggest that many digital assets are securities without offering clear guidance regarding when an asset is, in fact, a security.¹⁶ During Chairman Gensler's tenure, the SEC initiated more than 125 enforcement actions related to digital assets but issued no clear guidance or rulemakings.¹⁷ This lack of regulatory clarity has driven companies offshore to jurisdictions

¹⁴ Rooz, Y. (2024) 'How tokenization is transforming global finance and investment,' *World Economic Forum*, 10 December. Available at: <https://www.weforum.org/stories/2024/12/tokenization-blockchain-assets-finance/> (Accessed: February 5, 2025).

¹⁵ The recent February 4th press conference on digital assets led by the White House A.I. and Crypto Czar David Sacks and Chairmen Scott, Hill, Boozman, and Thompson is an encouraging demonstration of how this Administration and Congress can work together to achieve this goal.

¹⁶ See Lutz, S. (2022) 'SEC Chair Gensler threatens action against unregistered crypto exchanges,' *Decrypt*, 18 May. Available at: <https://decrypt.co/100806/sec-chair-gensler-threatens-action-against-unregistered-crypto-exchanges> [stating to the House Financial Services and General Government Subcommittee that "[t]he crypto exchanges should come in and register . . ."]; see also Gensler, G. (2021) *2021 Aspen Security Forum - The view from the SEC: Cryptocurrencies and National Security*. Available at: <https://www.youtube.com/watch?v=msOJLCgrDs>.

¹⁷ Cornerstone Research (2024) *SEC Cryptocurrency Enforcement: 2024 update*, Cornerstone Research. Available at: <https://www.cornerstone.com/wp-content/uploads/2025/01/SEC-Cryptocurrency-Enforcement-2024-Update.pdf>.

with more defined rules and less ambiguity.¹⁸ This approach not only fails to protect consumers and investors but also stifles innovation, chills the domestic industry, and forces responsible companies to seek more favorable regulatory environments. If a regulatory approach is creating an environment that pushes lawful businesses to move offshore, this must change — and we believe that change has begun.

CCI welcomes the constructive engagement of the new SEC leadership, including the establishment of the SEC Crypto Task Force and the rescission of SAB 121, which I noted earlier, and, which would have made it prohibitively difficult for responsible custodians to safeguard digital assets. Commissioner Peirce's recent call for submissions to the Task Force¹⁹ signals a willingness to collaborate with the industry to enhance regulatory clarity. Significant policy efforts like these are crucial to unlocking a golden age for innovation and digital assets in America.

The responsible digital assets industry has long advocated—and Americans deserve—modern policy frameworks that reflect the benefits and distinct characteristics of digital asset and blockchain technologies. Members of Congress have acknowledged this by introducing dozens of related bills in recent years aimed at creating a deliberate and consistent framework for digital assets.²⁰ As discussed below, such frameworks should establish clear rules for digital asset markets and recognize the powerful potential of dollar-backed stablecoins in providing individuals with more choice in payments and solidifying the role of the U.S. Dollar domestically and abroad. Furthermore, national policy should embrace the opportunities offered by DeFi technologies and protect Americans' right to privacy and self-management in the financial services context. Now is the time for Congress to act, ensuring a golden age of digital assets by establishing these essential frameworks.

Against this backdrop, to move forward towards a golden age of digital assets, the following steps are essential:

¹⁸ See Murugesan, N. and Gordon, T.D. (2022) 'Building across Europe,' *Coinbase Blog*, 1 July. Available at: <https://www.coinbase.com/blog/building-across-europe>; See also Circle (2024) *Circle is first global stablecoin issuer to comply with MiCA, EU's landmark crypto law*. Available at: <https://www.circle.com/pressroom/circle-is-first-global-stablecoin-issuer-to-comply-with-mica-eus-landmark-crypto-law#:~:text=>

¹⁹ Peirce, H.M. (2025) 'The journey begins,' 4 February. Available at: <https://www.sec.gov/newsroom/speeches-statements/peirce-journey-begins-020425>.

²⁰ Brett, J. (2022) 'Congress has introduced 50 digital asset bills impacting regulation, blockchain, and CBDC policy,' *Forbes*, 24 May. Available at: <https://www.forbes.com/sites/jasonbrett/2022/05/19/congress-has-introduced-50-digital-asset-bills-impacting-regulation-blockchain-and-cbdc-policy/?sh=121c4c7d4e3f>.

- **Pass Market Structure Legislation:** CCI supports legislative efforts to establish a comprehensive regulatory framework for the issuance and trading of digital assets, with clearly defined responsibilities for the CFTC and the SEC. We encourage Congress to create a unitary regulatory framework for digital assets that avoids market fragmentation and acknowledges the diversity of digital assets securely traded today on U.S. platforms. Such legislative efforts should address market risks, and provide essential consumer protections for purchasers of digital assets, including business conduct standards, customer disclosures, segregation of customer funds, minimum capital requirements, reporting and recordkeeping, and more. Importantly, market structure legislation should empower the CFTC with clear authority to regulate spot markets for digital commodities—an area where even the Financial Stability Oversight Council (FSOC) has recommended Congressional action.²¹
- **Pass Stablecoin Legislation:** Congress should also provide a comprehensive framework for the regulation and supervision of stablecoin issuers. These efforts should establish requirements by which stablecoin issuers must abide by, including appropriate registration, reserve requirements, redemption procedures, general prohibition on rehypothecation, compliance with the BSA, and more. Such a bill should also consider rationally integrating effective state-based regulatory models.
- **Enhance Clarity and Cooperation Between the SEC and CFTC:** It is crucial to clarify how the SEC and CFTC define and regulate digital assets. A key area of uncertainty is the specific criteria by which the SEC and the CFTC deem a digital asset to meet the legal definition of a security or commodity, respectively. The CFTC has determined that certain digital assets, such as Bitcoin, meet the definition of "commodity", but has limited authority over cash or spot trading in a commodity.²² Meanwhile, the SEC has asserted that many digital assets are securities but has provided limited guidance on how that determination is made. We support efforts to enhance clarity and collaboration between these agencies, which would benefit regulators, the industry, and end-users. The President's executive order underscores the criticality of regulatory agencies working together to ensure U.S. leadership. Historically, and pursuant to each agencies' existing rules, the SEC and the CFTC have cooperated to resolve numerous jurisdictional overlaps, and we remain optimistic that they will continue to do so. However, to establish long-term regulatory stability, it is imperative that Congress enact an appropriate federal legislative framework.
- **Support DeFi Technologies and Individual Empowerment:** Congress and the new Administration should prioritize supporting the development of decentralization, DeFi technologies, and protecting individual agency within the digital asset ecosystem. This

²¹ Financial Stability Oversight Council, Annual Report 2023, available at <https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf>

²² Commodity Futures Trading Commission (2017) *A CFTC primer on virtual currencies*. Available at: https://www.cftc.gov/sites/default/files/ido/groups/public/documents/file/abcftc_primercurrencies100417.pdf.

can be achieved by fostering a deeper understanding of the benefits these innovations offer, including through required research. To this end, research initiatives can explore how DeFi can promote financial inclusion, empower individuals with greater control over their assets and financial lives, and drive economic growth through open and permissionless financial systems. Additionally, policymakers should recognize the importance of self-custody solutions and software, which enable individuals to securely manage their own digital assets, promoting privacy and reducing reliance on centralized intermediaries. By embracing a balanced regulatory approach that encourages responsible innovation while safeguarding consumers, the U.S. can secure its rightful place as a leader in the evolving digital financial landscape.

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The digital asset industry has the potential to revolutionize financial services, empower individuals, and improve economic models. Congress can unleash this powerful potential through thoughtful and forward-leaning legislation. Comprehensive federal legislative frameworks can enhance clarity, ensure consistency, and further mitigate outstanding risks. By working together, we can ensure that the United States commands the digital asset future, while protecting consumers and fostering economic growth.

Chairman STEIL. Thank you, Mr. Kim.
Mr. Garrison, you are now recognized for 5 minutes.

STATEMENT OF COY GARRISON, PARTNER, STEPTOE LLP

Mr. GARRISON. Thank you, Chairman Steil, Ranking Member Lynch, committee Ranking Member Waters, members of this subcommittee, for inviting me to testify today.

My name is Coy Garrison. I am a Partner in Steptoe's blockchain and cryptocurrency practice, where I have advised clients for the last 3 years.

Prior to joining Steptoe, I was an attorney at the SEC for about 9 years. I had the honor of serving as Counsel to Commissioner Hester Peirce and also serving in multiple roles within the Division of Corporation Finance. I testify here today on my own behalf, not on behalf of the firm or its clients.

Congress and this Trump Administration have a tremendous opportunity to work together to bring sensible regulation to the digital asset industry. New leadership at Federal financial regulators are already beginning to reverse the failed crypto policies of the last 4 years. The SEC, in particular, has a heavy burden to undo the harmful policy decisions that former Chair Gensler brought, and they have begun the hard but necessary work of rulemaking and providing actual guidance.

However, regulatory actions alone will not be sufficient to stand up a comprehensive regime. Congress needs to fill regulatory gaps by passing legislation for both digital asset market structure and dollar-denominated payment stablecoins.

First, I want to underscore that the moment for action is now. The open hostility of the prior administration toward this industry has resulted in a marketplace with no Federal regulator, no protections for token holders and fewer U.S.-based projects.

Fortunately, we live in a very different world today. The change at the SEC in particular is a breath of fresh air. Acting Chairman Mark Uyeda recently announced the formation of a crypto task force and appointed Commissioner Peirce to lead its efforts. Results were immediate. The SEC rescinded the widely maligned Staff Accounting Bulletin 121. Their work, however, is just beginning and was recently previewed by Commissioner Peirce's announcement of 10 different work streams for the task force.

What can the SEC actually accomplish? I offer the following suggestions, which I believe are consistent with Commissioner Peirce's 10 priorities.

First, the SEC should articulate a sound legal interpretation for when digital asset transactions are subject to the securities laws. A clean break is needed from the Gensler era's legal imprecision and sweeping assertion that nearly all digital assets are securities. The interpretation should begin with an acknowledgement that the digital asset itself is not a security. A disciplined transaction-by-transaction analysis must be used to determine whether an investment contract is present, because it is required by case law and should be adhered to by the Commission.

Second, the SEC should consider withdrawing Gensler-era litigation alleging unregistered exchange, broker-dealer, and clearing agency activities. As a preliminary matter, it is far from clear that

these transactions meet the elements of the Howey test. Even if the new SEC believes that it has jurisdiction over secondary market transactions, consideration should be given to whether beginning a rulemaking process would be a more productive pathway to the registration of covered entities. In an encouraging sign, I note that just yesterday the SEC and Binance filed a joint motion to stay their litigation for 60 days.

Third, the SEC should consider how to better facilitate token offerings in the United States by amending existing exemptions and dusting off Commissioner Peirce's token-safe harbor proposals.

While the SEC can consider these and many other actions, Congress continues to have a vital role in establishing a workable framework.

With respect to market structure, I urge the subcommittee to consider the following principles for inclusion in any legislation: The need to establish clear lines between the SEC and the CFTC and a process to determine which transactions are subject to the different agencies' jurisdictions; requiring disclosures that are tailored to the needs of digital asset holders; allowing for disintermediated trading and real-time settlement of digital assets; imposing similar types of corporate controls and risk management requirements that exist today for securities and derivatives intermediaries, as well as requiring segregation of customer assets and prohibiting the commingling of funds.

A second regulatory gap that requires congressional action is Federal oversight of dollar-denominated stablecoins. The discussion draft of the STABLE Act provides appropriate protections for consumers and establishes a regulatory framework for the issuance and operation of dollar-denominated payment stablecoins.

In conclusion, the timing is right for Congress and the administration to work together to implement much-needed regulatory reform. Thank you for your leadership on this important topic, and I look forward to your questions.

[The prepared statement of Mr. Garrison follows:]

Testimony of Coy Garrison
Partner, Steptoe LLP
Before the U.S. House Committee on Financial Services
Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence
February 11, 2025

Thank you, Chairman Steil, Ranking Member Lynch, and members of the Subcommittee for inviting me to testify today on the path forward for digital asset regulation.

My name is Coy Garrison. I am a partner in the Washington, DC office of Steptoe LLP. For nearly three years my practice has focused on advising clients how to navigate challenging legal and regulatory issues related to blockchain technology. Prior to private practice, I was an attorney for the U.S. Securities and Exchange Commission (“SEC” or the “Commission”), including serving as counsel to Commissioner Hester M. Peirce from 2019-2022 and in multiple roles with the Division of Corporation Finance from 2013-2019. My testimony today is informed by both my private and public sector experience, but I appear before you on my own behalf and not on behalf of Steptoe LLP or any client of the firm.

The 119th Congress and the Trump Administration have a tremendous opportunity to work together to bring sensible regulation to the digital asset industry. New leadership at the federal financial regulators are already beginning to reverse the failed crypto policies of the last four years. The SEC, in particular, has a heavy burden to undo the harmful policy decisions of former Chair Gensler and begin the hard, but necessary, work of rulemaking and providing actionable guidance. However, regulatory actions, alone, will not be sufficient to stand up a comprehensive regime. Congress needs to fill regulatory gaps and provide clear jurisdictional lines by passing legislation establishing regulatory frameworks for digital asset market structure and dollar-denominated payment stablecoins. I focus my testimony on discussing concrete actions the SEC can take and highlighting the need for Congressional action on market structure and stablecoins.

I. The 119th Congress and the Trump Administration have a tremendous opportunity to work together to bring sensible regulation to the digital asset industry.

It is no secret that the digital asset industry was met with open hostility from federal financial regulators during the prior administration. The SEC and CFTC brought a steady stream of enforcement actions for alleged registration violations under the securities and derivatives laws, but never deigned to engage in rulemaking to provide a pathway for registration. The Fed, FDIC, and OCC adopted supervisory processes that required banks to seek permission before engaging in crypto-related activities—permission that rarely, if ever, was granted. Moreover, mounting evidence suggests that the FDIC may have engaged in activities to encourage the debanking of crypto companies. The unmistakable message to industry from the last administration was that crypto was not welcome in the U.S.

This ill-conceived approach benefited no one. Americans who hold and trade digital assets are left unprotected with no regulatory framework imposing baseline protections. Today there is no federal regulation of spot market trading of digital assets. Industry participants are

forced to operate with no clear rules of the road and under the ever-present and existential risk of an SEC enforcement action. On the global stage, the U.S. ceded leadership in this technology to other jurisdictions as entrepreneurs and capital flew to jurisdictions willing to provide regulatory certainty for the industry, including the European Union, United Arab Emirates, and Hong Kong.

Fortunately, we live in a very different world today. The early actions of President Trump and the 119th Congress signal a fresh approach. Promoting U.S. leadership in digital assets is a priority for the Trump Administration, which has promised to “provid[e] regulatory clarity and certainty . . . and well-defined jurisdictional regulatory boundaries.”¹ Special Advisor for AI and Crypto David Sacks chairs the newly established President’s Working Group on Digital Asset Markets, which has been tasked with “propos[ing] a Federal regulatory framework governing the issuance and operation of digital assets, including stablecoins, in the United States.”²

New leadership at the relevant agencies have wasted no time in pursuing these goals and are busy laying the groundwork for meaningful regulatory reform. SEC Acting Chairman Mark Uyeda announced the formation of a Crypto Task Force “dedicated to developing a comprehensive and clear regulatory framework” on his first day in the new role.³ The Crypto Task Force, which is led by Commissioner Peirce, recently announced its first milestone: the rescission of the Staff Accounting Bulletin 121.⁴ SAB 121’s accounting guidance discouraged regulated financial institutions from safeguarding digital assets and was repealed by the 118th Congress with overwhelming bipartisan support before being vetoed by President Biden. The SEC’s work is just beginning. Commissioner Peirce recently outlined a non-exhaustive list of ten workstreams for the Task Force’s consideration and invited public engagement through a transparent process.⁵

CFTC Acting Chairman Caroline Pham announced the launch of a digital asset markets pilot program for tokenized non-cash collateral and accompanying CEO Forum.⁶ She also announced the launch of roundtables to address issues relating to digital assets,⁷ and a reorganization of the agency’s division of enforcement to end regulation by enforcement.⁸ FDIC Acting Chairman Travis Hill announced that the FDIC is actively reevaluating its supervisory

¹ Executive Order, Strengthening American Leadership in Digital Financial Technology (Jan. 23, 2025), <https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/>.

² *Id.*

³ Press Release, SEC, SEC Crypto 2.0: Acting Chairman Uyeda Announces Formation of New Crypto Task Force (Jan. 21, 2025), <https://www.sec.gov/newsroom/press-releases/2025-30>.

⁴ SEC, Staff Accounting Bulletin No. 122 (Jan. 23, 2025), <https://www.sec.gov/rules-regulations/staff-guidance/staff-accounting-bulletins/staff-accounting-bulletin-122>.

⁵ SEC Commissioner Hester M. Peirce, Statement, *The Journey Begins* (Feb. 4, 2025), <https://www.sec.gov/newsroom/speeches-statements/peirce-journey-begins-020425> (hereinafter “Peirce Statement”).

⁶ Press Release, CFTC, CFTC Announces Crypto CEO Forum to Launch Digital Asset Markets Pilot (Feb. 7, 2025), <https://www.cftc.gov/PressRoom/PressReleases/9049-25>.

⁷ Press Release, CFTC, Acting Chairman Pham to Launch Public Roundtables on Innovation and Market Structure (Jan. 27, 2025), <https://www.cftc.gov/PressRoom/PressReleases/9038-25>.

⁸ Press Release, CFTC, CFTC Division of Enforcement to Refocus on Fraud and Helping Victims, Stop Regulation by Enforcement (Feb. 4, 2025), <https://www.cftc.gov/PressRoom/PressReleases/9044-25>.

approach to crypto-related activities, and looking to provide “a pathway for institutions to engage in crypto- and blockchain-related activities while still adhering to safety and soundness principles.”⁹

The change is a breath of fresh air. These regulators are not promising special treatment of the industry. Rather, they are promising a fair shake: the opportunity to know which rules apply and to have a legitimate pathway to compliance. Industry participants are taking note and eager to come back to the U.S. if there is regulatory clarity. I am optimistic that the moment can be met and that a responsible regulatory framework will be implemented.

II. The SEC’s Crypto Task Force is poised to foster innovation without compromising investor protection.

Commissioner Peirce and the SEC Crypto Task Force are well-positioned to bring discipline and rigor to the agency’s approach to digital assets. I offer the following suggestions that are consistent with and complementary to the ten priorities published by Commissioner Peirce for the SEC Crypto Task Force.

a. The SEC should articulate a sound legal interpretation for when digital asset transactions are subject to the securities laws.

Commissioner Peirce’s first two priorities for the SEC Crypto Task Force are to determine the status of digital assets under the securities laws and scope out areas that fall outside of the Commission’s jurisdiction. She explains that “[t]he status of crypto assets under the securities laws is fundamental to resolving many other questions.”¹⁰ Indeed, providing clarity on the SEC’s position will allow the agency to make principled and consistent determinations, and allow industry participants to understand when their activities fall within the SEC’s jurisdiction and require registration.

A starting point for the interpretation should be an acknowledgment that the digital asset itself is not a security, which is clear from the statute and supported by case law. The term digital asset is not included in the list of instruments Congress defined as a “security” under the federal securities laws. Since 2017, the SEC has argued that digital asset transactions may be sold pursuant to *investment contracts*, which are securities under the relevant statutes. That analysis is guided by case law, anchored by the Supreme Court’s *Howey* test of whether there is a “contract, transaction, or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party.”¹¹

The corollary to the acknowledgement that the digital asset itself is not a security is that even if a digital asset is sold pursuant to an investment contract, subsequent transactions in the same digital asset can only constitute securities transactions if made pursuant to an investment

⁹ FDIC, Press Release, FDIC Releases Documents Related to Supervision of Crypto-Related Activities (Feb. 5, 2025), <https://fdic.gov/news/press-releases/2025/fdic-releases-documents-related-supervision-crypto-related-activities>.

¹⁰ See Peirce Statement *supra* note 5.

¹¹ SEC v. W.J. Howey Co., 328 U.S. 293 (1946).

contract. The *Howey* analysis requires a transaction-by-transaction examination of the facts and circumstances of each sale.

The interpretation would represent a clean break from the Gensler-led SEC's sweeping and baseless assertion that nearly all digital assets are securities. In an attempt to mask the lack of a consistent legal theory as to when a digital asset embodies an investment contract in secondary transactions, the SEC under Gensler coined the term "crypto asset security" in court filings. Multiple district courts reprimanded the agency for its legal imprecision, with one court describing the label "unclear at best and confusing at worst,"¹² and another court explaining how the approach is inconsistent with the statute and *Howey*:

Insisting that an asset that was the subject of an alleged investment contract is itself a "security" as it moves forward in commerce and is bought and sold by private individuals on any number of exchanges, and is used in any number of ways over an indefinite period of time, marks a departure from the *Howey* framework that leaves the Court, the industry, and future buyers and sellers with no clear differentiating principle between tokens in the marketplace that are securities and tokens that aren't. It is not a principle the Court feels comfortable endorsing or applying based on the allegations in the complaint, particularly since the only term among the approximately twenty options included in the statutory definition of "security" that is being relied upon in this case is "investment contract."¹³

The court's reproach highlights the importance of crafting a disciplined interpretation that is both consistent with the law and practical for implementation by industry participants. Once the Commission has settled on its baseline interpretation, it should consider rescinding the SEC staff's 2019 Framework for "Investment Contract" Analysis of Digital Assets. While well-intentioned, the 2019 guidance contained over sixty factors to consider when conducting an analysis under *Howey* and yielded no clear answers. In its place, the Commission should consider issuing targeted interpretations on whether common transactions in the industry involve securities transactions or require registration with the SEC. For example, the SEC could consider drawing clear lines addressing the following non-exhaustive list:

- whether staking services constitutes securities transactions,
- whether software interfaces and their developers may be required to register as exchanges or broker-dealers,
- whether blockchain infrastructure participants (such as validators, nodes, relayers, etc.) may be required to register in any capacity with the SEC,
- whether transactions in NFTs with royalties constitute securities offerings,
- whether airdrops involve an investment of money under the *Howey* test, and
- whether transactions in stablecoins constitute securities offerings.

¹² SEC v. Payward Inc., et al., No. 23 Civ. 06003 (WHO), ECF No. 90 (N.D. Cal. Aug. 23, 2024) at 19.

¹³ SEC v. Binance Holdings Ltd, et al., No. 23 Civ. 1599, ECF No. 248 (D.D.C. June 28, 2024 at 42-43.

An honest application of *Howey* to many transactions will require regulatory humility on behalf of the agency to admit when it simply does not have jurisdiction.

b. The SEC should consider withdrawing litigation alleging unregistered exchange, broker-dealer, and clearing agency activities under the Securities Exchange Act of 1934.

A glaring example of an issue that requires clarification by the new SEC is whether secondary market digital asset transactions are investment contract transactions subject to the SEC's jurisdiction. To highlight just a few relevant enforcement actions, the SEC's litigation against Coinbase, Binance, and Kraken for allegedly operating unregistered exchanges, broker-dealers, and clearing agencies is premised on the theory that such transactions are investment contracts. The issue has thus far divided district courts and was recently elevated by Coinbase to the Second Circuit Court of Appeals through an interlocutory appeal of a district court order that endorsed the SEC's legal theory.¹⁴

The SEC should consider withdrawing charges brought under Gensler's leadership alleging unregistered exchange, broker-dealer, and clearing activities under the Exchange Act for two reasons. First, the *Howey* analysis is circumspect because there is no contract, commitment or meaningful connection between the original digital asset issuer and a buyer on the platform. The nature of blind bid-ask trading of digital assets makes it difficult to understand how the common enterprise or reasonable expectation of profits elements of *Howey* can be met. Second, even if the new SEC believes it has jurisdiction over secondary market digital asset transactions, consideration should be given to whether beginning a rulemaking process would be a more productive pathway leading to the registration of covered entities.

c. The SEC should consider how to better facilitate token offerings in the US and improve disclosures provided to token purchasers.

It is well established that token offerings conducted to raise capital for a project involves the sale of investment contracts and are subject to the securities laws. However, many token issuers avoid selling to U.S. investors because the existing registration and exempt offering framework is a poor fit for the realities of the projects they are building. Commissioner Peirce indicated that the Task Force will seek "to recommend that the Commission modify existing paths to registration, including Regulation A and crowdfunding, so that people interested in registering token offerings will have a viable path for doing so."¹⁵

Bold reforms to the existing disclosure requirements and restrictions on secondary trading under the Regulation A and Regulation Crowdfunding exemptions should be considered by the agency for token offerings sold pursuant to investment contracts. For example, audited financial statement requirements appropriately form the cornerstone of the SEC's disclosure system for public companies. However, for many development teams looking to build a

¹⁴ Petition for Permission to Appeal Pursuant to 28 U.S.C. § 1292(b), *Coinbase, Inc. v. SEC*, No. 25-145 (2d Cir. Jan. 21, 2025).

¹⁵ Peirce Statement *supra* note 5.

decentralized network, the financial information that is relevant to a token holder is likely not the financials of the development team, but rather the wallet address(es) of the project's treasury and transparency into how and why tokens move from that address. A streamlined exemption that leverages the benefits of blockchain for transparency and contains disclosure requirements that are carefully crafted for token holder protection would be an ideal outcome. In addition to examining existing exemptions, the SEC should consider whether a new exemption is appropriate for token offerings, building off of Commissioner Peirce's prior token safe harbor proposals.¹⁶

d. The SEC should consider rulemakings and guidance necessary to permit registrants to engage with digital assets.

Broker-dealers need guidance from the SEC on how they can perform the full set of broker-dealer functions with respect to digital assets. Specifically, broker-dealers would benefit from guidance on how they can demonstrate possession and control of digital assets held for customers in compliance with the Customer Protection Rule and the appropriate regulatory capital treatment for digital assets under the Net Capital Rule. Commissioner Peirce noted that the Task Force will "explore possible updates to the special purpose broker dealer no-action statement," including potentially permitting broker-dealers to hold non-security digital assets. This would be a welcome step given the special purpose broker dealer license has not been meaningfully utilized to date.

Investment advisers need guidance from the SEC on how they can custody clients' digital assets in accordance with the Custody Rule. Commissioner Peirce highlighted this issue as a priority. These efforts should preserve a pathway for state-chartered special purposes trusts to meet the status of a qualified custodian.

e. The SEC should consider withdrawing Gensler-era proposed rulemakings that unduly harm digital asset industry participants.

The SEC should consider withdrawing the proposed rule *Safeguarding Advisory Client Assets*, which would have unduly limited the manner in which private keys may be stored and included statements interpreting the current rule that unnecessarily call into question certain market practices. Additionally, the SEC should consider withdrawing the proposed rule *Amendments Regarding the Definition of "Exchange"* which would subject decentralized finance protocols, and potentially even software developers, to the onerous regulations applicable to national securities exchanges, without any legitimate pathway to compliance. Withdrawing these rules ensure that broad interpretations of existing rules articulated in the releases do not become binding or persuasive authority and prevents future administrations from moving straight to an adopting release on the subjects. Relatedly, the SEC should withdraw its appeal to the Fifth Circuit Court of Appeals of the district court decision in *Crypto Freedom Alliance of Texas & Blockchain Association v. SEC*, holding that the SEC's amended definition of "dealer" to cover decentralized finance protocols exceeded its statutory authority.

¹⁶ See Github, CommissionerPeirce/Safe Harbor 2.0, <https://github.com/CommissionerPeirce/SafeHarbor2.0>.

f. The SEC should consider rulemakings and guidance necessary to permit registrants to engage with tokenized securities.

While there are some tokenized money market funds available today, there is a growing interest in tokenizing stocks and bonds more generally. The potential for efficiency gains, cost savings, and enhanced risk management capabilities have some entities seeking to utilize blockchain technology to modernize traditional financial markets. In the short term, the transfer agent and clearing agency rules are natural starting points to consider whether modernization is needed to permit the use of blockchain technology. Longer-term, the SEC should facilitate conversations across major securities industry participants to the extent they seek to migrate their operations to a blockchain.

III. Congress has a vital role to play in implementing a workable regulatory framework for digital assets.

There are limitations to what the SEC and other federal regulators can achieve absent direction from Congress. One significant regulatory gap is that neither the SEC or CFTC have clear statutory authority to regulate spot market trading of digital assets. The CFTC does not have regulatory oversight authority over spot trading of commodities. While the SEC has clear authority to regulate the primary issuance of a digital asset sold pursuant to an investment contract, as previously discussed, there is significant doubt that the secondary trading of digital assets constitute investment contract transactions within the SEC's jurisdiction.

Accordingly, Congress alone can provide a responsible regulatory framework for digital asset trading. Some high-level principles that this subcommittee should seek in market structure legislation include:

- Establishing clear lines between the SEC and CFTC and a process to determine which transactions are subject to the SEC's jurisdiction and the CFTC's jurisdiction.
- Requiring disclosures that are tailored to the needs of digital asset holders.
- Allowing regulated entities and their customers to benefit from disintermediated trading and real-time settlement of digital assets.
- Imposing the same types of corporate controls and risk management requirements on digital asset intermediaries that exist for securities and derivatives intermediaries.
- Requiring segregation of customer assets and prohibiting the commingling of customer funds.
- Limiting regulation to the issue at hand: spot market trading of digital assets.

A second regulatory gap that requires Congressional action is federal oversight of dollar-denominated stablecoins. The discussion draft of the STABLE Act provides appropriate protections for consumers and establishes a regulatory framework for the issuance and operation

of dollar-denominated payment stablecoins. The bill would preserve the ability for state regulation of stablecoin issuers, while granting federal regulators with enforcement authorities against issuers regulated by a state stablecoin regulator under exigent circumstances. The bill also establishes clear reserve requirements on a 1:1 basis, a prohibition on rehypothecation, and a monthly reporting and certification regime. Additional consumer protections include the requirement that a person providing custodial services must be subject to supervision or regulation by a federal regulator and comply with specific segregation requirements. Finally, the bill would clarify that dollar-denominated payment stablecoins issued under this framework are not securities under the securities laws.

IV. Conclusion

The timing is right for Congress and the Administration to work together to implement a much-needed regulatory framework for digital assets in the US. While the SEC has many opportunities to provide regulatory clarity under its existing jurisdiction, Congressional action is needed to implement oversight of spot market digital asset trading. Thank you for your leadership on this important topic and I look forward to your questions.

Chairman STEIL. Thank you, Mr. Garrison.

Mr. Fernandez da Ponte, you are now recognized for 5 minutes.

**STATEMENT OF JOSE FERNANDEZ da PONTE, SENIOR VICE
PRESIDENT AND GENERAL MANAGER OF BLOCKCHAIN,
CRYPTO AND DIGITAL CURRENCIES, PAYPAL**

Mr. FERNANDEZ DA PONTE. Thank you.

Chairman Steil, Ranking Member Lynch, committee Ranking Member Waters, and members of the subcommittee, thank you for the opportunity to testify today.

My name is Jose Fernandez da Ponte, and I serve as Senior Vice President and General Manager of PayPal's blockchain, crypto, and digital currency business. I appreciate the invitation to address the subcommittee regarding PayPal's vision for the future of digital payments.

Today, I would like to focus my remarks on how responsible innovation can enhance payments infrastructure and make the digital economy more efficient for all participants.

Twenty-five years ago, PayPal embarked on a journey to digitize payments and take them from offline to online. Now, we continue the journey by moving payments online to onchain.

Our customers can today buy, sell, and hold four types of commonly used cryptocurrencies: bitcoin, bitcoin cash, Litecoin and Ether. Our customers can also choose to check out with crypto and use crypto as a payment method with millions of merchants today.

In 2023, we launched PayPal USD, or PYUSD, a fully backed, regulated stablecoin issued in the United States by Paxos and developed for commerce and payments. Our objective to engage in the digital asset space and bring PYUSD to market is twofold: leverage the latest innovations to provide a faster, cheaper, stable payment instrument and ensure that it has utility for mainstream commerce and payments.

With PYUSD, consumers are able to conduct faster and cheaper transactions, send money to loved ones, buy goods and services online, and settle those transactions quickly. Businesses of all sizes can use the stablecoins to enable cross-border payments, open new markets, and manage their own treasury more effectively.

I would like to share two specific examples of how our customers are using PYUSD today. The first one is on domestic business-to-business payments. Large enterprises and SMBs, small and mid-size businesses, rely on PayPal to securely offer fast and low-cost transfers for business-to-business payments. Today, PYUSD is available to them through more than 25 partners. It has been used, among others, by our own venture affiliate, PayPal Ventures, to fund portfolio companies during weekends and outside of banking hours. It has started to be integrated into popular enterprise resource planning systems, and we use it ourselves to conduct payments to some of our vendors today.

Second, let me talk about international transfers to businesses and consumers. Stablecoins like PYUSD can enable efficiencies for cross-border payments. International payments incur significant costs as they move through the corresponding banking network. To address that, we have enabled U.S. customers of our Xoom product to fund millions of dollars of remittances with PYUSD at a lower

cost. When a Xoom user chooses PYUSD as a funding instrument, there are no Xoom transfer fees that are incurred.

In addition, on the wholesale side, we have enabled several of our disbursement partners to settle directly with us using PYUSD on the back end of transactions, reducing costs and increasing the speed of those settlements.

At every stage of our cryptocurrency journey, beginning with our Buy/Hold/Sell Product, the launch of crypto transfers and the go-to-market of a stablecoin, we have been deliberate and methodical in our approach, building trust with customers, regulators, and law enforcement at each step.

In terms of policy, we believe that predictable market policy is necessary for the crypto industry to grow and thrive in the United States. We recommend several policies that can help make the United States a leader in this technology.

First, we urge Congress to pass legislation providing stablecoin markets and trading frameworks for the industry.

Second, a State pathway is critical for the continued growth of the industry. State licensing is the approach that most crypto companies have taken, and it leverages the expertise developed over the years by the State of New York Department of Financial Services and others.

Third, Federal and State charters can work simultaneously under a core set of standards. In both State and Federal regimes, the requirements for reserve asset management, governance, disclosures and prudential risk management should be fit for the purpose of payments.

Finally, any legislation must recognize that the business of payment and stablecoin issuance is the business of payments and is not the business of banking and that payment stablecoins are not securities.

In conclusion, the current environment offers an important moment for the United States to benefit from a thoughtful and proportionate legislative approach. We look forward to working with you to complete this important task. Thank you.

[The prepared statement of Mr. Fernandez da Ponte follows:]



Testimony Prepared for the US House Financial Services

Subcommittee on Digital Assets and Artificial Intelligence:

"A Golden Age of Digital Assets: Charting a Path Forward"

Tuesday, February 11, 2025

Jose Fernandez da Ponte
Senior Vice President, PayPal, Inc.

Chairman Steil, Ranking Member Lynch, and members of the Subcommittee, thank you for the opportunity to testify today. My name is Jose Fernandez da Ponte and I serve as Senior Vice President and General Manager of PayPal's Blockchain, Crypto, and Digital Currency (BCDC) Business. I appreciate the invitation to address the Subcommittee regarding PayPal's vision for cryptocurrency in the future of digital payments.

Today, I would like to focus my remarks on how responsible innovation in cryptocurrencies can enhance payments infrastructure and make the digital economy more efficient for all participants. I will structure my remarks around the following topics:

- PayPal's vision for payments involving digital assets
- How PayPal is developing the building blocks for the future of payments
- Building on our experience
- The road ahead: policies to enable US digital asset leadership into the future

1. PayPal's Vision for Payments Involving Digital Assets

At PayPal, we are focused on digital assets to facilitate payments for the digital economy. We started as a payments company 25 years ago to develop digital payments that are faster, cheaper, and more customer friendly. Today, PayPal's services include a portfolio of payments products and respected brands like Venmo, Braintree, and Xoom, that make it fast, easy, and safe for people to pay and get paid. PayPal offers a broad range of payments options to enable businesses to drive faster checkouts, increase conversion rates, and grow their customer bases.

Through all of this, we have always focused on responsible innovation. Our commitment to a strong compliance culture and developing new tools to both empower and protect users are fundamental to our work in building and sustaining trust in digital payments for our customers. We work with regulators and law enforcement to comply with the law in every country where we do business. We deploy advanced technology and machine learning to analyze transactions to help prevent money laundering, terrorist financing, and financial fraud. These activities have allowed us to do our part in thwarting criminal activity around the world, while maintaining some of the lowest loss rates in the payments industry.

2. How PayPal is Developing the Building Blocks for the Future of Payments

Innovation is at the core of how we serve businesses and consumers. Twenty-five years ago, we embarked on a journey to digitize payments. Now, we are looking to take online payments onchain. We believe blockchain protocols will bring extraordinary efficiencies to the financial marketplace. We started this journey four years ago by enabling our customers to buy, sell, and hold four types of commonly used cryptocurrencies – bitcoin, bitcoin cash, litecoin, and ether. Our customers can also choose to check out with crypto thereby using crypto as a payment method with millions of merchants.

In 2023, PayPal launched PayPal USD (PYUSD), a fully backed and regulated stablecoin issued by Paxos, designed for commerce and payments. PYUSD reinforces our company's mission to revolutionize commerce globally by enabling efficient and cost-effective payments to transition from online to onchain.

Our objective in engaging in the digital asset space and, ultimately, in bringing PYUSD to market was twofold: leverage the latest innovation to provide a faster, cheaper, and stable payment medium; and ensure it has utility for users in commerce and payments. Through responsible innovation, consumers can conduct faster and cheaper transactions, send money to loved ones, buy goods and services online, and settle those transactions quickly. Small and medium-sized businesses (SMBs) as well as large enterprises can use stablecoins to enable cross-border payments, open new markets, and manage their own treasury more effectively.

Benefits to SMBs and Large Businesses

Businesses rely on PayPal to securely offer fast and low-cost transfers. Creating a stablecoin with a 1:1 USD-denominated backing gives our users the confidence they need to send and receive payments with the speed they require to conduct global business. PYUSD is available through more than 25 partners, has been used by our venture affiliate, PayPal Ventures, to fund a portfolio company, and has started to be used by companies to conduct payments to their vendors.

PYUSD can be a tool for small businesses to better compete in a global market. Making fast and low cost B2B payments can eliminate the delays and inefficiencies involved in making payments using traditional settlement rails. By using stablecoins, businesses can reduce financial costs,

foreign exchange risk, and counterparty risk. Stablecoins provide one more step in PayPal's journey to make it easier for all parties in digital commerce, especially small businesses, to find new customers, to provide goods and services, and to get paid quickly.

The difficulties in commerce multiply when firms have to send payments internationally, where days-long delays and the high cost of wire transfers result in expenses we can increasingly help to minimize. Ensuring that companies can allocate capital rapidly across subsidiaries, send prompt, just-in-time payment to suppliers in response to invoicing, and dispatch or receive corporate funds, speak to dynamics that can help squeeze efficiencies from the time value of the dollar.

Within volatile macroeconomic environments, delays of a single business day or longer can cost businesses money in lost interest income as well as the potential need to find bridge financing or having to retain ample reserves of working capital. Stability in purchasing power is particularly meaningful in these environments.

Particularly for large, complex organizations, such liquidity management can result in operationally intensive processes, where navigating around frictions in the payment system requires logistical expertise. Using stablecoins and their settlement rails offers an economical solution. Additionally, large corporate groups can manage their treasuries in a more timely way. Where both parties have wallets on a shared stablecoin network, payments can be settled within minutes. The party being paid can redeem the stablecoins for US dollars at a time of its choosing.

Stablecoins seek to achieve a basic aim: to make it easier, faster, and cheaper for businesses to manage their financing, pay or borrow only exactly when needed, and lower their overall operating costs. And as a result, firms take on lower levels of risk.

International US Dollar Payments

Increased costs are known challenges in international payments that the G20 and many other organizations are attempting to address.¹ Financial institutions navigate these costs by leveraging global networks of intermediaries, contend with business hours in different time zones, harness international messaging services and, sometimes, adapt their own data and communication conventions to fit with those in different countries.

We think digital currencies are an important part of the solution. Stablecoins can enable efficiencies for cross-border payment systems. By using stablecoins, transmission of value from one wallet to another can occur through blockchains seamlessly with lower cost and time lost.

¹ Financial Stability Board, *G20 Roadmap for Enhancing Cross-border Payments: Consolidated progress report for 2024*, 21 October 2024, <https://www.fsb.org/2024/10/g20-roadmap-for-enhancing-cross-border-payments-consolidated-progress-report-for-2024/>.

In addition, sending funds to friends or family overseas can incur significant costs moving through correspondent banking channels. Stablecoins can be used to streamline the secure transmission of funds from one person to another, reducing cost and the time it takes to receive the funds on the other side. For example, we have enabled US customers of our Xoom product (which is a digital remittance flow) to fund remittances with PYUSD. If Xoom users choose PYUSD as a funding source, no Xoom transfer fees are incurred. In addition, we have enabled several of our disbursement partners to settle directly with us using PYUSD on the back end of transactions.

3. Building on Our Experience

Our focus when entering the cryptocurrency market was to develop useful tools to enable our customers to buy and sell goods in commerce. This is an area that was underdeveloped, and we felt a responsibility to explore it.

We started with services for four crypto tokens, leading to transfers of crypto to and from our platform. We subsequently launched our stablecoin in the United States with Paxos, a regulated state-chartered trust in New York. We view PYUSD as having immense opportunity to transform the payments landscape, and we are taking a measured approach to building this in a responsible way in a regulated environment.

At every stage of our cryptocurrency journey, beginning with our Buy/Hold/Sell Product, continuing through enabling crypto transfers and into launching a stablecoin, PayPal has been deliberate and methodical in its approach. For every product, we:

- 1) Understood and appreciated the risks associated with the new products we intended to launch;
- 2) Took appropriate steps to mitigate those risks through the implementation of existing as well as new and enhanced financial crime controls;
- 3) Worked with regulators to provide details of the new products, and receive and incorporate feedback; and
- 4) Engaged with law enforcement agencies, leveraging relationships developed through years of public-private partnership, to advise of new product capabilities and cooperate on information sharing.

PayPal built its robust cryptocurrency financial crime controls on its existing controls and experience, which continue to make our products an unattractive means of financing terrorism. As a financial services company subject to the Bank Secrecy Act and US sanctions laws, PayPal has a demonstrable track record of 1) investment in and prioritization of its financial crime compliance program; 2) active collaboration and partnership with regulatory agencies; 3) proactive, appropriate engagement with law enforcement that has earned praise from agencies both within the US and worldwide for its efforts in combating terrorism and human exploitation.

We also provide customer protections for our PYUSD token holders, including: a) safe reserves that maintain a stable 1:1 backing, segregated from our own assets with attestations from an independent PCAOB-governed firm, b) fast redeemability, c) clear disclosures and education for our customers, and d) monitoring for market activity off platform. PayPal's website offers extensive resources to educate users about the safe and proper use of the platform, as well as how to avoid scams. The app also allows users to easily contact us with any questions or concerns.

4. The Road Ahead: Policies to Enable US Digital Asset Leadership into the Future

Regular and predictable market policy is necessary for the crypto industry to grow and thrive in the United States. New York State has led the way on supervision, with its Department of Financial Services providing a regulatory framework on digital asset oversight, including stablecoins. At the federal level, we have seen important discussion and progress for some time. We urge Congress to work together on a bipartisan basis to pass legislation providing frameworks for the industry, both for stablecoin issuers as well as for markets and trading. We have an opportunity for the United States to lead in this space and Congress providing the clarity and guardrails to grow responsible business is a necessary step in that process.

Enable Crypto Use for Payments and Commerce

Other countries have begun to address these questions and to implement far-reaching changes within their domestic payment systems. In some cases, these policies have expanded into broad regimes governing the crypto space.² The United States has an important opportunity now, to create forward leaning frameworks that support responsible development of stablecoins built for payments and other common sense regimes for crypto.

It is important to enable non-banks to participate in crypto payment systems. In the United States, state-based regulation has anchored payments regulation for non-bank financial institutions. States set rules governing how much capital a money transmitter needs to keep, the amount of a surety bond or insurance, as well as restrictions on the kinds of investments through which the money transmitter can maintain customer money (e.g., in US Treasuries, etc.). State-based regulation has given rise to dedicated and experienced local regimes for rulemaking, monitoring, and enforcement.

US States have long been innovation laboratories for payments. An existing example of such an approach is that established by the New York State Department of Financial Services, where a dedicated state-based oversight regime for digital asset and stablecoin issuance offers a specific framework with specific obligations related to issuer safety and soundness, governance, and

² For more information on payments systems, payments regulatory regimes, and cryptocurrencies, see Yadav, Yesha, Fernandez da Ponte, Jose, and Kim, Amy Davine, *Payments and the Evolution of Stablecoins and CBDCs in the Global Economy*, April 21, 2023, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4425922.

conduct of business. This approach comes with a number of advantages. Namely, it reduces any administrative and corporate disruption arising from rapid shifts in the regulatory and administrative oversight environment. This can ensure that existing expertise housed within state regulatory agencies can be leveraged and harnessed.

Stablecoin Issuer Legislation

Congress has discussed stablecoin legislation for some time, and we support efforts to pass thoughtful, appropriate, and forward-looking rules that keep the United States at the forefront of responsible innovation. As a result, we urge lawmakers to adopt a stablecoin issuer framework that continues to enable a state-based option. This framework must have uniform standards for certain reserve requirements, for example, but a state pathway is critical to the continued growth of the industry. It is the approach most crypto companies have taken, thus leveraging the expertise developed by the State of New York, for example, and maintaining continuity of business operations.

A federal regime may also be suitable as an alternative for non-bank financial institutions. Such a charter should be tailored to the purpose of payments and not expanded into a broad range of banking activities – the regime should be fit for the purpose of payments as we have seen in other countries. In addition, a charter holder under a federal regime should be pre-empted from state-based supervision to avoid duplicative oversight.

In both regimes, the requirements for reserve asset management, governance, disclosures, and prudential risk management should be the same. A federal set of standards is important for certainty, consistency, and growth. Conversely, its absence impedes clarity and growth. But state and federal charters can work simultaneously under a core set of standards. These standards for bank and non-bank issuers must provide:

- The quantity of assets that the issuers are required to reserve (*i.e.*, 1:1),
- The quality of assets that issuers are required to reserve (*i.e.*, high quality liquid assets such as cash, US Treasuries, and overnight reverse repurchase agreements),
- Ensuring that reserve assets are held for the benefit of customers,
- Assets are reviewed regularly by an independent third party to attest that the assets are of the quantity and quality required by law,
- Disclosures are made to consumers on a regular basis with such attestation and reserve asset information,
- Redemption rights are clearly disclosed and redemptions are made as quickly as practicable, and
- Those issuers that provide stablecoins to US consumers or market to US consumers must obtain authorization in the United States.

Finally, we note that payment stablecoin issuance is not the business of banking or money creation. Stablecoins maintain reserve assets supporting their value – they do not add to the

money supply. Instead, payment stablecoins facilitate payments for consumers and businesses. Payment stablecoin issuers are not engaged in the business of banking by merely making payment more efficient. Traditional banks have obligations and requirements associated with the risks unique to the business of banking, which are designed to protect against the risk that bank reserves are not maintained 100% (or 1:1) against deposits. Banks maintain capital to cover a fraction of the deposits they have received, with the remainder being lent out as part of the fractional reserve credit system.

Digital Asset Trading Legislation

As a leading provider of retail payment services, PayPal believes that virtual currencies offer exciting opportunities to improve the efficiency and integrity of the global payment system. Payments operate differently than trading platforms, however, and raise fundamentally different policy and practical issues than trading platforms. Functions like order matching and price discovery are not present in a digital commerce platform like ours. As a result, it will be important that any market trading legislation that is designed to apply to capital markets, rather than payments systems, maintain principles that exclude from coverage the purchase, sale, and transfer of stablecoins and any other use of virtual currencies as a payments vehicle.

Finally, legislation should recognize the critical contribution that state chartered entities have made to developing the digital asset ecosystem. In particular, state chartered-trust companies should be able to provide custody services as Qualified Custodians when meeting certain standards, thus harnessing the experience of state regulators with years of experience in overseeing digital asset services.

Clarification of Other Laws to Enable Payments and E-Commerce

Given the importance of cryptocurrencies to payments and e-commerce, we urge lawmakers to consider these additional points to clarify existing law so that responsible innovation in the digital marketplace can occur:

- Specify that payment stablecoins are not securities as they do not generate the expectation of profit.
- Exclude payment stablecoins from those digital assets subject to information reporting requirements, as they do not generate capital gain or loss income. Instead, the current approach creates a significant operational burden and more paperwork for the government without associated revenue.
- Provide specific guidance from the SEC with respect to the classification of other tokens as the current environment has a detrimental impact on the market as a whole.

These concepts are necessary to support the United States as a leader in blockchain technology and financial services.

* * *

We are excited by the opportunity to continue responsible innovation in this space that will identify new use cases for businesses and consumers. The current environment offers an important moment for the United States to benefit from a thoughtful and proportionate legislative framework. We look forward to working with the Subcommittee to complete this important work. Thank you for the opportunity to provide our views on these topics.

Chairman STEIL. Thank you.

Mr. Massad, you are now recognized for 5 minutes.

**STATEMENT OF TIMOTHY MASSAD, RESEARCH FELLOW AND
DIRECTOR OF DIGITAL ASSETS POLICY PROJECT, KENNEDY
SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY**

Mr. MASSAD. Chairman Steil, Ranking Member Lynch, committee Ranking Member Waters, members of the subcommittee—

Chairman STEIL. Mr. Massad, if you could just double-check that your mic is on. We can hear you, but the live feed may not pick you up.

Mr. MASSAD. Is it Okay now? Okay.

I am honored to testify before you today. The views I express are my own and do not represent the views of the Harvard Kennedy School.

It was in 2014 under my leadership that the CFTC declared bitcoin a commodity. Since that time, for over 10 years, I have been calling for strengthening regulation.

We hear a lot of calls for clarity, and everybody can be for that, but you can have bad rules that have clarity. We need a regulatory framework that truly encourages responsible development of this technology and not just more of the speculative activity and the abuses that we have seen far too much of to date.

I am going to focus on stablecoins. It is the most useful application of technology to date, and I applaud the committee for prioritizing that.

The STABLE Act has many features I support, such as full reserves for tokens, limitations on the activities of an issuer, but there are many areas where it is deficient. It is substantially weaker than what was negotiated between the former committee chair and the ranking member last fall, which the ranking member introduced yesterday.

I want to highlight five issues. These are discussed as well as others in more detail in my testimony.

First, the legislation provides for Federal and State chartering, but there is far too much risk of weak State standards, an inadequate review process, and there is no ongoing Federal supervision of State issuers. That is a prescription for a mess. We want people to have confidence that any stablecoin is truly stable and worth a dollar, regardless of what State it comes from. We do not want to provide insurance for that as we do with bank deposits, so we have to do it through sufficient national standards and supervision.

Second, the legislation does not address the bankruptcy of a stablecoin issuer. If an issuer fails, the standard corporate bankruptcy process would likely apply. That means you have the automatic stay, holders will not get their money quickly, the process could take years, and there could be contagion and significant collateral damage. The legislation needs to create a dedicated resolution process that minimizes those risks.

Third, I do not think it does enough to address the risks of financial crime and evasion of sanctions. It says issuers are subject to the Bank Secrecy Act. That is a good thing, but the Bank Secrecy Act (BSA) relies on centralized intermediaries. Stablecoins can be transferred and traded without going through a centralized inter-

mediary, and they can be transferred through an intermediary that does not even comply with the BSA. We need to extend the regulatory perimeter and be more creative in tackling these risks.

Fourth, the Act is a bit like putting the lock on the barn door after the horses have left. When you think about the market today, because it is not clear to me, it would even have much of an impact on Tether. The legislation says it is unlawful to issue a stablecoin that is not chartered, but there is no enforcement mechanism for that and no penalties. It needs to have those and an explicit territoriality provision.

Finally, there are simply many ways the Act does not give regulators enough authority and discretion, given that this could become a very significant market and it will evolve in ways we cannot predict.

I want to turn from stablecoins and briefly discuss decentralization and market structure. I am pleased to see the subcommittee propose that the SEC and the CFTC work together on these issues. I have recommended joint approaches for years now.

The challenge with the term “decentralization” and “DeFi” is that they are used to describe a lot of things that are not that decentralized or that still have elements of human control and discretion. We need to make sure key regulatory objectives, like consumer protection, are achieved even if in a different manner. Decentralization is also not a good criteria for distinguishing securities from commodities.

For these and other reasons, I am strongly opposed to the Financial Innovation Technology for the 21st Century (FIT21) Act. It is complex. It will generate more confusion than clarity and could undermine our capital markets, and it is snowing outside. There is often a lot of snow in this room about this issue, because the notion of security versus commodity and people say well, a digital token can never be a security if it is not part of an investment contract. If I have a digital token that represents a share of GM stock, that is a security regardless of how it is sold or transferred.

There are better ways to address market regulation. I discuss those in my testimony. Thank you, and I am happy to take your questions.

[The prepared statement of Mr. Massad follows:]

Testimony of Timothy G. Massad

**Subcommittee on Digital Assets, Financial Technology and Artificial Intelligence
of the Committee on Financial Services
U.S. House of Representatives**

“The Golden Age of Digital Assets: Charting a Path Forward”

February 11, 2025

Committee Chairman Hill, Committee Ranking Member Waters, Subcommittee Chairman Steil, Subcommittee Ranking Member Lynch, members of the Subcommittee and staff, I am honored to be testifying before you today.

I am currently a Research Fellow, and Director of the Digital Assets Policy Project, at the Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School. I am also an independent consultant. I was the chairman of the Commodity Futures Trading Commission from 2014 to 2017. I served at the U.S. Treasury Department from 2009 to 2014, primarily as the Assistant Secretary for Financial Stability, where I oversaw the Troubled Asset Relief Program. Prior to my government service, I was a partner at the law firm of Cravath, Swaine & Moore LLP. The views I express are my own and do not represent the views of the Harvard Kennedy School.

Since 2014, when under my leadership the CFTC declared bitcoin to be a commodity, I have spoken and written about the need to improve regulation of digital assets. This has included appearances before the House Financial Services Committee and other committees of Congress. For several years now, I have spoken and written about how the United States needs to create a regulatory framework for stablecoins.

I believe digital assets and tokenization technology could be very valuable in numerous ways. They could potentially be used for a variety of financial transactions and processes, in ways that might generate greater efficiency, growth, choice, opportunity and financial inclusion. But although it has been sixteen years since bitcoin was launched, we have not yet seen that much use that has generated real world value.

The stated purpose of the President’s Executive Order on “Strengthening American Leadership in Digital Financial Technology” is to “support the responsible growth and

use of digital assets, blockchain technology, and related technologies.”¹ The question is how to fulfill those words. Will we create legal frameworks that encourage responsible development of digital technology in ways that create social utility, or frameworks that mostly encourage more speculative activity and more of the types of abuses we have seen far too much of to date?

The crypto industry has been characterized by a primary focus on speculative activity as well as tokens and applications that have little social utility. There have been rampant abuses, fraud, manipulation, failures to protect consumers, and the use of this technology for financial crime and evasion of sanctions. It is also true that the absence of a clear regulatory framework has caused some institutions to refrain from making investments that might lead to applications of greater utility. I believe that both the problems we have seen to date, and the failure to develop more useful applications, is in large part due to the absence of a strong regulatory framework—one that provides adequate consumer and investor protection and minimizes those risks. Yes, we need clarity of rules. But we need the right rules.

I will discuss how we accomplish that.

* * *

Stablecoins and the STABLE Act²

Stablecoins are the most useful application of blockchain and digital asset technology to date. While their primary use has been for trading crypto, they could be very important as a general means of payment. Whether that happens will be for the market to determine, not the government. But it will only happen if we create a regulatory framework that puts the “stable” into stablecoins.

Two and a half years ago, Professor Howell Jackson of Harvard Law School, Professor Dan Awrey of Cornell Law School and I wrote a detailed paper on how this could be done by our bank regulators under existing law.³ We did so because the stablecoin market was already large and growing, and there were significant risks that needed to be addressed. A framework would also enable the private sector to realize their potential. But there was little sign then that Congress would take action.

¹ United States, Executive Office of the President [Donald J. Trump]. Executive Order 14178: Strengthening American Leadership in Digital Financial Technology. 23 January 2025. *Federal Register*, vol. 90, no. 20, pp. 8647-8650 (“Executive Order 14178”).

² United States, Congress, House, Committee on Financial Services. *STABLE Act of 2025* [Discussion Draft]. House Financial Services Committee Press Release, 5 February 2025 (“STABLE Act”).

³ Jackson, Howell E., Massad, Timothy G., and Awrey, Dan. “How We Can Regulate Stablecoins Now—Without Congressional Action.” *Hutchins Center Working Paper*, no. 76, August 2022 (“Howell et al. (2022)”).

I am therefore pleased to see the growing support within Congress for such a measure, and for the Subcommittee’s apparent intention to make stablecoin legislation the priority relative to other digital asset issues.

The legislation detailed for this hearing has many features I support. To name just a few critical ones, these include requiring full reserves for tokens and investing those reserves in a conservative manner, as well as limitations on the activities of an issuer. But there are many, many areas where it is deficient, and where it could lead to dangerous risks. Moreover, the legislation is substantially weaker in many respects than what I understand was negotiated between Republican and Democratic members’ staffs last fall.

I will highlight some of the principal deficiencies:

Insufficient Standards and Supervision for State-Chartered Issuers. While the legislation provides for both federal and state-chartering of stablecoin issuers, as we have for banks, it is unlike our banking regime in terms of making sure the overall regulatory framework is sufficient. The provisions that pertain to state-chartered nonbank issuers create many gaps, weaknesses, and risks. These arise in multiple ways, the first being the chartering process itself, where there is no coordination between federal and state authorities, and no ability for federal review of or input into state standards.

Even with respect to basic standards of capital, liquidity, and risk management required of federally-chartered issuers—which are not strong enough, as noted below—the legislation allows state authorities to set their own standards, thus creating the possibility of much weaker standards for these state-chartered issuers.

There is also no ongoing federal supervision of state-chartered entities. It is only in “exigent” circumstances, and in that case only “after no less than 5 days prior written notice,” that a federal regulator has any power to take action. The inadequacy of such a provision in the digital world is all too obvious.

Since there is no size limitation on a state-chartered entity,⁴ there could easily be one of systemic importance that federal authorities are powerless to do anything about until it is far too late. Under our financial system, state authorities do not have the tools to address such a situation. If stablecoins can indeed become globally important

⁴ I note that there is a size limit in the GENIUS Act introduced in the Senate, but at \$10 billion in assets, it is far too high unless there are stronger standards for chartering and ongoing federal oversight. See United States, Congress, Senate, Committee on Banking, Housing, and Urban Affairs, *GENIUS Act of 2025*, Senate Committee on Banking, Housing and Urban Affairs Press Release, 4 February 2025 (“GENIUS Act”).

as a means of payment and as a way to promote the dollar, surely the foundation should not be a potentially confusing array of fifty state laws of varying standards and no federal oversight.

We cannot expect consumers to engage in due diligence to know which stablecoins are the “safest,” nor do we want them to, if we want to see this sector grow. We must create a framework that gives people confidence that any stablecoin is in fact worth \$1, not one in which that might depend on the particular state standards. Nor will state authorities have the ability to deal with the possible contagion or collateral effects of a failure of a large stablecoin issuer. (A failure of one large stablecoin issuer could, for example, lead to failures of other stablecoin issuers especially if business models and permitted investments are similar, as well as to failures of other types of financial institutions that interact with the issuer.⁵) While a state chartering path can be made to work, it should not separate supervisory authority from the federal authorities that have responsibility for the monetary system and financial stability.

It is my understanding that there was bipartisan agreement last fall on a better approach that provided for, among other things, registration by state-chartered issuers with the Federal Reserve Board in a process that would be open to public comment. The agreement also provided for ongoing supervision by the Board.

Insufficient Authority to Regulate. This is a new and rapidly developing sector, and it will develop in ways we cannot predict. Therefore, the legislation needs to give regulators sufficient authority and discretion to develop appropriate rules and standards and to be able to respond to new circumstances and risks as they emerge. Unfortunately, the STABLE Act fails in that regard. This can be seen in numerous places. For example, the STABLE Act severely limits the ability of federal regulators to review an application. That review is limited to an applicant’s ability to comply with particular provisions of the act and not even the entire act. The STABLE Act also gives applicants far more ability to contest a regulator’s rejection of an application despite the more limited scope of review.

Similarly, it limits the ability of regulators to develop rules to the areas of reserves, capital, liquidity, risk management, and safety and soundness. Those are indeed important, but regulators should have the ability to develop rules that pertain to the Act as a whole, including important areas such as compliance with the Bank Secrecy Act and the Gramm-Leach-Bliley Act.

⁵ See also the discussion below under “Failure to Address Bankruptcy.”

Even in the specific areas where federal regulators can write rules as noted above, their authority is constrained in an unusual way. For example, it is vital to have capital and liquidity requirements in addition to requiring full reserves for tokens. Capital is necessary particularly in the event of losses unrelated to investment of the reserves—such as an operational or systems failure or a cyberattack. Liquidity rules are important to ensure adequate ability to meet redemptions—particularly since investments in repurchase agreements are allowed which may not be sufficiently liquid. But rather than simply directing regulators to develop appropriate capital and liquidity requirements (as I understand was agreed to last fall), the STABLE Act says those requirements (in the case of capital) “may not exceed what is sufficient to ensure the ... issuer’s ongoing operations” and (in the case of liquidity) “may not exceed what is sufficient to ensure ... financial integrity.”⁶ While these revisions might not sound unreasonable, in practice they will likely lead to litigation by applicants and issuers who do not like a regulator’s decision, and to protracted disputes.

Moreover, with respect to these requirements and any other risk management requirements, the STABLE Act *requires* Federal regulators to “tailor or differentiate among permitted payment stablecoin issuers on an individual basis or by category.”⁷ While regulators should have the discretion to do so, they should not be required to do so. This too will provoke litigation and protracted disputes and unnecessarily limit the authority of regulators. This is hardly a recipe for clarity and certainty of regulation.

As I noted earlier, this is a new and rapidly developing technology, and it has implications globally. None of us can predict what risks or circumstances will arise. The new stablecoin framework that we design will also operate in the shadow of the Supreme Court’s decision in the *Loper Bright* case.⁸ Therefore, instead of explicitly constraining authority, and providing language that enhances the ability of rejected applicants or disgruntled issuers to challenge regulators, the legislation should explicitly provide sufficient authority and discretion for regulators to respond to whatever risks and circumstances arise. To be clear, the *Loper Bright* decision *invites* Congress to delegate authority; it does not prohibit it. If ever there were a case where that is needed, where we do not want courts making judgements about complex, technical issues—such as whether there has been sufficient “tailoring” of rules or whether capital and liquidity requirements are “in excess” —it is here.

Failure to Address Bankruptcy. The legislation does not address the bankruptcy of a stablecoin issuer. This means that the standard corporate bankruptcy process would

⁶ STABLE Act, Section 4(a)(4)(A).

⁷ STABLE Act, Section 4(a)(4)(B).

⁸ United States, Supreme Court. *Loper Bright Enterprises v. Raimondo*. *United States Reports*, vol. 603, 28 June 2024.

likely apply. A petition for a Chapter 11 reorganization would trigger the application of the automatic stay and begin a process that could take years. That is simply too slow for a stablecoin issuer, just as it is for a bank. The automatic stay means holders cannot redeem their tokens until the conclusion of the process. The conventional process creates far greater risk of collateral damage, where the issuer's bankruptcy can lead to other firms defaulting. It would also mean token holders would have an unsecured claim that is *pari passu* with all other unsecured debt claims. They must go to court to recover, but would share the reserves that are supposed to back tokens one-for-one with all other unsecured creditors, thus creating doubt that they would get paid back in full.

The legislation should create a dedicated resolution process. That process should ensure that holders get their money back as soon as possible. That process should be fast so that we minimize collateral damage. It should involve the appointment of a dedicated receiver, and it should be designed to work for federal and state-chartered issuers. States do not write their own bankruptcy laws, so while a state-chartered issuer might be able to create a trust structure that reduces some of the risks related to a standard corporate bankruptcy process, we would be better off to create a process that will minimize risks and damage for both federal and state-chartered issuers.⁹

It is my understanding that the fall bipartisan agreement included having a dedicated resolution process that involved the appointment of a receiver such as the FDIC or the NCUA.

As noted above with respect to the use of trusts, there are other measures that might help minimize the consequences of a bankruptcy, such as structural subordination of assets. Similarly, holders claims can be "prioritized," as in the GENIUS Act.¹⁰ But these measures are not as good. For example, a holder with a "prioritized" claim would still need to bring an action to recover money and would still be subject to the automatic stay.

In addition, even stating that holders claims are "prioritized" may be illusory. Under the STABLE Act (and the GENIUS Act), issuers are entitled to pledge assets as collateral to secure a repo transaction for the purpose of creating liquidity. Participants to repo transactions have super-priority in bankruptcy. As my colleague Professor Dan Awrey has explained, they may be able to seize reserve assets without even having to create a post-bankruptcy claim.

⁹ For a general discussion of risks of bankruptcy, see Howell et al. (2022), p. 5; Awrey, Dan. "Money in the Shadow of Bankruptcy." *Beyond Banks: Technology, Regulation, and the Future of Money*. Princeton University Press, 2025.

¹⁰ GENIUS Act, Section 9.

The risk created by this ability to pledge is substantial. One can imagine a Bear Stearns-like scenario where a stablecoin issuer is facing liquidity pressures. It could enter into a repo contract covering a large part—or even all—of its reserves to generate liquidity. But news of the contract could put further pressure on its liquidity as customers anticipate that there will be fewer reserve assets available for distribution post-bankruptcy. Thus, subjecting stablecoin issuers to bankruptcy while letting them pledge assets for liquidity purposes exposes holders to greater risk.¹¹

Moreover, users of other stablecoins might fear that other issuers will do (or might have already done) the same thing, in light of market conditions, similarity of business models, and equivalent restrictions on assets and activities. This could create conditions for the type of contagion we saw after the failure of the Reserve Primary Fund in September 2008 (the money market fund which had less than 1.5% of its assets in Lehman commercial paper at the time that Lehman filed for bankruptcy). Litigation related to its failure continued until September 2013.¹²

If we really want to promote stablecoins as a viable general means of payment, then creating an appropriate bankruptcy process supports that goal. It can give users of stablecoins more confidence about using them.

Failure to Adequately Address the Risks of Financial Crime and Evasion of Sanctions.

Although the legislation makes clear that the Bank Secrecy Act or BSA applies to stablecoin issuers, the provision is not sufficient to address the risks related to financial crime and evasion of sanctions. For one thing, the STABLE Act doesn't give Federal authorities the power to develop appropriate rules to implement its requirements, as these may need to be customized.

The BSA is designed for centralized intermediaries. While a stablecoin issuer is a centralized intermediary, one need not interact with a stablecoin issuer to acquire, transfer, redeem or otherwise cash out a stablecoin. Thus, imposing requirements on stablecoin issuers pertaining to anti-money laundering (AML) and combatting financial terrorism (CFT) is not sufficient. One need not even interact with another centralized intermediary, such as a so-called “off ramp” or “on-ramp” that itself might also be subject to the BSA—that is, crypto trading platforms or other entities on which one may acquire a stablecoin or redeem or sell it for fiat currency.

While the existing BSA/AML/CFT framework imposes compliance obligations on covered institutions, the actors and services within the digital asset world do not always fall within its categories. Stablecoins are transferred on decentralized

¹¹ I am grateful to Professor Awrey for our discussions on these issues.

¹² Raymond, Nate. “Settlement Reached in Reserve Primary Fund Lawsuit.” *Reuters*, 7 September 2013.

blockchains, and transfers can be made from one self-hosted wallet to another. The “Travel Rule” adopted by the Financial Action Task Force extends the regulatory perimeter by requiring centralized entities to share or obtain information about transferors and transferees, but that only extends the perimeter one “hop” in the best case. Moreover, there are intermediaries in jurisdictions that do not comply with such rules or do a poor job enforcing compliance. It is easy to create a crypto exchange in a non-compliant jurisdiction at which stablecoins could be transferred, thus creating a means for money laundering.

This legislation—as well as any other regulatory framework for digital assets—needs to be far more creative and comprehensive in addressing these risks. We need to expand the regulatory perimeter to include other actors and services in the DeFi world, and expand the methods for addressing these risks. There have been many suggestions in this regard as well as innovations by other countries in their frameworks.¹³ None of that appears to be reflected in this legislation. The legislation should address the risks that self-hosted wallets pose. (The legislation appears to address self-hosted wallets only in the customer protection section.) It should require stablecoin issuers to aggressively monitor all transactions on chain and freeze accounts of suspicious parties. It could give the Office for Foreign Asset Control explicit extraterritorial jurisdiction over transactions in stablecoins pegged to the dollar as they generally would have over dollar transactions. And it should encourage the development of other technologies that might assist in addressing this risk (such as being able to program stablecoin smart contracts to reject transactions of parties that have not been vetted by an appropriate authority).

There have been recent reports of the use by terrorists of stablecoins to evade sanctions and launder money.¹⁴ It is impossible to know with any certainty the scale of such activity. As the digital asset and stablecoin market grows, however, it is likely to grow, absent sufficient steps to prevent it. Whether stablecoins can become a widely used means of payment turns in large part on whether we can adequately address this risk.

Failure to Address Affiliate Relationships. While the STABLE Act limits the activities of a stablecoin issuer to those directly pertaining to stablecoins, there are no

¹³ See, e.g., Adeyemo, Wally. “Remarks by Deputy Secretary of the Treasury Wally Adeyemo at the 2023 Blockchain Association’s Policy Summit.” 2023 Blockchain Association’s Policy Summit, 29 November 2023; Hall, Eric, et al. “December Brings Flurry of Treasury Activity Against Virtual Currency Services.” *DLA Piper*, 19 December 2023; Rettig, Rebecca, et al. “Genuine DeFi as Critical Infrastructure: A Conceptual Framework for Combating Illicit Finance Activity in Decentralized Finance.” *SSRN*, accessed on 7 February 2025.

¹⁴ See, e.g., Berwick, Angus and Ben Foldy. “Inside the Russian Shadow Trade for Weapons Parts, Fueled by Crypto.” *Wall Street Journal*, 1 April 2024 (“Inside the Russian Shadow Trade,” *Wall Street Journal*); Berwick, Angus and Ian Talley. “ Hamas Needed a New Way to Get Money From Iran. It Turned to Crypto.” *Wall Street Journal*, 12 November 2023 (“ Hamas Needed a New Way to Get Money From Iran,” *Wall Street Journal*).

restrictions on the entities that could own an issuer or on its affiliate relationships, or on transactions with those affiliates. While one can debate whether to import wholesale the restrictions of the Bank Holding Company Act, we must address the risks of concentration of power, the separation of banking and commerce, and affiliate relationships.

With respect to affiliate relationships, we should consider transactions and arrangements that pose conflicts of interest. What types of transactions should be permitted between a stablecoin issuer and its parent entity? Can a crypto trading platform favor a particular stablecoin in which it has an economic interest? Can an affiliate use the data acquired by a stablecoin issuer for other purposes? The legislation is completely silent about such issues, nor does it appear to give regulators any ability to develop rules to address such concerns.

The risk that big technology companies might become stablecoin issuers and thereby acquire even more data about us should be obvious. Indeed, there is nothing in this legislation that would prevent Meta, formerly Facebook, from relaunching its Libra proposal. One can easily imagine that Meta could find a state to grant a charter, perhaps because the state wanted to attract Meta's business. (Meta already holds money transmission licenses in 48 states.¹⁵) It could then operate without federal oversight.

Failure to Address Third Party Vendors and Contracted Services. The legislation also does not appear to address the risks that third party vendors and contracted services might pose, nor is it clear whether regulators would have the power to do so in the absence of any mention of the issue, since their power to implement rules is limited as noted above. It is my understanding that the bipartisan agreement reached last fall included provisions addressing this issue.

Lack of Enforcement Power. In light of the fact that the stablecoin market is already sizeable, the STABLE Act is a bit like putting a lock on the barn door after the horses have left. That is, it fails to address in a meaningful way the risks that already exist in the market. Tether is and has always been the largest stablecoin issuer, with a market capitalization today of \$142 billion.¹⁶ Tether is incorporated offshore. For years now, many commentators and officials have expressed concerns about its practices, including the nature of its investments, its lack of transparency, and the use of Tether for money laundering and evasion of sanctions.¹⁷ It is not clear whether the STABLE

¹⁵ "Money Transmitter Licenses." *Meta*, accessed on 7 February 2025.

¹⁶ "Tether Market Cap." *CoinMarketCap*, accessed on 7 February 2025.

¹⁷ See, e.g., New York State, Office of the Attorney General. *Attorney General James Ends Virtual Currency Trading Platform Bitfinex's Illegal Activities in New York*. New York State Attorney General Press Release, 23 February 2021; Prentice, Chris. "Crypto Firms Tether, Bitfinex to Pay \$42.5 [Million] to Settle U.S. CFTC

Act would affect Tether or the dominance of its stablecoin. Although the legislation says it is “unlawful for any person other than a permitted payment stablecoin issuer to issue a stablecoin for use by any person in the United States,”¹⁸ there are no specific enforcement provisions or penalties attached to that language. The legislation should include such provisions and it should give the Attorney General enforcement power. It should explicitly have extraterritorial application (with explicit penalties and Attorney General enforcement power), or else the courts might rule that it does not. In addition, it should prohibit trading platforms from listing unauthorized stablecoins, so that there is no doubt as to legislative intent. The jurisdictional issue—how to define platforms that should be subject to such a provision—can be addressed in the manner I have discussed below under “Decentralization and Market Structure.”

Of course, even if such enforcement provisions are added, the state chartering path might offer a way for a stablecoin issuer that cannot or does not wish to meet federal requirements to remain in business without changing any practices. An issuer might persuade a state to design regulations to accommodate the issuer’s registration, particularly if the issuer brought business to that state. Tether is an extremely profitable firm and surely has the ability to offer such inducements.¹⁹

No Prohibition on Payment of Interest. The STABLE Act does not prohibit an issuer from paying interest on a stablecoin. To date, there has been a substantial disincentive for issuers to pay interest because a stablecoin might then be deemed a security. But the legislation would eliminate this disincentive because it explicitly says stablecoins are not securities. We should tread carefully as we are in the early days of this market. We should either prohibit the payment of interest or at least empower regulators to do so. The payment of interest could make stablecoins an investment option and not just a payment mechanism. It could lead to the creation of financial products similar to money-market funds, only this time they could be chartered and supervised by each of the fifty states.

Investments of Reserves. I agree with the STABLE Act’s limitation on investments to essentially high quality liquid assets. I wish to suggest a few modifications:

- *Central Bank Reserves.* The language includes “central bank reserves.”²⁰ It is not limited to U.S. dollar central bank reserves, even though all other categories of investments are dollar-based. Assuming the intent is

Charges.” *Reuters*, 15 October 2021; “Inside the Russian Shadow Trade,” *Wall Street Journal*; “Hamas Needed a New Way to Get Money From Iran,” *Wall Street Journal*; Faux, Zeke. “A Thin Crust of Ice.” *Number Go Up*. Crown Currency, 2023.

¹⁸ STABLE Act, Section 3.

¹⁹ See Kharif, Olga. “Tether Sees \$10 Billion in Net Profits for 2024.” *Bloomberg*, 20 December 2024.

²⁰ STABLE Act, Section 4(a)(1)(A)(v).

to permit only U.S. dollar central bank reserves, it should be revised. (While the STABLE Act is not well suited to encouraging non-dollar based stablecoins, and I assume its drafters did not intend to do so, if it wishes to do so, one should at least say “central bank reserves in the same currency as the stablecoin.”)

Moreover, a stablecoin issuer can only hold central bank reserves if the Federal Reserve permits it to have a master account, and the Federal Reserve has taken the position that it does not currently have the authority to do so. While there are many issues as to whether the Federal Reserve should do so that deserve full consideration, in a process that involves public comment, the STABLE Act should give the Federal Reserve the *authority* to do so. Again, while there are multiple issues that should be considered before permitting stablecoin issuer master accounts, investing reserves in U.S. dollar central bank reserves would eliminate any risk related to intermediation.

- Repurchase Transactions. Issuers are permitted to invest in repurchase transactions with a maturity of seven days or less that are backed by Treasury securities.²¹ Query whether that is desirable since such instruments can be highly illiquid for a participant that does not have access to the Federal Reserve discount window.
- Absence of language on diversification and concentration of risk. The STABLE Act does not say anything about diversification of investments. We should not overlook the lessons of the failure of Silicon Valley Bank, when a stablecoin issuer had a huge amount of deposits in a single bank, most of which was uninsured. While regulators have authority to issue rules related to reserves, general language directing regulators to address issues of diversification, by type of investment as well as recipient, should be included. The legislation need not and should not set specific requirements. But a general direction and authorization is needed particularly given the risks noted above with respect to regulators’ constrained authority and the possibility that state rules vary from federal requirements.²²

* * *

²¹ STABLE Act, Section 4(a)(1)(A)(iv).

²² See above under “Insufficient Standards and Supervision for State-Chartered Issuers” and “Insufficient Authority to Regulate.”

Decentralization and Market Structure

I would also like to make a few comments on decentralization in light of the Subcommittee's proposed legislation to require a study of decentralization by the SEC, the CFTC, and the Treasury, as well as the focus on decentralization in relation to market structure regulation. This is a key concept in the Financial Innovation and Technology Act for the 21st Century (FIT 21), which I assume the Subcommittee will later consider.

Blockchain and smart contracts offer the potential to automate certain functions and reduce the role of traditional intermediaries exercising discretion. However, the term “decentralization” and “DeFi” are used to describe all sorts of protocols, processes and services taking place in the crypto universe that vary tremendously with respect to the degree to which they are automated, decentralized or distributed, or with respect to the degree to which firms or human actors exercise control or discretion. DeFi protocols and services often have what some in the academic community have called “centralization vectors”—that is, ways in which there is some degree of control or discretion, including administrative keys that permit modification of code or restricting access.²³ It is also the case that there may be an automated protocol but a related service provided by a firm or person in which discretion and control are being exercised. Therefore, the term “decentralization” is of little value. We need more precise analysis and language to determine whether and how regulations might need to be adjusted.

In addition, calling something “decentralized” or “DeFi” should not be an exemption from regulation. On the contrary, we should look at the processes being performed or the services being provided and consider what are the best ways to achieve the regulatory goals that are nevertheless present. While automation and ability for users to control assets may reduce certain types of risks that are often the targets of regulation, they may introduce others, and in any event we must still ensure that the regulatory goals of consumer and investor protection, market integrity and transparency, financial stability, or prevention of financial crime are achieved.

A simple example is to imagine a “decentralized” or automated platform for the trading of Treasury securities that becomes a dominant, and indeed systemically important, platform given the importance of that market. Even if such a platform truly was automated and not subject to the control of a human operator, we would still want to make sure various regulatory goals were achieved.

²³ Shuler, Katrin, et al. “On DeFi and On-Chain CeFi: How (Not) to Regulate Decentralized Finance.” *Journal of Financial Regulation*, vol. 10, no. 2, 2024.

When it comes to market structure, I do not think the concept of “decentralization” is the proper way to distinguish between tokens that should be considered securities and those that should be considered commodities, or the way to draw the line between the jurisdiction of the SEC and that of the CFTC. It is difficult to measure and not a good indicia of whether the securities law or commodities law framework should apply.

The FIT 21 Act in particular proposes a way to delineate jurisdiction between the agencies that is based on decentralization, how a digital asset is acquired, and who holds the digital asset. It is a very complicated test that is difficult to apply. Among other things, the classification of a token could change over time—not simply from a restricted security to a digital commodity, but back again. The “self-certification” process is an invitation for abuse. It is not clear there would even be sufficient information to apply the test accurately, and the decentralization component of the test has metrics that hardly seem “decentralized.” The application of the test could also fracture the market with respect to any individual token—some might be commodities and some securities. It would not bring the regulatory clarity that its proponents claim.

Moreover, it could undermine our capital markets generally, by making it easy to evade the regulation that has been a foundation of their strength and attractiveness globally. The issue is not only that we must make sure the SEC retains authority for digital assets that have indicia of investment contracts. There is the risk that stocks, bonds and other securities could be wrapped in a digital token issued on a decentralized blockchain in an attempt to avoid securities law regulation altogether. Thus, the legislation could create the risk of wholesale regulatory arbitrage for securities of all sorts.

We should proceed carefully in addressing the market structure question. I am pleased that the Subcommittee is considering stablecoins first. I think it is critical to get legislation pertaining to stablecoins done and then build on that. It is a product that is critical to digital assets and has great potential, as discussed above. What regulators learn in addressing this market will be useful as we think about other aspects of digital asset regulation. I also think we should tackle the market structure question by bringing the SEC and CFTC together. I am pleased to see the Subcommittee suggest a joint committee of the two agencies in one of its legislative proposals.

I have previously called for such an approach. Former SEC Chair Jay Clayton (a Trump appointee) and I proposed that the two agencies get together to develop joint

rules for the crypto market.²⁴ Professor Howell Jackson and I also wrote a paper detailing how the two agencies could develop joint rules through a self-regulatory organization.²⁵ (I use the term SRO consistent with our laws—which is entities that are overseen in numerous ways by the regulator, as described in our paper. I do not mean simply an organization of industry representatives that claims it can regulate participants.)

Another way to provide a regulatory framework and some clarity to the market without drastically revising the securities laws is as follows: Congress would assign responsibility for regulating the “spot” market for tokens that are not securities to the CFTC, but it would not revise the definition of securities. It would also not define a new category of “digital commodities” that are deemed not to be securities. Instead, it would give the CFTC authority over any trading platform that trades bitcoin or ether. That would be a simple way to establish jurisdiction over the market—it is easy to identify such platforms, and there is no significant platform that does not trade those tokens. It would prescribe some core principles and direct the CFTC to develop rules to implement such principles—like prevention of fraud and manipulation, prevention or minimization of conflicts of interest, protection of customer assets, disclosure to investors, reporting requirements, and so forth. It would also mandate that those rules should apply not only to the trading of bitcoin and ether, but to *all other tokens* listed on the platform. That is critical to achieving full investor protection. It would further specify, however, that the platforms are not to trade securities, and that the CFTC and SEC should consult to determine if a token is a security. If a token is deemed a security, it would be removed from the platform (and required to be traded on a securities platform) unless the SEC agreed otherwise. There would be provisions to deal with disagreements between the agencies.

This would create an immediate framework for regulation that protects investors without rewriting the securities laws. It could be seen as a permanent or interim solution. As the market develops and we gain more knowledge, the approach could be refined. But it could very quickly bring investor protection to the market without undermining decades of securities laws and without creating more questions than answers.

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²⁴ See Clayton, Jay and Timothy Massad. “How to Start Regulating the Crypto Markets—Immediately.” *Wall Street Journal*, 4 December 2022; Clayton, Jay and Timothy Massad. “A Path Forward for Regulating Crypto Markets.” *Wall Street Journal*, 7 July 2023.

²⁵ See Massad, Timothy G. and Howell E. Jackson. “How to Improve Regulation of Crypto Today—Without Congressional Action—and Make the Industry Pay For It.” *Hutchins Center Working Paper*, no. 79, October 2022.

I would like to make comments on two other issues in the Executive Order, as the Subcommittee may be asked to consider these issues in the future, one being the crypto stockpile and the other concerning the language prohibiting a CBDC.

Bitcoin Strategic Reserve or Crypto Stockpile

The working group created by the Executive Order is directed to “evaluate the potential creation and maintenance of a national digital asset stockpile and propose criteria for establishing such a stockpile, potentially derived from cryptocurrencies lawfully seized by the Federal Government through its law enforcement efforts.”²⁶

I believe the creation of a crypto stockpile is a bad idea for several reasons, as is the idea of a bitcoin strategic reserve. The President suggested the latter during the campaign, and some have gone even further by suggesting that not only should the government hold on to bitcoin it seizes but also the government should actually buy more bitcoin.

Assets seized through law enforcement efforts are typically sold in auctions or returned to the victims of the crimes which led to the seizures. I do not believe we should make an exception and hold on to crypto. It would create an unlevel playing field in this regard, and there is no good argument in its favor.

The expectation that prices of crypto will appreciate is not a good reason to retain what we seize or to buy more. There is no assurance prices will appreciate, of course. Crypto prices have been extremely volatile and there are plenty of examples of tokens that shot up in price only to later crash (e.g., FTT (the FTX token), or Luna, the token backing the Terra stablecoin that collapsed). A better argument can be made on that basis for holding on to equity securities that the government seizes—they have a longer and more consistent record of appreciating in price and are just as easy to store, but the government should not retain, or generally invest in, those either.

There is no strategic reason for the government to hold on to bitcoin or other crypto tokens. Doing so would not serve an important use case as there is with oil, for which we created a strategic reserve. It is also neither necessary nor desirable to create such a stockpile or reserve to advance the country’s leadership in this technology. The way to do that is to create legal frameworks that allow for responsible private sector innovation. It is more likely that government investment would distort policy choices and create risks of conflicts and corruption. Finally, the idea that a bitcoin reserve

²⁶ Executive Order 14178.

would support the dollar or the monetary system has been thoroughly debunked by George Selgin at the Cato Institute and others.²⁷

Executive Order Language on a CBDC

The Executive Order language concerning a CBDC also raises concerns.

I recognize there are strong views on the subject of a retail CBDC among the members of this Subcommittee and I do not wish to focus on that issue. However, if we want the private sector to develop digital asset and blockchain technology to facilitate tokenization of assets of real value, and utilize atomic settlement so that transactions involving such assets settle instantly and efficiently on chain, the federal payments infrastructure operated by the Federal Reserve must be compatible. Banks (and other payment institutions that might be granted access to the system in the future) must be able to settle the digital asset transactions of their customers in a compatible and efficient manner. While settlement between banks is already electronic, of course, there may be systems improvements that are necessary to facilitate interbank settlements involving their respective on-chain atomic settlement transactions.

In addition, the dollar is the primary currency for international trade and transactions. With the growth of stablecoins and digital assets as well as fast payment systems generally around the world, we must make sure that the technology for cross-border payments flowing through the federal payments infrastructure remains at the cutting edge. That does not require the issuance of a CBDC that individuals would hold. But it may mean allowing the Federal Reserve to continue to do necessary research and development.

Unfortunately, the language in the Executive Order has such breadth that it raises concerns as to whether any such research and development can continue. That is because it defines a CBDC very broadly, as “a form of digital money or monetary value, denominated in the national unit of account, that is a direct liability of the central bank,” and it prohibits “any action to establish, issue, or promote CBDCs within the jurisdiction of the United States or abroad” and any “plans or initiatives” related to the creation of a CBDC.²⁸

²⁷ Selgin, George. “The ‘Digital Gold’ Fallacy, or Why Bitcoin Can’t Save the US Dollar.” *Cato Institute*, 29 November 2024. See also Carter, Nic. “I Don’t Support a Strategic Bitcoin Reserve, and Neither Should You.” *Bitcoin Magazine*, 30 December 2024.

²⁸ Executive Order 14178.

If the Subcommittee wants to bring about a golden age of digital assets, it should make sure our core payments infrastructure can handle it.

Finally, I know that many are opposed to a retail CBDC because they are concerned the government would use that technology to monitor transactions of individuals, collect data on individuals, target political opponents, or even censor transactions. We have witnessed an unprecedented seizure of the Treasury payment system recently in a manner that creates many of the same risks. That system is critical to the operation of the government and our economy. Approximately 90% of all government payments flow through that system. Approximately 1.3 billion payments, having a value of over \$6 trillion, were made last year. Tens of millions of individuals depend on it for direct payments or for payments made by institutions paid through that system. Access to that system is normally limited to a handful of people even within Treasury. But in this case, a few young programmers who had no prior experience with the system or even working in the government obtained access. While the courts have at least temporarily limited their access,²⁹ the seizure creates risks similar to those that many worry would come with a retail CBDC. It creates the possibility that payments could be stopped or “edited” notwithstanding the absence of legal authority to do so, thereby usurping the power of Congress. It creates the risk that huge quantities of data on individuals could be harvested and used in inappropriate ways. It poses additional serious risks—including simply interfering with or damaging the system in such a way that payments are disrupted, or undermining confidence in a manner that negatively affects the credit and standing of the United States. I am grateful that the Ranking Member of the Committee, the Ranking Member of the Subcommittee and other members protested this action.

* * *

The Trump Meme Coins

Finally, although the Trump meme coins are not part of the Subcommittee’s agenda, they cannot be ignored when the Subcommittee’s desire is to chart a path toward a “golden age” of crypto. It is difficult to imagine an action that the President could take which would be more contrary to the spirit and opening words of the Executive Order, issued just a few days later, which is to “promote United

²⁹ See *United States, United States District Court for the District of Columbia. Alliance for Retired Americans v. Bessent* [Court Order]. Docket no. 25-0313, 6 February 2025; *United States, United States District Court for the Southern District of New York. State of New York v. Trump* [Court Order]. Docket no. 25-1144, 8 February 2025. See also *United States, United States District Court for the District of Columbia. Alliance for Retired Americans v. Bessent* [Complaint]. Docket no. 25-0313, 3 February 2025; *United States, United States District Court for the Southern District of New York. State of New York v. Trump* [Complaint]. Docket no. 25-1144, 7 February 2025.

States leadership in digital assets” and “responsible growth and use of digital assets.”³⁰ One does not have to be a digital assets expert to understand why the issuance of the meme coins contradicts the spirit of that order and was plainly wrong. It was a money grab and a conflict of interest. The potential for conflicts of interest will also continue over time. Companies and countries looking to curry favor with the Administration or seeking government action may believe it is in their interest to purchase the coins to show their support. That risk is heightened by the structuring of the issuance, because additional tokens will be released over the next four years which will presumably generate additional revenue to the Trump Organization, which creates incentives for others to push up the price.

It is a black eye for digital assets. It is exactly the kind of speculative behavior that we have seen too much of and it reinforces many of the negative perceptions of digital assets. It is simply, as one observer said, a “classic meme-coin pump and dump scheme.”³¹

Conclusion

I share your desire to chart a path to a “golden age” of digital assets. It is an exciting and promising technology. I believe that path requires a regulatory framework that is not only clear, but adequately addresses the issues I have talked about today (and others). The United States created an excellent regulatory framework for securities markets beginning in the 1930s, one that remains a model for countries around the world and has been a foundation for our markets to become the most important in the world. We can do the same here.

³⁰ Executive Order 14178.

³¹ Khalili, Joel. “The Trump Memecoin’s ‘Money-Grab’ Economics.” *Wired*, 20 January 2025 (citing Interview with Jacob Silverman).

Chairman STEIL. Thank you very much.

We will now turn to member questions.

The chair recognizes himself for 5 minutes for the purpose of asking questions.

Last week, during a press conference with Chairman Hill, Thompson, Scott, and Bozeman, the White House's AI and crypto czar, David Sacks, said the administration is committed to working with Congress on a market structure and stablecoin framework.

While financial market regulators have the power to clear up some of the regulatory ambiguity related to the digital asset ecosystem, there are some obvious gaps where no regulator has jurisdiction.

I want to start with you, Mr. Garrison. We will kind of jump around, just a little rapid-fire to stage-set here.

Can you help me describe some of those gaps and explain how the ecosystem has been impacted by them? For example, does the crypto spot market lack a clear Federal regulator?

Mr. GARRISON. Yes, it does lack.

Chairman STEIL. Is there a regulatory framework for stablecoin and stablecoin issuers?

Mr. GARRISON. There is not.

Chairman STEIL. Is DeFi even contemplated by existing law?

Mr. GARRISON. It is not.

Chairman STEIL. The ambiguous legal classification of digital assets, is it a security, is it a commodity? That is an open question.

Mr. GARRISON. Correct.

Chairman STEIL. Okay. Then, Mr. Garrison, in your view, what would be the outcome to the digital asset ecosystem if Congress cannot get these gaps filled? Will companies move offshore to jurisdictions with regulatory certainty or because of possible enforcement actions?

Mr. GARRISON. Yes. I think we see that today.

Chairman STEIL. Would you agree with that, Mr. Kim?

Mr. KIM. Absolutely, Chairman. We are seeing a lot of American businesses moving offshore due to the lack of clarity in the United States.

Chairman STEIL. Do you see the same thing, Mr. Jachym?

Mr. JACHYM. Absolutely. Regulatory clarity drives investment and growth for businesses like ours.

Chairman STEIL. Would you foresee the United States having to import regulatory standards and market practices from other countries if the United States fails to act, Mr. Garrison?

Mr. GARRISON. Yes, that is a likely outcome.

Chairman STEIL. Do you think we are already lagging behind in the space today?

Mr. GARRISON. Yes. Other jurisdictions, including the European Union, United Arab Emirates, and Hong Kong, are further ahead.

Chairman STEIL. I want to come back to you. With there being no standards in the United States for some of these crypto companies, consumers who are trying to vet different projects, different tokens, how is that altering the market with a lack of regulatory clarity in the United States?

Mr. GARRISON. There is a lack of consistency in the types of disclosures that are provided and how. There is a lack of consistency

in the protections that are provided to persons engaging in digital asset trading.

Chairman STEIL. Let me now jump to you, Mr. Kim, and say, what if we did put in place a framework for stablecoin, for the ecosystem to have a Federal regulatory framework governing stablecoin issuances. Would those stablecoin ecosystems actually develop with established legacy financial institutions taking part?

Mr. KIM. Absolutely, Chairman. A comprehensive stablecoin framework will provide certainty and clarity to the industry, allow for U.S. innovation and leadership and, most importantly, protect consumers and investors by giving them various standards and requirements to best protect customers as well.

Chairman STEIL. Mr. Fernandez da Ponte, would you agree with that?

Mr. FERNANDEZ DA PONTE. I would. It is a strange circumstance that today the majority of dollar-denominated stablecoins are actually issued outside of the United States, and there are many jurisdictions that are moving fast in that space.

Clarity on the regime in the United States would enable American issuers to compete, accelerate financial innovation for the benefit of American businesses and consumers.

Chairman STEIL. If we provided that regulatory standards for stablecoins, we would be eliminating a major gap in the ecosystem. Is that accurate?

Mr. FERNANDEZ DA PONTE. It is, yes.

Chairman STEIL. Okay. Let me continue on. I am going to come back to you, Mr. Jachym. How do you envision the digital asset ecosystem will change if a Federal regulatory framework for digital asset market structure were enacted by Congress?

Mr. JACHYM. I think in the first instance, it will allow businesses to plan and invest. It will drive consistency.

I think it is also important to keep the international landscape in view. Other jurisdictions have moved forward, and I think as we have seen in other financial market reforms. Let us take the Dodd-Frank reforms, for example. Jurisdictions moved in different substantive directions on somewhat similar timelines.

The most challenging part of those post-2008 crisis reforms were trying to rationalize cross-border market access for large infrastructure players. These turned into bilateral and geopolitical challenges, and I think we have an opportunity here to avoid those. I think it is very important that the United States puts a leadership seat at the table.

Chairman STEIL. Thank you.

In our final 30 seconds, with new technology, people identify potential risk. I think we see digital asset skeptics claim that the industry is rife with fraud, with abuse. Could you just very briefly comment on how you are monitoring anti-money laundering (AML) and Know Your Customer (KYC)?

Mr. JACHYM. Kraken invests heavily in the personnel tools and technology to detect and prevent illicit finance and any illicit finance being conducted on our platform. We create a very strong ecosystem, where we not only monitor and KYC check everyone coming into our environment, but in terms of transactions that

come in and out and off of our platform, they are subject to sanctions screenings and other compliance tools.

Chairman STEIL. Thank you very much. I yield back.

I now recognize the gentleman from Massachusetts, Mr. Lynch, also the ranking member of the subcommittee.

Mr. LYNCH. Thank you, Mr. Chairman.

Mr. Massad, I do not think we should overlook the lessons of the failure of Silicon Valley Bank. In that case, we had a stablecoin issuer who had a huge amount of deposits in a single bank, most of which was uninsured. Just months before the collapse of Silicon Valley Bank and Signature Bank, the Federal Reserve System (Fed), the FDIC, and Office of the Comptroller of the Currency (OCC), released a joint guidance cautioning banks about the volatility and vulnerability of crypto assets.

The everyday American was largely insulated from the fallout of these bank failures, likely because crypto companies—likely because of the risk management systems and heightened capital reserve requirements to insulate most banks. Crypto companies had limited access to the banking sector.

I have deep concerns about opening the floodgates for nonbank companies to our payment systems or offering Fed accounts. Additionally, allowing crypto companies free rein could put pensions, retirement accounts, and other typically safe investment accounts at risk. The next crypto crash could have disastrous effects on the wider economy.

Mr. Massad, what additional risks should this committee consider as it crafts legislation to protect our broader economy and our traditional finance system from the volatility and instability of crypto assets? What safeguards would you recommend, especially with regard to the volatility of crypto, to perhaps take down the entire financial industry?

Mr. MASSAD. Thank you for the question, Representative Lynch.

First of all, I think with respect to the banking system, we certainly do not want banks investing in crypto on the asset side of their balance sheet, meaning buying crypto or otherwise making investments.

I think with respect to other issues, like services that are for a fee, like custody or payroll services, I think, assuming that we put in a good comprehensive framework on stablecoin issuers, so they manage their risks and on crypto trading platforms, so they manage their risks. I think those kinds of banking services can be done.

Mr. LYNCH. Having a firewall between the crypto side and traditional—

Mr. MASSAD. Absolutely. Absolutely, we need to address affiliations and so forth. Your point on the concentration of deposits, that is why it is not enough for a stablecoin issuer. The STABLE Act says you can have bank deposits. You can have all these things, but it does not have any rules on concentration or customer concentration. I am quite concerned about that.

I think this all comes back to looking at this comprehensively and looking at the fact that we really do not have a regulatory framework for a lot of these crypto firms. We have seen a lot of fraud and manipulation and problems as a result of that.

I think it has to be done in building blocks. I applaud the committee for starting with stablecoins. I would get that piece done and then turn to the market structure issues because those are a little more complicated. I think we will learn a lot by getting the stablecoin piece done.

Mr. LYNCH. What about the contagion piece of this where you have banks that have access to the discount window, you have FDIC insurance. Then on the other side of the house, if you have volatility and instability, you have sort of commingling or association between various crypto companies so that there is a domino effect that could result. It actually—

Mr. MASSAD. There clearly is.

Mr. LYNCH —runs into the traditional finance system.

Mr. MASSAD. Right, two things. One, that is because of the lack of transparency in this industry. Sure, the blockchain is transparent in the sense that it is pseudonymous, but you do not know exactly what a lot of the relationships are and who has exposure. There is a lot of leverage in the crypto industry, and we do not track that. Even in the ETF, exchange-traded funds, market, there is a lot.

Mr. LYNCH. Do you think there should be a prohibition on government bailouts of crypto firms?

Mr. MASSAD. Certainly. Certainly, there should be.

Mr. LYNCH. Okay.

Mr. MASSAD. The other thing I would comment on is with respect to the banking sector; we really do not want banks exposed to the credit of this industry. That is why I would limit it to sort of services that are fee-based or taking deposits that are in dollars as long as, again, we have some concentration limits.

Mr. LYNCH. Thank you, Mr. Chairman. I yield back.

Chairman STEIL. The gentleman yields back.

The gentleman from Michigan, Mr. Huizenga, is recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Chairman Steil.

I do want to extend my congratulations to you as well on becoming Chairman of the Digital Assets Subcommittee and having been the former Chair of the Capital Markets Subcommittee where a lot of these issues were housed. I know this is complicated and well-deserved, though, on your part, but also congratulations to Chair Hill for seeing that we needed to break this out. I think this is a very positive thing, so I look forward to working with you all.

Mr. Garrison, Mr. Jachym, let me start with you. Digital asset market participants have rightfully criticized the lack of predictability and certainty. Going back to 2019, SEC Chair Jay Clayton actually attempted to provide some clarity by releasing a framework for investment contract analysis of digital assets.

As we have just seen and just exited the last 4 years where former Chair Gensler famously told crypto firms to come in and register, whatever that meant exactly. They provided very little direction or a way for that to actually happen. Instead, it seemed what firms received was a threat of enforcement for doing so.

Is it fair to say that the SEC has thus far not produced desirable or discernible standards for digital asset ecosystem that facilitate consistent application of the rules? Mr. Jachym? Mr. Garrison?

Mr. JACHYM. Congressman, thank you for the question.

That is absolutely true. There has just been a complete lack of policymaking. It has been a regulation-by-enforcement regime using a decades-old jurisdictional test to try to shoehorn the diverse set of digital assets in the market into the securities—

Mr. HUIZENG. Let us just be clear. Regulation through enforcement is a bad thing, right?

Mr. JACHYM. It is a bad thing. And—

Mr. HUIZENG. Okay. Sometimes some of my colleagues and friends do not always see it that way. They just think that is another tool in the toolbox. That lack of predictability, I would think, would be very harmful.

Mr. JACHYM. It has been in stark contrast, Congressman. We have watched in many major markets around the world a constructive policymaking process where jurisdictions have crafted definitions, passed legislation, and passed regulation.

We are in the implementation phase. It has been the exact opposite experience here in the United States.

Mr. HUIZENG. Mr. Garrison, I want you to answer this: What must be done to ensure consistent guidance regarding the classification of digital assets?

Mr. GARRISON. I think the SEC needs to take a deep breath and start afresh on its guidance. The 2019 guidance that you mentioned, while well-intentioned, has over 60 factors and no way to actually weigh the different factors. That is simply not actionable. There is a—

Mr. HUIZENG. I think the good news is, Acting Chair Uyeda is seemingly doing that. He is taking a very different approach. One of his first was to rescind the Staff Advisory Bulletin 121 (SAB 121) followed by the creation of a crypto task force headed by a fellow commissioner, Hester Peirce.

Additionally, we have seen the SEC pause some of their pending crypto-related enforcement actions, citing a desire for a potential resolution.

Mr. Kim, beyond these examples, what other actions could the SEC pursue as far as low-hanging fruit to improve its approach in digital asset regulation that Congress could legislate?

Mr. KIM. Thank you very much for your question.

First of all, I want to just reiterate that it has been so encouraging for the industry to have the SEC crypto task force and the new SEC leadership who are welcoming and willing to work with industry.

In addition to pausing or withdrawing enforcement actions based solely on registration violations without any allegations of fraud or egregious conduct, it is clarifying some of the issues that the industry has been requesting: What is a security? Clarifying and confirming that a stablecoin that is backed one-to-one U.S. dollar-denominated is not a security and just continuing to work with industry. The industry wants to work with our regulators to make sure that we can enhance clarity and provide for U.S.'s leadership.

Mr. HUIZENG. I have about a minute left. I want to try to hit a couple of quick things. Mr. Jachym, in 2023, the SEC went after Kraken's staking program. You operate in 200, over 200 countries. Is that correct?

Mr. JACHYM. That is correct.

Mr. HUIZENGA. Okay. That is a fair number. Being a member of the Foreign Affairs Committee, I know that constitutes much of the known digital world on that.

Did any other regulator around the world shut you down as former Chair Gensler did?

Mr. JACHYM. No, Congressman. I think, to put our global operations in context, in those jurisdictions that have advanced clear rules of the road, we have worked with regulators to put those in place, and we are regulatory compliant.

There are a lot of jurisdictions that have not, and markets operate on a reverse solicitation basis. Most of our business is across North America and Europe where we see regulation moving forward.

Mr. HUIZENGA. My time is expired, but I will put in a question to you all about whether U.S. lawmakers should be concerned that Europe was first out of the gate with some of their regulations and their framework, and what lessons can the United States learn from Markets in Crypto-Assets (MiCA).

With that, Mr. Chair, I yield back.

Chairman STEIL. The gentleman yields back.

The gentlewoman from California, Ms. Waters, who is also the ranking member of the full committee, is recognized for 5 minutes to ask questions.

Ms. WATERS. Mr. Massad, consumer protections are under attack in this country, and this will have profound consequences for all of our constituents. As Elon Musk and the Trump Administration try to delete the Consumer Financial Protection Bureau (CFPB), Republicans on this committee have offered stablecoin legislation that is also light on consumer protections.

In the legislation I released, there are robust protections for consumer wallets, including risk management and financial resource requirements, to ensure consumers do not lose their payment stablecoins to the scams and fraud that have plagued the crypto industry for far too long.

What will it mean for consumers if these protections are stripped away, as Republicans on our committee have suggested?

Mr. MASSAD. I think you are exactly right, Congresswoman, that we could see a lot of consumer harm. Today stablecoins are not stable because we do not have this framework around them. It is not enough just to say okay; you have to have full reserves for tokens. We do need to go beyond that, and you have noted some of the ways.

Also, your point about wallets, I think, is very good. We have to look at this. Extend the perimeter here in terms of regulation and look at how these things are transferred. They can be transferred on self-hosted wallets, which raises a lot of issues of evasion of sanctions and financial crime. Unless we really put in a comprehensive framework, we are going to have these problems.

I think the bill—that the legislation that you negotiated with the former committee chair does a lot of this. It has stronger Federal standards, it has standards that go to wallets, and it has a dedicated resolution process. It has a number of features, I think, that it would better ensure protection of consumers.

Ms. WATERS. Thank you.

Days before being inaugurated, President Trump followed in the footsteps of his Co-President Musk to profit off of meme coins. When Trump launched his own meme coin, I warned of the speculative dangers and myriad risks for investors who would be blocked from class action lawsuits if they were swindled. Trump's profiteering also challenges critical national security and anticorruption laws.

Now, we are seeing reports that after Trump's token crashed, a large number of investors suffered over \$2 billion in losses. According to Chainalysis data, \$100 million in trading fees have gone to the Trump family and his partners. While pump-and-dump schemes run rampant with meme coins, it is clear that early traders, Trump's family and their partners, have been the biggest winners at the expense of hundreds of thousands of investors.

When I heard about this meme coin, I asked, "what is it?" They said, "it is not an investment. It is not a contribution to the campaign." It is all about the President of the United States and then his wife and now his children all being involved in creating their own coins and making money. Those who understand what it means to have the rug pulled out from those who are unsuspecting, this appears to have happened.

What do you think about this?

Mr. MASSAD. I think it is plainly wrong, and I do not think you need to be an expert about crypto to know that. I mean, look, this is like paying to join a fan club, except it is a digital token that then you trade. You buy it to trade because you hope that somewhere and someone at some time will pay more for it than you paid.

It is clearly contrary to the spirit of the executive order. It is clearly a conflict of interest. It will create ongoing conflicts of interest because companies and countries may now try to buy the coin to curry favor with the administration, and they are going to continue to release additional coins.

I think it is a black eye for digital assets. It is exactly the kind of behavior we should be trying to tamp down.

Ms. WATERS. Just quickly. Upon taking office, President Trump signed an executive order banning the creation and issuance of a U.S. Central Bank Digital Currency also known as CBDC. The United States is now the only country in the world to impose a Presidential ban on CBDC while China and Europe are free to lead the global competitive landscape.

I just get that in there because of our central bank—why do they not want our central bank involved?

Mr. MASSAD. If I can just add a couple thoughts to that. I mean, look, I know there are a lot of pros and cons about a retail CBDC, but we need the Federal Reserve to continue doing research and development in the area of digital assets.

If you want digital assets and tokenization to really grow as a sector, then the Federal payments infrastructure must be geared to handle that. That is why we need the Federal Reserve to continue to do work in this area. Unfortunately, the executive order suggests it cannot.

Chairman STEIL. The gentleman's time has expired.

Mr. MASSAD. Sorry. Thank you.

Ms. WATERS. Thank you very much.

Chairman STEIL. The gentlewoman's time has expired.

The gentleman from Minnesota, Mr. Emmer, is recognized for 5 minutes.

STATEMENT OF HON. TOM EMMER, VICE CHAIRMAN OF THE FINANCIAL DIGITAL ASSETS, FINANCIAL TECHNOLOGY SUBCOMMITTEE, A U.S. REPRESENTATIVE FROM MINNESOTA

Mr. EMMER. Thank you to you, Chairman Steil, and to Chairman Hill, for your tremendous leadership and partnership on digital asset legislation. I am honored to serve as the vice chairman of this subcommittee, and I am humbled by the great work already done by your subcommittee.

Under President Trump, promises made are promises kept. A new day for crypto innovation, opportunity, and excellence has finally arrived. Crypto technology shifts economic power from centralized institutions back into the hands of the people. It is transformation.

The wrong leadership, our past administration, feared this transformation. They did everything they could to kill it. The right leadership, the Trump Administration, welcomes this transformation and will do everything in their power to make the United States the crypto capital of the world.

For this reason, we are in a moment to drive real change, to legally anchor the digital asset community, to unlock a peer-to-peer internet with an abundance of opportunity, to be globally competitive with our regulations, to expand the status of the dollar as the world's reserve currency, and to foster in the golden age of America.

Doing this requires leading with two priorities. First, we must ensure crypto policy remains nonpartisan. Republicans and Democrats have a 10-year history of working productively together on solutions in this space. That kind of teamwork must remain the status quo.

Second, we must craft statutory regulations that honor the core American values that are enshrined in digital asset technology, privacy, individual sovereignty, and free market competitiveness.

I am encouraged by the strong nonpartisan coalition of members on this subcommittee and this full committee who have put American values at the forefront of crypto policymaking.

This Congress, I look forward to supporting this subcommittee as its vice chair in drafting and passing stablecoin legislation and market structure legislation.

I also look forward to passing the CBDC Anti-Surveillance State Act, which bans the government from ever creating a central bank digital currency, the Blockchain Regulatory Certainty Act, which gives entrepreneurs the legal clarity they need to innovate right here in the United States, and the Securities Clarity Act, which codifies in law that a token is separate and distinct from an investment contract.

This committee has long been at the forefront of innovative policymaking for the digital asset ecosystem. In this Congress, I am

excited to see the legislative products of our labor pass and get signed into law.

Thank you again, Chairman Steil, Chairman Hill, and my colleagues across the aisle, for your longstanding partnership in good faith to unlock an abundance of economic opportunity for our constituents.

We have a lot of work ahead, but our constituents can trust that a great bipartisan team here in Congress will bring this across the finish line and deliver for the American people.

Again, I am honored to serve as your vice chairman, Mr. Steil, and I yield back the balance of my time.

Chairman STEIL. We are honored to have you as our vice chair. We look forward to your participation.

The gentleman yields back.

The gentleman from Illinois, Mr. Foster, is recognized for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chair, and congratulations. Thank you to our witnesses, particularly Mr. Massad. Your testimony was really excellent. I read it twice, and I urge anyone who wants to understand the issues here to have a long read on your testimony.

One of the points you made in this is the inadequacy of the current corporate bankruptcy codes for resolving—for stablecoin.

I was wondering if the other witnesses have any comments on that. Do you view the current bankruptcy code as adequate for resolving failed stablecoins, or do you think we need a separate resolution regime for stablecoin issuers?

Anyone who wants to—just raise your hand. If you think the current regime is adequate and we do not need a new one, just raise your hand.

Okay. It looks like all of you agree that we need some kind of a new resolution regime for bankrupt issuers of stablecoin, so that really should be on our to-do list on here.

Let us see. Mr. Jachym, you emphasized regulatory oversight over your platform, but, as Mr. Massad points out, that is only half the battle. If you accept crypto assets that have been self-hosted, you must need some mechanism to make sure that they have not been used for fentanyl purchases or North Korean missiles. All these sorts of things that are really key to having that—how do you ensure that the crypto assets that you bring on board have not been used for these illicit purposes?

Mr. JACHYM. Thank you for the question, Congressman.

Kraken employs a zero-tolerance policy for illicit finance. If you think about our ecosystem, there are KYC and AML checks for every user that comes on board—

Mr. FOSTER. Okay. Just to be specific, let us say you have bitcoin that is going through these washers and transferred to other anonymous currencies and then it shows up in your platform from a self-hosted wallet. How do you have any idea where that money has been?

Mr. JACHYM. Thank you for the question, Congressman.

This is the beauty of blockchain technology, and I think this is where the blockchain analytical tools really power this ability to surveil, detect, and prevent this type of behavior.

We employ these tools to ensure that not only are all the transactions within our environment and on our platform are subject to these screens but also onboard, off-board, and if we are interacting with other centralized intermediaries, self-hosted wallets that are owned by our customers, those are subject to sanctions—

Mr. FOSTER. “That are owned by your customers”—yes, I am not worried about your customers, the people you KYC’d. I am worried about people that are out there on the dark web trading anonymously with self-hosted wallets to buy fentanyl precursors or all the things that are killing Americans or the North Korean nuclear missiles that threaten us.

Mr. JACHYM. And—

Mr. FOSTER. It seems like—or, if you have a solution that actually works, I have been asking for it for 10 years and have not received it. If you could for the record, say exactly how you can guarantee that, when you bring on a crypto asset, that value has not been used in an illicit transaction. If you could answer that for the record, I would appreciate it.

It is one of the two things that—one of the reasons why we have actually over the last 10 or 12 years, passed exactly zero legislation on crypto is that the two fundamental issues are anonymity and finality.

Just for an example on the finality and why that is so tough. If you are self-hosting and someone comes and puts a gun at your head, drags you into an alley, says, “Get out your cell phone, transfer all your crypto to me,” Is it your view that you are just screwed? That money has disappeared into another self-hosted wallet, wandered off to the dark web or do you think that we need some way of tracking it down to find out where it went?

Mr. JACHYM. Congressman, I think it is really important to put the market into context here. The crypto markets have reached over \$3.5 trillion. Eighty-five to 90 percent of that activity today goes through centralized intermediaries like Kraken and other—

Mr. FOSTER. Then it is the 15 percent that is threatening us with nuclear missiles we cannot stop from North Korea, all right? I am not worried about the 85 percent, and I am not even—anyway.

If you have a solution—

Mr. JACHYM. Congressman, if I may, I think the 85 to 90 percent is what we are here to talk about today. That is why it is so important for the United States to move forward with market structure regulation.

There are many issues to debate over the next several years, but we need to move now and put that basic foundation in place—

Mr. FOSTER. Okay. Unless that 85 percent is used as an on-ramp for the 15 percent that is killing Americans.

Mr. Massad, you look like you wanted to say something.

Mr. MASSAD. I was just going to say, When I hear the industry defend it this way and yet at the same time, they want to promote DeFi—so you might say, well, okay, are you willing to somehow restrict DeFi and have everything go through centralized intermediaries so we can have BSA checks?

Mr. FOSTER. Okay. Thank you.

My time is up. I yield back.

Chairman STEIL. The gentleman yields back.

The gentleman from Ohio, Mr. Davidson, who is also the Chair of the Subcommittee on National Security, Illicit Finance, and International Financial Institutions, is now recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Chairman, for holding today's hearing, "A Golden Age of Digital Assets."

Given the title, I think I will get a question in at least on gold-backed stablecoins, but I want to strongly support legislation that provides legal clarity for payment stablecoins.

First, traditional stablecoins are priced at \$1 per token, and they are backed by custody of \$1 of either cash or cash equivalents like U.S. Treasuries. As the name implies, a gold-backed stablecoin is backed by physical custody of gold. Consequently, with a claim to the gold that is on deposit, each token reflects the market price of gold.

Similar commodity-backed stablecoins are obviously viable, but why would anyone prefer a stablecoin of any kind to a traditional bank deposit?

First, banks have fractional reserves, and although the risk of a bank default is normally small, cases like Silicon Valley Bank exist. Stablecoins are fully reserved, and they have audited balances of one-to-one. In the case of dollars, it is \$1 per dollar, or in the case of something like gold, it would be 1 ounce per token.

The other thing is self-custody. While people—the skeptics keep trying to undermine the market, the whole point is self-custody, permissionless—which is no intermediary—payments. The idea that you have to go through an intermediary to be trusted basically says that, unless the government grants you permission, we just assume you are a criminal, that you are trying to do everything that we want to criminalize.

There is no decentralized finance without the decentralized part. If you do not protect self-custody, you essentially do not have—all you really do is change which intermediaries are involved. You do not really do that much truly interesting work, so I do not think any serious piece of legislation to try to chart a path for a, "Golden Age of Digital Assets" could possibly exclude serious protections for self-custody.

I was really pleased to hear you highlight that, Mr. Kim.

Mr. Jachym, Kraken lists some advantages of gold-backed stablecoins. You obviously have them available. Do you agree that there are advantages to using a gold-backed stablecoin to other stablecoins?

Mr. JACHYM. Thank you for the question, Congressman. To touch on your prior point, thank you for your leadership in terms of helping others understand the importance of self-custody in the crypto markets.

With respect to stablecoins, we believe a robust and healthy and competitive stablecoin market is going to be important. We have seen instances where the market, either due to regulation or other forces, has been dominated by a couple players. Again, in Europe, let us look to this example. We have seen the emergence of, as rules have been put in place, new issuers register and competitive forces at play. I think that is what we all want for the market.

This includes gold-backed stablecoins. I think there is going to be a lot of innovation in this space, but it is important for the United States to put rules in place for issuers. Right now, we see other jurisdictions moving forward, which require every global stablecoin issuer to consider registration in one jurisdiction or another. And—

Mr. DAVIDSON. I think that is a good point.

I think the big thing the committee has tried to do—and we had witnesses, including Director Harris from New York is we have had legal clarity in America for years now, we just have not made it Federal. Some people want to make it only Federal and essentially nuke what has worked successfully with the regulatory regime in New York. Look, New York rarely gets regulatory frameworks right in a way that I will applaud, but this is one that seems to have been pretty effective. A lot of times it seems very heavy-handed, but this seems to have worked. We have got people that do not want to recognize that and basically want to eliminate the State-backed stablecoin path.

One of the other things that we talked about was legal clarity. One of the first bills I introduced in this space was the Token Taxonomy Act, and it gets at this idea that there has to be a bright-line test.

I am going to rapidly run out of time, but, Mr. Massad, is there any place that really does not look like a Jackson Pollock painting? I mean, that everyone looks at it and says, this is really a bright-line test, this is a security and this is not.

Mr. MASSAD. Congressman—thank you for the question—it is very tough. I think we need to remember that other jurisdictions are struggling with this “security versus commodity” or “security versus something else” also. Europe has this, too, whether it is a crypto asset or a financial instrument.

The difference is, they have, in some of these other jurisdictions—because this also exists in Hong Kong and other places—they have more unitary regulation, so it is a little bit easier to—
[Crosstalk.]

Mr. DAVIDSON. It is the challenge before us—

Mr. MASSAD. Second—

Mr. DAVIDSON [continuing]. and we have to get a bright line. I am sure others will highlight it.

Sadly, my time has expired, and I yield back.

Mr. MASSAD. If I can just add, though, on New York—

Chairman STEIL. The gentleman’s—

Mr. MASSAD [continuing]. if all 50 States follow New York—

Chairman STEIL. The gentleman’s time has expired.

Mr. MASSAD [continuing]. I am fine with the—

[Crosstalk.]

Chairman STEIL. The gentleman’s time has expired. You can enter it for the record.

[The information referred to was not received prior to printing.]

Chairman STEIL. The gentleman’s time has expired.

The Representative from Massachusetts, Ms. Pressley, is recognized for 5 minutes.

Ms. PRESSLEY. Thank you to our witnesses for joining us today.

There is so much excitement around digital assets, especially cryptocurrency, understandably so. Cryptocurrency is the new

thing, it is shiny, it is flashy. People on the internet are always telling stories about how much money they are making on their investments in the latest coin.

The stories that stick with me the most are not on social media posts. They are the ones that I hear in the community or that come to my office as casework, like the college student whose digital wallet was drained and they do not know who to turn to for help, or the elder who lost everything when responding to text messages from a number that was pretending to be their grandchild in order to set up a crypto access account.

These stories and many more are the heartbreaking reality of crypto scams, and I believe we all, government and industry, should do everything we can to stop them.

Mr. Kim, you are the President and Acting CEO of Crypto Council for Innovation. Do you think it is important for government to play a role in reducing scamming and fraudulent activity through cryptocurrency?

Mr. KIM. Thank you very much for your question, Congresswoman.

As a general matter, it is extremely important for any counter-illicit activity to be stopped, and CCI is committed to coming up with policy solutions.

My opinion is that the best way to accomplish this is through a comprehensive Federal framework for both [inaudible] and payment stablecoins to make sure there are consumer disclosures, that there are consumer protection standards. All of this information can help prevent scams. At CCI, we run different types of educational aware campaigns with our members to make sure these types of scams do not come to be.

In the United States, centralized exchanges, as my colleague to the right of me mentioned, they are subject to robust AML and Countering the Financing of Terrorism (CFT) oversight. No amount of counter-illicit activity is acceptable, and CCI is committed to working with you and your office to make sure that we promote awareness and education to best stop consumer scams.

Ms. PRESSLEY. Thank you.

Actually, my next question is for the entire panel of witnesses. Please raise your hand if you oppose crypto scams and support protecting consumers.

Excellent. Let the record reflect that every single witness today raised their hand. I am glad we can all agree on that.

It is not enough to simply talk about it, we need to be about it. That is why I want to bring attention to the Consumer Financial Protection Bureau. This small but mighty government agency is one of the top watchdogs fighting hard for working-class people and their bank accounts. That is precisely the reason Elon Musk is trying to kill it.

If you are not familiar, the CFPB has put 21 billion—that is with a “B”—dollars back in people’s pockets. When it comes to digital assets, CFPB collected data from consumers and found that 40 percent of crypto asset complaints were about fraud and scams. They then used that information to develop resources for consumers and prioritize regulations for crypto firms to reduce predatory behavior.

The agency is now under attack. Elon Musk and his so-called “Department of Government Efficiency (DOGE) bros” have kicked out the employees, locked the door, and stopped all the work from continuing. They did it with the blessing of our scammer-and-harmer-in-chief, Donald Trump.

Earlier this year, Trump launched his own cryptocurrency meme coin. He promoted it on social media, and people invested in it, but then it quickly lost value, roughly 40 percent, when Trump insiders pulled their money for a profit, resulting in working-class people stuck with the losses. It was a scam.

Let us be clear. On one hand, Donald Trump will steal from people through a crypto scam. On the other hand, the hardworking staff at CFPB will fight to get people their money back. That is why we need this essential agency to be reopened to finish its necessary work.

Mr. Massad, the Consumer Financial Protection Bureau, before it was attacked by Elon Musk and DOGE, proposed that crypto payments are subject to the Electronic Fund Transfer Act. Why do you think that is important?

Mr. MASSAD. I think—Congresswoman, thank you for the question. I think we have to have a complete framework of regulation, particularly given the fact that the industry likes to push back against whatever regulator is trying to do.

To your point about shutting down the CFPB, we cannot build strong financial markets if we are going to sort of regulate by a pendulum swing—sort of go way over here to one administration and then go way over here to the other administration. I mean, reasonable people can disagree with some of their rules, but you do not shut down the agency.

Ms. PRESSLEY. Thank you.

I yield back.

Chairman STEIL. The gentlewoman yields back.

All members are reminded to refrain from engaging in personalities toward the President.

The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. Thank you, Chairman Steil, and thank you, Ranking Member Lynch, for holding this hearing.

Thank you to our witnesses for taking time to be with us today.

One aspect of stablecoins that interests me greatly is their utilization for business-to-business transactions.

Mr. da Ponte, why are stablecoins a better tool than traditional settlement rails for domestic business-to-business transactions?

Mr. FERNANDEZ DA PONTE. Thank you so much for the question.

We have been active in the space of crypto for the last 5 years and in the stablecoins for the last year and a half, and the reason that we are there is because we are a payments company, not a blockchain company. We see the potential of technology to bring the next generation of payment rails, and we believe that business-to-business payments are one of the places where we will see that adoption first.

In terms of domestic payments, there is a very clear advantage that, even in places that have adopted real-time payments and more traditional rails, through transactions with the stablecoins

and blockchain, businesses can transact outside of banking hours, outside of Monday to Friday, outside of 9 to 5.

We see that, for many small businesses that we serve, that means that they can get their payments in 2 days earlier, they can get their payments in without waiting for an Automated Clearing House (ACH), transfer to settle. We see fundamental advantages in reducing financial costs for those businesses.

Mr. ROSE. Thank you.

Recently, I had a constituent express a great deal of frustration regarding the cost and difficulty of conducting an international wire transfer to pay an invoice.

Mr. da Ponte, do you see similar benefits when stablecoins are used for international cross-border payments between businesses?

Mr. FERNANDEZ DA PONTE. Thank you so much for the question.

If there is value on the domestic side, there is even more value on the international side.

The cost of sending an international wire is in the range of \$50. The time that it takes to settle is in the range of 3 to 5 days and there might be other costs associated for the receiving party internationally.

When we can do transactions that are fast, cheap and can settle 24/7, and can settle in minutes, we are saving those businesses at least in 3 ways. We are putting 5 days of money back on their balance sheet, because they do not need to pre-fund the money. In many cases, they can get better exchange rates, because they can time when they do the transaction. They are also reducing the counterparty risk, because they do not need to have pre-funded money with their disbursement partners.

I have the luxury of being able to engage with our consumers and businesses, and I remember, a few weeks ago, I was talking to one of our small businesses, a pottery business out of Texas, who was very clear that the main reason that she was excited about this technology was not the need to reduce the cost of payments but to grow her business. She said that she had to decline a significant order from overseas, from the Middle East, because they could not figure out the way to make the payment.

If we can provide this fast and cheap and 24/7 settlement vehicle, we will be helping her grow her business and other millions of other American businesses.

Mr. ROSE. Thank you. I think you shed great light on that.

I would like to shift gears now and discuss the benefits that stablecoins offer to consumers, not just businesses.

Mr. Kim, I understand that traditional financial institutions charge 5 to 12 percent for remittances. How can stablecoins be used to lower those costs for consumers looking to make remittance payments?

Mr. KIM. Thank you very much for this important question, Congressman.

You are absolutely right, traditional institutions can charge anywhere from 5 to 12 percent for cross-border remittances. Stablecoins can reduce that to 1 percent or lower.

I am from New York, and New Yorkers send \$10 billion overseas on remittances. We are talking about \$500 million that could be spent on the local economy and other good reasons.

This is why it is so important to have a comprehensive Federal framework for stablecoins to further spur this innovation and leadership in the United States when it comes to stablecoins, Congressman.

Mr. ROSE. Thank you.

I fear that a lack of strong communication between the CFTC and the Securities and Exchange Commission has been why the Biden-Harris Administration was so unsuccessful in appropriately regulating digital assets.

Mr. Kim, would you be supportive of a joint advisory commission between the SEC and the CFTC to help harmonize them and resolve the jurisdictional overlap?

Mr. KIM. Absolutely, Congressman. Interagency collaboration and cooperation are critical to getting this right for the United States. We need clear delineation of responsibilities between the two agencies, and this is something that the President is working—the President's executive order also recognized by establishing the working group. I want to thank you, Congressman, for your leadership with the Bridging Regulation and Innovation for Digital Assets (BRIDGE) Act, as well.

Mr. ROSE. Thank you.

I have full faith that, this Congress, we will pass legislation regarding both stablecoins and market structure for digital assets. As we blaze a path forward, it cannot be done without cooperation and communication between the SEC and the CFTC.

Thank you, Mr. Chairman. I yield back.

Chairman STEIL. The gentleman yields back.

The Representative from New York, Mr. Torres, is now recognized for 5 minutes.

Mr. TORRES. Thank you, Mr. Chair.

I feel we in Congress should neither romanticize nor demonize emerging technologies like blockchain. Like all technologies, blockchain has constructive uses and destructive uses.

I feel like our mission should be to develop a regulatory framework that maximizes the best uses and minimizes the worst uses. Without a bipartisan agreement, we will continue to have a dangerously deregulated status quo that benefits offshore, overleveraged, deregulated actors. For me, a bipartisan agreement would be a fundamental improvement upon the status quo.

I want to follow up on Congressman Rose's questions on remittances. I represent the Bronx, which is one of the poorest counties in America. I have constituents who pay exorbitant fees simply to transfer their own money to their loved ones abroad, whether it be Mexico or the Dominican Republic.

My first question would be for Mr. da Ponte.

PayPal is obviously one of the largest payment processes in the world. What is the cost of transferring money via the conventional payment system versus the crypto or stablecoin payment system?

Mr. FERNANDEZ DA PONTE. Thank you for the question, Congressman.

The cost of sending money overseas varies widely by corridor, but information coming from sources like the World Bank would put the average cost in the range of around 6 percent, with a target of—I think that the desired target for the World Bank is to bring

that down to 3 percent. The current average, I think, is in the range of 6 percent.

When you are doing those transactions on stablecoins today, if you are doing that purely from a stablecoin wallet to a stablecoin wallet, depending on the protocol that you are using, it can be as low as 1 cent per transaction in some of the most efficient wallets.

That still would not address part of the complexity, because then you would need to explain to the person on the other side they need to get a crypto wallet, they need to find an exchange, so there is still some friction there.

We are finding experiences that combine fiat and stablecoins for the benefit of the user. For instance—

Mr. TORRES. I just want to simplify it, so the average cost of remittances is 6 percent. The World Bank has a sustainability development goal of 3 percent. What is your cost with stablecoin?

Mr. FERNANDEZ DA PONTE. When somebody on Xoom, our remittance product—we have enabled stablecoin as a funding instrument. When somebody sends a remittance funded by PYUSD, we do not charge any transfer fees, so the transfer fee that is charged to the user is zero. There is still a component on the foreign exchange's (forex's) spread depending on where that corridor came from.

Mr. TORRES. Okay, it is zero when it comes to the transaction fees. Then if you factor in the spread for the foreign currency exchange rate, what would it be?

Mr. FERNANDEZ DA PONTE. That—I would need to come back to you for follow up, but I—

Mr. TORRES. Is it less than 3 percent?

Mr. FERNANDEZ DA PONTE. In many cases, it would be less than 3 percent.

Mr. TORRES. Okay.

We are living in a time when foreign demand for U.S. stablecoins is on the—I am sorry—foreign demand for U.S. Treasuries is on the decline. It appears to me that stablecoin issuers are becoming the largest purchaser of U.S. Treasuries.

It would seem to me that the proliferation of stablecoins can dramatically expand the market for U.S. Treasuries. What impact would that have on the cost of U.S. debt?

Mr. FERNANDEZ DA PONTE. Thank you, Congressman, for the question.

U.S. Treasuries are definitely being established as one of the assets that are being preferred for the servicer of stablecoin. As the market grows, that will inevitably drive demand, especially as American issuers are able to issue more here inside of the United States and they are able to provide that increase in the market.

I do not have an opinion on what that would make for the cost of debt of the United States but definitely is one of the aspects where net demand for Treasuries could grow.

Mr. TORRES. Or, it would seem to me, economics would dictate that growing demand for U.S. Treasuries would lower the cost of U.S. debt, but—

Mr. Massad, do you feel stablecoins should be regulated in the same manner as banks?

Mr. MASSAD. Not quite in the same manner, but with some similar principles, such as some of those in the STABLE Act, like full reserves, capital and liquidity requirements, risk management measures, and so forth.

I have been calling for this for years because—not just to address the risks—

Mr. TORRES. You would concede that a stablecoin issuer that has no fractionalization of reserves—

Mr. MASSAD. Correct. Agreed.

Mr. TORRES [continuing]. in their lending—

Mr. MASSAD. They are not creating—

Mr. TORRES [continuing]. functions qualitatively different from a bank—

Mr. MASSAD. They are not creating—

Mr. TORRES [continuing]. and, therefore, should have its own regulatory framework?

Mr. MASSAD. Absolutely.

Mr. TORRES. Okay.

I see my time is about to expire, so I will leave it at that. Thank you.

Chairman STEIL. The gentleman yields back.

The chair now recognizes the chair of the full committee, the gentleman from Arkansas, Mr. Hill.

Chairman HILL. Thank you, Chairman Steil and thank you for your leadership of our important work in the 119th Congress on digital assets.

I appreciate the questions of my fellow committee members, and I appreciate all the witnesses being with us today.

Mr. Garrison, today's investors make investments in digital asset projects through a series of exemptions that the SEC has crafted, each with their own advantages and limitations.

Could you take a minute and discuss the different exemptions that digital asset projects are currently using to raise money with investors and what the principal obstacles are to that process?

Mr. GARRISON. Certainly.

The primary exemption that most digital asset issuers rely on is Regulation S, which is a safe harbor for offshore transactions to prevent U.S. investors from even participating. As a starting point, many U.S. investors are just kept out.

For those that do issue to U.S. investors, you typically do so through the Regulation D safe harbor, which can only be sold to wealthy investors. You have to have over \$200,000 in income or a million dollars' net worth to participate in that.

In the United States there really is no straightforward way to get digital assets out to retail investors in an either registered or exempt offering.

Chairman HILL. Yes. That is helpful to me because this is—what I think the ecosystem has to understand that not all these needed activities can be taken care of by the commission by itself without Congress.

What would be, in your view, the key features of a workable exemption-type system that SEC could add to that without Congress?

Mr. GARRISON. Certainly. The SEC could use its exemptive authority to add a new exemption similar to Commissioner Peirce's token safe harbor proposals from a few years ago, for example.

A few features that could be helpful there are: The ability to access retail investors, as well as tailored disclosure items for this industry, right? So, token-holders have different interests than a shareholder in a company. The types of disclosures that are needed are completely different in this situation.

Chairman HILL. Yes.

Mr. GARRISON. Providing that type of information, you can pair that with many investor protections, individual limitations on how many people can participate, how much they can participate of their net worth.

Many of the same concepts and existing securities law exemptions can be grafted over in a way that makes it a balanced approach.

Chairman HILL. Thank you. I think we have worked, certainly, with that concept as we drafted our FIT21 bill in the last Congress.

Bitcoin clearly is the most popular digital asset in the ecosystem, and it is one example where both the SEC and the CFTC have agreed that it is not a security, along with ether.

Do you think, under the current securities laws, it would be possible for a national security exchange to list bitcoin and a security alongside each other? Is that possible, do you think, under current—

Mr. GARRISON. No. No, it is not.

Chairman HILL. Not? You do not believe it is?

Mr. Jachym, do you agree with that? Do you think—

Mr. JACHYM. I think there—Congressman, thank you for the question. I think there could be exemptions put in place.

It is our view that, rather than do this piece by piece through exemptive relief or no action from the agency, it is really important for Congress to set a clear statutory framework and do that across both agencies. We have seen prior examples where markets have dual registrations at the SEC and CFTC.

The fact of the matter is, the rest of the developed world and most other emerging jurisdictions have just called these crypto assets, and you have one regulator, one registration framework. We have to work within our unique legal system, but I think, in order for our framework to be durable and keep pace with the innovation, the tests and the jurisdictional lines need to be clear and simple.

Chairman HILL. Mr. Garrison, do you agree with that?

Mr. GARRISON. Yes. There is, without a doubt, a need for clear jurisdictional lines and clarity.

Chairman HILL. You have advocated for a joint Self-regulatory Organization (SRO) to oversee digital assets as a convenient way to sort of sidestep these questions. Are you still advocating for that?

Mr. Garrison.

Mr. GARRISON. I am sorry. Clarification, for a joint SRO—

Chairman HILL. Yes.

Mr. GARRISON [continuing]. to oversee SEC and CFTC trading?

Chairman HILL. Yes. Yes.

Mr. GARRISON. Yes, I think that could potentially work great. Any type of communication between the two agencies and coordination on regulations would make sense.

Chairman HILL. My time has expired, Mr. Chairman. I yield back.

Chairman STEIL. The gentleman yields back.

The Representative from Texas, Ms. Garcia, is recognized for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman and thank you to all the witnesses.

I want to do some follow-up to the questions that Mr. Torres was asking you, Mr. da Ponte.

The crypto industry has always boasted about the easier access and the savings of using crypto or stablecoins in lieu of remittances, and they talk about all these prices. The reality is, do we have that many migrants using crypto or stablecoins to transmit remittances?

Mr. FERNANDEZ DA PONTE. There are no—thank you for the question so much.

The use of remittances—the use of stablecoins broadly for remittances or for other types of payments is still in the early stages. The vast majority of the use case for stablecoins today, where stablecoins have been adopted, is mostly on crypto and trading markets.

We see some early stages in which both consumers and businesses are using that for cross-border, peer-to-peer (P2P) payments or for business-to-business payments, but it is still in very early stages.

Ms. GARCIA. What percent of remittances today do you think are being transmitted with crypto or stablecoins?

Mr. FERNANDEZ DA PONTE. I do not have data for that, but my best estimate would be that it is going to be in the low single digits. It is still a very small amount.

Ms. GARCIA. It is very small, right. Because, frankly, at least when—I still remember the first hearing we had on this topic, and I questioned the witness at the time, and he, too, could not give me a single instance where he had seen it done. As a practical matter, yes, it may be easier to transmit, but the receiving party has to have the capacity to receive it. It is not something you can just get, go to the market, and buy your milk.

Likewise, do you have any data on the breakdown by income of the buyer, customer, consumer, and the investor that does use stablecoin or does invest in stablecoin or crypto?

Mr. FERNANDEZ DA PONTE. I do not know that we have that data, but I can consult with our team and come back—

Ms. GARCIA. Again, it is a question that I have been asking now, it seems like, for 5 years, and no one seems to be able to answer that question, even some of these working groups that are put together.

Experts come, and you all like to talk about how inclusive this can be and that this will help the unbanked. It is laudable goals, but the reality is, unless you are really very rich, you are not doing any of this.

The average American just seems to be overwhelmed with this discussion, that they do not really even understand what we are talking about, that I think it is going to be really hard for us to get past some of those hurdles. When you talk about the underbanked, those with limited English proficiency, I think it is getting—there are a lot of dubious people know about what this really means.

We know cash. Cash is king. We really do not want, at least in my district, anybody competing with the U.S. dollar. I think there is a big hurdle here that we have to use, but we also have to make sure that, whatever we are doing, that we do have a framework to protect the consumer and that we can make sure that they also have remedies for justice if they get scammed, as Ms. Pressley mentioned.

Mr. Massad, do you think the governmentwide mandate to eliminate diversity, equity, and inclusion efforts will change the crypto industry in the long run?

Mr. MASSAD. That is a good question, Congresswoman. I am sure it will.

I think it is very unfortunate to eliminate these programs entirely. Even if you can find examples of how they have been used that you think are an overreach, the notion that we should eliminate these things, I think, is not good policy. Again—

Ms. GARCIA. It is part of the branding of this industry from the beginning, as I said, “We will be there for the unbanked, for the poor person to send a remittance, for everybody—we will include everybody. We are not going to be like the banks.”

Mr. MASSAD. No, I agree with you that the industry likes to talk about inclusion. I do not think we have seen that much of that.

To your question about stablecoins, who is using them for remittances and so forth we might see that use case develop. The fact is, stablecoins are mostly used today for trading crypto.

Now, if we had a regulatory framework with sufficient protections that people could have confidence that a stablecoin was really worth a dollar, then we might see people use remittances.

I agree with Mr. Fernandez da Ponte that the cost of remittances is very, very high, and we should be looking for ways to bring it down. There are other companies trying to bring it down through non-blockchain technologies, and they are making progress in that regard.

Ms. GARCIA. Thank you.

I yield back.

Chairman STEIL. The gentlewoman yields back.

The gentleman from South Carolina, Mr. Timmons, is recognized for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman, and I want to thank the witnesses for being with us today.

Over the past 4 years, under the Biden Administration and Chair Gensler, innovation within the digital asset sector has been driven out of the United States. Numerous groundbreaking blockchain companies with potential to transform our economy have relocated to jurisdictions with well-established regulatory frameworks. Meanwhile, international competitors have gained a distinct competitive advantage while American businesses in this

space were essentially dismissed by the administration, with the message to simply go away.

Mr. Fernandez da Ponte, as an American company, how has PayPal's digital currency business been affected by the absence of regulatory certainty over the past several years?

Mr. FERNANDEZ DA PONTE. Thank you so much for the question.

We have been in the industry—we have been in the payments industry for 25 years, and we have been—we are regulated in many, many jurisdictions, and we take that regulation very seriously.

When we decided that we were going to enter this space, we went to the highest regulatory standards that we could go. We obtained the first provisional BitLicensing in New York. We obtained the first upgrade for BitLicense in New York. We obtained a limited purpose trust charter out of New York as well.

We have gone the State route in the place in which the regulation was available to us and where we could interact with the system.

Definitely, there are constraints on how products are designed that derive from that lack of clarity and that lack of understanding of when one specific token would be considered a security or not. We support a very small number of tokens in our platform—

Mr. TIMMONS. Thank you.

Mr. FERNANDEZ DA PONTE.—and are mainly driven by—

Mr. TIMMONS. A quick follow up question. How could clear legal guidelines for digital assets and blockchain technology help non-bank entities like PayPal compete more effectively on the global stage?

Mr. FERNANDEZ DA PONTE. We believe that, as the world moves to the next generation of payment rails, it is incredibly important for a payment company like us to be involved. As the world moves toward mobile money wallets internationally and toward networks that will interoperate with each other, we see an increasing volume that is going into those rails. We need to have an ability to compete in that international market, because it is happening outside of the United States before it is happening in the United States.

Mr. TIMMONS. Thank you for that.

Mr. FERNANDEZ DA PONTE. Thank you.

Mr. TIMMONS. Mr. Jachym, how about for Kraken? What would your answer be? How would clear legal guidelines help assist competitiveness of the U.S. economy?

Mr. JACHYM. Thank you for the question, Congressman.

The clarity needed and provided by the legislation that has advanced over multiple congressional cycles would solve for a key foundational piece of this puzzle, which is regulation for centralized intermediaries. That will allow investment and growth.

Now, if you look at the trend that has happened here, both at the level of the project development teams and the innovators through to the investing community and then to the centralized markets, we have lacked that clarity in the United States, which has pushed innovation and pushed development offshore.

It is not just the legal bills. It is the distraction of management and board and our businesses to think proactively about investing.

We are very excited for the change in tone and the cooperation, and we think that is going to drive new innovation here in the United States.

Mr. TIMMONS. Thank you for that. I can assure you; help is on the way.

Last Congress, I introduced the New Frontiers in Technology Act with my colleague from New York, Mr. Torres. The aim of that bill is to provide clear definitions within the expanding and often ambiguous digital assets regulatory landscape.

As you may know, non-fungible token creators and marketplaces have faced challenges for years due to unclear regulations, while countries like Japan, Singapore, and South Korea have created favorable conditions that have allowed Non-Fungible Token (NFT) companies to thrive.

I was encouraged to see a discussion draft of my bill included in today's hearing, and I look forward to advancing this important work later in this Congress.

Mr. Kim, can you describe some of the regulatory ambiguity regarding the treatment of NFTs and explain why these assets need to be approached in a different manner than, say, bitcoin or ethereum?

Mr. KIM. Absolutely. Thank you for your question, Congressman.

It is important to clarify the non-security status for NFTs such as artwork, collectibles, and nonfinancial applications. Imagine an artist looking to hire a securities attorney—apologies to my colleague to the left of me—before selling this art piece.

This is why your bill is so important. Thank you to you and Congressman Torres for your leadership there to clarify this important issue.

Mr. TIMMONS. Thank you for that.

I am particularly interested to see how NFTs can revolutionize various sectors but particularly real estate. I think that there are a lot of efficiencies long-term that we can use the blockchain, and this legislation would help go a long way in that endeavor.

Congress has an obligation to make sure the U.S. economy is the best place in the world to start and build a business. That is what we are working on in this subcommittee, and I am optimistic we will get it done this Congress.

Thank you.

I yield back.

Chairman STEIL. The gentleman yields back.

The Representative from California, Mr. Liccardo, is recognized for 5 minutes.

You may be able to pull the mic over—

Mr. LICCARDI. Oh, here. Got it. Thank you. My mistake. Wrong button. Thank you.

Thank you, Mr. Chairman. Congratulations, as well.

I appreciate the testimony of the witnesses. Thank you all for being here.

I hope that we do move a stablecoin bill out with bipartisan support. I appreciate the hard work that has been done on all sides, and I also particularly appreciate our ranking member's work late last year to try to achieve a compromise, which I think was a good bill.

I am interested—and perhaps I will start with you, Mr. Fernandez da Ponte, since your company is a well-known national brand even to those who are not familiar with crypto, and you happen to be headquartered in the great American city of San Jose.

I wanted to ask, given the focus that you have, and your company has on having a stable payment system—in your testimony, you wrote on page 5 that “regular and predictable market policy is necessary for the crypto industry to grow and thrive.” That is certainly understandable. You clearly support State regulation—an option for State regulation, but I noticed that you also encourage that there be uniform standards, for example, around reserve requirements, around risk management, and governance.

Then, do you share the concern that Mr. Massad has, that there ought to be some Federal regulation or oversight over what the standards ought to be if we are going to have a State-chartered stablecoin?

Mr. FERNANDEZ DA PONTE. Thank you, Congressman, and thank you for your leadership in our home city. It is a great city, indeed—

Mr. LICCARDO. Thank you.

Mr. FERNANDEZ DA PONTE.—in San Jose.

Yes, we advocate for the need for legislation, and we advocate for the State path. The reason that we advocate for the State path is that, when we look at it from our perspective, we are a payments company, and payments are regulated at the State level. We strongly believe that fully backed, fiat-backed, one-to-one reserve stablecoins are—and the issuance of those payment stablecoins is the business of payments, not the business of banking or fractional reserve or the points that were made here.

We do believe that it is important to maintain a State path.

I think that the point on the standards is that a State path can coexist with a Federal path. We see the advantages of having a Federal path as well. We do believe that there should be that general set of standards, that it is important that we have equitable standards in terms of reserve management between any Federal path and any State path. We also believe that it is important to not have a duplicity of regulation.

This idea that they can coexist and share common standards, we think, is an important one.

Mr. LICCARDO. Thank you very much.

Mr. Jachym, do you also agree that there ought to be some baseline standards set even if there is a State charter stablecoin?

Mr. JACHYM. Absolutely, Congressman. Thank you for the question. I think, if you look in the stablecoin space, again, with the goal of encouraging a healthy, vibrant, competitive stablecoin market, both State and Federal pathways are important, and there should be minimum standards set.

I think from our standpoint as a centralized intermediary, it is slightly different. If you look at how markets are regulated in traditional markets, whether they are derivatives or equities, a unified Federal framework is essential.

Today, we operate with over 40 State money transmission licenses. There are only a handful of States that have put in place crypto-focused regulations for centralized intermediaries, so we believe it is imperative to advance and finalize as soon as possible the

market structure bill which puts a clear Federal framework in place for exchanges like us.

Mr. LICCARDO. Going to Mr. Massad's concerns on the STABLE Act about extraterritorial enforcement, should we not give the Attorney General the authority to enforce and explicitly ensure there is extraterritorial application, since we clearly have—many of these entities are abroad?

Mr. Jachym.

Mr. JACHYM. I think it is important, first and foremost, to get a stablecoin bill done. In terms of the cooperation and international cooperation with other jurisdictions, I think that is the most important first step.

We have seen stablecoin rules finalized in the European Union, and we have seen the results of those stablecoin rules now go into effect. In fact, those stablecoins that have not taken steps to register as issuers and bring themselves within the regulatory perimeter are being delisted from major exchanges.

I think, again, that is just a case in point of why it is so important to move this forward as quickly as possible.

Mr. LICCARDO. Thank you.

I yield.

Chairman STEIL. The gentleman yields back.

The Representative from Indiana, Mr. Stutzman, is recognized for 5 minutes.

Mr. STUTZMAN. Thank you, Mr. Chairman.

Thank you to the panel for being here. Today, I think this has been a very informative hearing and one that, obviously, I am excited about the future, and, obviously, a lot is happening.

I was actually—I served 8 years ago, and I remember when this committee had its first hearing on cryptocurrency back in 2014, and Mr. Huizenga was the chairman of the committee. Fast-forward to 2025, and this House has taken substantial steps regarding a Federal framework for how digital assets can be incorporated into our financial ecosystem.

Despite the substantial work my colleagues have done on market structure, we saw an administration over the last 4 years that chose regulation by enforcement over permanent statute. The Biden Administration engaged in an all-out assault on digital asset firms, token issuers, and blockchain developers.

Furthermore, the SEC and the CFTC were in a turf war over their jurisdictions over these tokens. It is my understanding that there was a lot of confusion that resulted in a lack of unity and regulation by enforcement, which harmed emerging technologies and U.S.'s supremacy in digital asset technology.

While the confusion—since the Trump Administration, thankfully, has taken over, Commissioner Peirce has unveiled a 10-point action plan for the SEC's new Crypto Task Force. I would just share with my colleagues on the other side of the aisle that it is a really good read, and I would encourage you all to read it.

One of the points that the Commissioner makes is, "Where Congress has directed the Commission to impose requirements on market participants, SEC rules will not let you do whatever you want, whenever you want, however you want. Some of these rules will impose costs and others compliance burdens that some may find ir-

ritating, and the Commission will use its enforcement tools when necessary to pursue noncompliance.”

It goes on to talk about the direction that it is going and then, of course, lists 10 different directives or plans of action.

Mr. Garrison—and I would offer to anybody else if they would like—if you could briefly summarize some of the most important points in the action plan and explain some of the impact that you think that they will have on digital assets if they are accomplished.

Mr. GARRISON. Certainly.

The first two priorities, I think, are incredibly important. The first is clarifying the status of digital assets under the securities laws, as well as, the second, scoping out activities that are outside the scope of Federal securities laws.

I think that really is the foundational question that the SEC has to tackle, creating a very clear interpretation of how the SEC views when a digital asset that is sold pursuant to an investment contract fits under the securities laws. Everything else flows from that.

Another maybe bucket, I would say, for the 10 priorities is writing rules and providing guidance on how regulated intermediaries by the SEC can touch digital assets. Now, that would apply both in the context of digital assets that are not securities as well as digital assets that are securities, like a tokenized stock.

Providing a clear pathway for broker-dealers, investment advisors, clearing agencies, and transfer agents to be able to engage will really allow the ecosystem to flourish, will allow it to do so in a regulated way and in a way that is compliant and safe.

Mr. STUTZMAN. Yes.

Anybody else like to comment quickly?

Mr. MASSAD. Yes, if I could. I think it is a very thoughtful plan. I have great respect for Commissioner Peirce and Acting Chair Uyeda.

I think, given that and given the legislation that you all have noticed to create a joint committee, I would urge you to let the commissions work on this for a while and get stablecoin legislation in place—let us learn from that—but not rush on market structure. Because I think we could easily screw things up through the market structure legislation more than help.

Mr. STUTZMAN. Thank you.

I have 45 seconds. Anybody else want to comment?

Mr. KIM. Yes, just very briefly, Congressman.

I think, again, at the risk of repeating myself, it just reflects the new SEC leadership and administration, which wants to work with industry, which is extremely encouraging.

I think it was Mr. Garrison’s written testimony where he had a great line which said the industry is not looking for special treatment, just fair treatment.

We look forward to working with the task force on next steps.

Mr. STUTZMAN. Okay.

Mr. JACHYM. Congressman, if I may add, one subject that has not been mentioned is clarity around staking, which Commissioner Peirce does outline in that plan. We think it is a very important part of the ecosystem. It is a lesser-known component, but it is

unique to the crypto ecosystem. It is something we are looking forward to getting regulatory clarity here on in the United States.

Mr. STUTZMAN. My time has expired, but I would be curious, at some point, somehow, just some specific elements from successful regulatory frameworks that other jurisdictions have, what you all would recommend would be something that we keep in mind.

Thank you.

I yield back.

Chairman STEIL. The gentleman yields back.

The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. The ranking member made it—I think demonstrated how the Trump coin was pumped up to \$75 and now dumped down to \$17 and chiefly was owned by 40 wallets: could be only one family; could be the Trump family. It is called the Trump coin.

I want to focus on dogecoin. On November 5, everybody knew that election was going to be good for crypto, and bitcoin went up 22 percent. One coin, dogecoin, went up, in 1 week, six times as fast as bitcoin. Then, after 1 week, they named a big-time department after the coin, and the coin still uses the dogecoin dog as its emblem.

Somebody knew for a week that, as long as Trump had been elected, there would be this new entity called DOGE and that would popularize the coin, drive its price up. Now, I do not know who would have known that this new commission would be called DOGE. I do not know whether Mr. Musk or Mr. Trump knew, but they did give it the name exactly 1 week after the election.

Mr. Massad, assuming the dogecoin is not a security, is it subject to insider trading laws?

Mr. MASSAD. No, it is not.

Mr. SHERMAN. By arguing that it is not a security, you can engage in knowing a week in advance that it is going to be popularized through a government action creating a well-known and very popular commission, trade on that, make a lot of money. They say that Musk is not smart.

I will point out that Trump used to—well, has just recently threatened the Brazil, Russia, India, China and South America (BRICS) countries if they dare try to compete with the U.S. dollar, while favoring the crypto bros who have announced that the purpose is competing with the U.S. dollar, all while trying to pass laws preventing a central bank digital currency because that would allow the dollar to compete with crypto.

I want to focus a little bit on stablecoin. Most stablecoins are tied to the U.S. dollar. Say we are thinking about one of those. The question is, how is a stablecoin different from a money market mutual fund? Now, it is cooler because it is called a coin, and being a cool thing, it can dream of a functionality it does not have, just as my Ford Fusion is dreaming of self-driving.

In terms of current functionality and putting aside just how cool it is to tell people you do not have a money market fund, you have got a stablecoin, what does a stablecoin tied to the U.S. dollar offer the investor that old-fashioned, boring mutual funds—that money market funds do not offer?

Mr. MASSAD. Thank you for question, Congressman.

I think the way I think about stablecoins is, they should not be an investment vehicle. They should not pay interest. And—

Mr. SHERMAN. Not even the little bit of interest I get on my money market fund?

Mr. MASSAD. Not to start out with. I think were—

Mr. SHERMAN. Okay.

Mr. MASSAD [continuing]. are better off restricting that. So, they are—

Mr. SHERMAN. So, it is worse—

Mr. MASSAD. They are a payment mechanism.

Mr. SHERMAN [continuing]. than a money market fund. My money market fund is absolutely stable, strongly regulated, and pays little interest. You are talking about a stablecoin that may or may not be stable and would pay no interest at all.

So what is the advantage that it has, assuming I am not trying—

Mr. MASSAD. Again—

Mr. SHERMAN [continuing]. to avoid the anti-money-laundering statutes, assuming I am not a tax evader, and I am not hiding money from my spouse?

Mr. MASSAD. I think it is the—

Mr. SHERMAN. What advantage does it have?

Mr. MASSAD. I think it is the potential that technology does provide certain cost savings in terms of how these can be moved—

Mr. SHERMAN. In some day in the—but why invest in it now? That is like buying a Fusion—

Mr. MASSAD. Again, I do not view it as an investment, Congressman. I do not want it to be an—

Mr. SHERMAN. So why would anybody—

Mr. MASSAD [continuing]. investment. I want it to be a payment mechanism.

Mr. SHERMAN. Why would anybody buy a stablecoin, which today is a worse payment system for any honest person, on the theory that someday in the future it may have a greater functionality than it has today?

Mr. MASSAD. I think—

Mr. SHERMAN. Why would anybody own a stablecoin now, assuming they are not a drug dealer, a terrorist, or a tax evader?

Mr. MASSAD. Congressman, I think the question is, if we create a framework that addresses the risks, will stablecoins become a means of payment generally used? That question is not clear yet, but—

Mr. SHERMAN. The money market mutual fund already is.

Mr. MASSAD. No, that is an investment, in my mind. I do not—

Mr. SHERMAN. I am sure I could—

Mr. MASSAD. I do not use that to pay for my coffee.

Mr. SHERMAN. I am sure I could find a money market fund that pays zero interest if—

Mr. MASSAD. No.

Mr. SHERMAN [continuing]. I hated the concept of the world investment, but—

Mr. MASSAD. I am not—but there is a transfer agent. There are lots of reasons why I do not use a money market fund to go buy a pair of jeans or pay for dinner. A stablecoin—

Mr. SHERMAN. You are saying you cannot use a stablecoin to do that. I would assert that we are creating a stablecoin to facilitate those who are trying to hide assets.

I will yield back.

Chairman STEIL. Does the gentleman yield back?

Mr. SHERMAN. I do.

Chairman STEIL. The gentleman yields back.

The gentleman from Florida, Mr. Donalds, is recognized for 5 minutes.

Mr. DONALDS. Thank you, Chairman.

That was a very interesting dialog. My statement is not to be disrespectful. It is to be factual about where we are going.

I think, based upon the previous conversation, the question could be, why did they decide to make calculators when an abacus can do? That is just simply because technology is taking us to a place where it is far more functional. You can do so many other things. It is far more interactive, it is far more user-friendly, and it actually speaks to the experience that people are choosing to operate in.

No difference with how you choose to do calculations or how you choose to exchange. Whether it is a currency, a stablecoin, a cryptocurrency, et cetera, it is really the medium of holding value and/or exchange that people choose to engage in.

Obviously, with where people are going, not just in the United States but in the world, stablecoins, crypto and blockchain technology are not going away. They are the modes of storing value and/or transacting into the future, and so it would behoove us in Congress to make sure that we have a framework that allows for the proliferation of what human beings, especially Americans, choose to want to invest in and want to do going forward.

That said, Mr. Fernandez da Ponte, the U.S. dollar is the asset that basically underlies 98 percent of transactions in stablecoins. As stablecoin use flourishes in countries around the globe, so does the U.S. dollar.

Would you describe the role that stablecoins play in supporting U.S. dollar dominance, particularly given the current global landscape?

Mr. FERNANDEZ DA PONTE. Thank you for the question, Congressman.

The role of the U.S. dollar as a global reserve currency is a fundamental strength of the U.S. economy, and I do not think that we should take it for granted if this technology ends up generating that next generation of payment rates.

As you said the vast majority of stablecoins today are denominated in U.S. dollars. I do not think that we should take that for granted. The reason for that is because the preeminent use case today is crypto trading, and the crypto trading markets are denominated against the U.S. dollar.

As the use of stablecoins make their way into mainstream commerce and payments, I do believe that we will see the appearance of stablecoins that are denominated in other currencies. Therefore, it is very important that the stablecoins that are denominated in U.S. dollars and issued in the United States are able to compete with those stablecoins that are going to emerge outside.

Also, I think that it is important that we have a situation in which not the vast majority of those dollar-denominated assets are issued by companies outside of the United States and sometimes maybe backed by reserves that are not dollar-denominated either. We think that a clear framework for the stablecoin issuers in the United States will contribute to maintaining the U.S. position and the U.S. dollar position externally with a strong competition driven by American companies.

Mr. DONALDS. All right. Thank you for that.

Mr. Garrison, as we consider legislation to provide regulatory clarity to the digital assets industry, what role could self-regulation play in the larger market structure?

Mr. GARRISON. I think self-regulation is an important layer of the overall sector, right. I think we see that in the financial services world, and it works as a good model. Self-regulatory organizations have existed in the securities context since the beginning of our framework.

We currently have the Financial Industry Regulatory Authority (FINRA). I mean, even the national securities exchange system is a group of—each one a self-regulatory organization. You see that on the derivative side as well with the National Futures Association (NFA). There is absolutely no reason why porting that concept over into the digital asset space would not make sense.

Mr. DONALDS. Okay. Thank you for that.

Lastly, Mr. Jachym, quick question for you. This kind of doubles back to the U.S. financial system's dominance. What is your view in terms of stablecoins really being an additive toward not just U.S. market dominance but also U.S. dollar dominance on the world stage?

Mr. JACHYM. Yes. Thank you for the question, Congressman.

There is wide variety of use cases that have been proven out, some that have not yet been proven out. It is very clear that stablecoins are going to improve efficiency in cross-border admittance, and I think we have heard that from the panel today.

It is going to be really important that the United States leads in terms of putting rules in place. Other jurisdictions have done this, not just for stablecoins but for centralized markets. They go hand in hand.

If you look at the top 4 percent of assets on our platform, it represents over 60 percent of the volume, right. Two of those are stablecoins. If you look at the top 10 percent, right, that represents almost 80 to 90 percent.

Again, let us focus on passing rules for the most important pieces of the market today.

Mr. DONALDS. Thank you, gentlemen.

Thank you, Chairman. I yield back.

Chairman STEIL. The gentleman yields back.

The gentleman from Illinois, Mr. Casten, is recognized for 5 minutes.

Mr. CASTEN. Thank you.

Thank you all for staying here so late. There has been a lot of conversation about the serious end of crypto, stablecoins. I am going to focus on the silly end, the meme coins.

It is funny, we have all these rules of decorum, and it is hard to talk about meme coins with the language that the industry uses to talk about them. I see you all smiling. We will refer to them as fecal coins for the purpose of this hearing.

Is it safe to say from your smiles that you generally share the view of the industry that this is not something that has any innate value, is meme coins?

Mr. MASSAD. Yes.

Mr. CASTEN. Yes. All right. Have any of you invested in—again, this starts to get a little bit colorful language—the Hawk Tuah girl’s coin? Have any of you invested in that?

No. Okay.

Mr. MASSAD. They are fan clubs, which is really what they are.

Mr. CASTEN. Yes. I say that to raise a more serious point, that, as several of my colleagues have noted, the President of the United States issued something that has no innate value. It does not have the value that maybe a Bible, a pair of sneakers, a steak or a bottle of water has. It has no innate value.

It hit, I think, \$75 at its peak the day before the inauguration, on the 19th. Anybody know what it is trading at today?

Mr. MASSAD. It is a lot less, but I would have to check. It was like—

Mr. CASTEN. Just under \$16 when I was just checking here a moment ago. Like the Hawk Tuah girl coin, it is really volatile. You boost your Q score, and it bounces up, and then people realize they are holding something worthless.

The rise in value when it popped up, according to Chainalysis, said that it appeared to include a significant profit to Chinese traders, that 50 of the largest investors on the coin have made profits in excess of \$10 million each, and the crash in the coin’s price has caused more than 800,000 wallets to lose \$2 billion combined.

Now, as I understand the work that Chainalysis does, they do not capture any off-chain transactions, so stuff happening at Kraken or otherwise.

Mr. Jachym, is it reasonable to assume that the \$2 billion in on-chain transactions is much less than the total loss that has actually been experienced from meme coin investors?

Mr. JACHYM. Congressman, thank you for the question.

I cannot speak to the specifics of on-chain versus off-chain. I know for our markets, again—

Mr. CASTEN. I am just making the point that, like, the Chainalysis reports, they are tracking on-chain trades, right, and so, we know—I mean, there has been like National Bureau of Economic Research that said that for bitcoin maybe 10 times the volume is off-chain.

If we know it is \$2 billion on-chain and there is all this off-chain volume, safe to assume that the total losses are more than \$2 billion, right?

Mr. JACHYM. Potentially, Congressman. I think, when it comes back to your question of the role, the value, I think value is in the eye of the beholder. A lot of these are sentiment-driven assets.

Mr. CASTEN. Fine. They do not have any value.

Now, I think there is a lot of conversation we can get into about what is the net worth and obviously like the Trump family and the entities they control has gained a lot on this.

But because we allow—we still have rules that commingle brokers and issuers and dealers, the reports are that—and, again, according to Chainalysis, is that entities that the Trump family controls has made perhaps \$100 million on trading fees for these coins, setting aside what the value of the coin is. Again, that is just based on the on-chain transactions that they track.

Mr. Massad, you say you have a comment there. I am assuming that you would agree with me that the Trump family has probably made more than \$100 million in broker's fees. We just cannot track it.

Mr. MASSAD. We cannot track it, but, Congressman, you are raising so many good points. The thing about these is that the industry talks about securities versus commodities distinctions. If I were at the CFTC today and someone came—or 2014, someone came to me with the Dogecoin instead of bitcoin, I would not have declared that a commodity, okay? It should not be traded as a commodity. It should not be regulated by the CFTC. Maybe by the CFPB, but that is the kind of speculative stuff—

Mr. CASTEN. There is rich investor protection here, but I am running out of time.

Mr. MASSAD. Yes, we need it.

Mr. CASTEN. I want to get to another point. If you have something that is hard to track, that has no innate value, that does not require you to give something, like a sneaker or a Bible, in exchange for goods and services, is not this just a way to transfer money to people? And if we know that foreign governments—

Mr. MASSAD. Yes.

Mr. CASTEN [continuing]. are participating in these markets, is not this a violation of the Emoluments Clause of the Constitution?

Now, I know we have had conversations about engaging in personalities. This is not partisan. This is a question of do we in Congress think that the Constitution is worth defending. If the President of the United States is putting out something that has no innate value and is getting foreign entities to pay him for it, is not that a direct violation of the Emoluments Clause? If we are taking an oath to defend the Constitution, should we not care about that?

I yield back.

Chairman STEIL. The gentleman yields back.

The gentleman from Iowa, Mr. Nunn, is recognized for 5 minutes.

Mr. NUNN. Thank you, Chairman Steil, for convening this very exciting and important discussion on where we are going. This is something that is going to change the landscape of the country not just in the next years to come but in the months ahead.

As a member of both the Financial Services Committee and the Agriculture (Ag) Committee, we have dual jurisdiction here, one that we have talked about before between both the commodities and the securities place. However, after this past election, I believe we have turned a page here. I cannot emphasize how different the atmosphere in D.C. feels, particularly when it comes to our transitioning back from an SEC chair who claimed jurisdiction over

every single token out there, except for maybe bitcoin, and the launching of a crypto task force this past year.

Together, I believe that we are going to have the opportunity to really cement the future of America being a destination for crypto and digital assets moving forward, something in the last 4 years we have remained highly rudderless.

First and foremost, American leadership. I believe with this new administration we can anticipate a wave of innovation, particularly in blockchain products. This comes after losing 2 percent of market share per year in blockchain development. This has been over the course of the last half decade.

I want to qualify this for everyone who is paying attention. That is a market share drop from 40 percent to 29 percent, the United States losing out as a global leader in a space where just years before we had pioneered, and now we are seeing immediate competition coming out of Beijing.

I believe strongly that it is not too late, Mr. Chairman. We have the opportunity to reverse course with this congressional session.

With that, Mr. Jachym, first off, thank you for fighting back against the SEC's regulatory overreach consistently over the past 4 years. I want to talk to you about how do you see the new SEC and CFTC addressing previous conflicts regarding confusion on where this jurisdiction would lie. Do you see this as a reset opportunity, first and foremost?

Mr. JACHYM. Thank you for the question, Congressman.

Absolutely, we see this as a reset moment. Again, I think the urgency is very clear if we look around the rest of the world and see what other jurisdictions have done to provide regulatory clarity.

Our company was sued for our staking service. We settled. We testified before Congress. The next day, the SEC called and said they are going to sue us again.

Mr. NUNN. That is right.

Mr. JACHYM. This has been the threat the past 3 years of our story while we have engaged other governments and regulators in moving through the legislative regulatory process and providing clear rules of the road.

I think with respect to your question on cooperation, these things are not mutually exclusive. I know there have been discussions of let us wait. Let us move stablecoins first. Let us wait on market structure. We cannot wait any further. Congress does not need to move a market structure bill that solves every single problem in the ecosystem. We are talking about the most basic foundational rules of regulating centralized exchanges, and these two agencies can continue to work in tandem while Congress advances the bill in this cycle.

Mr. NUNN. Could not agree more. Clearly, we are not waiting in London or in Singapore or in the United Arab Emirates (UAE) to move forward on this. We have seen some take it in the wrong direction, I would say the EU, but they have moved out. The United States should not be sitting on its hands as this has developed.

I would like to talk on the national security side here. You are going to be talking to a number of national security professionals here, but over the past few years we have ceded technological lead-

ership to China, creating a significant risk to our national security and economy, particularly in this area.

That is why in the last Congress I took lead on: the Financial Technology Protection Act, which creates a new working group specifically targeting illicit finance in this area; Stop Americans from Scammers Act, which empowers law enforcement to address and tackle things regarding blockchain tools; and the Creating Legal Accountability for Rogue Innovators and Technology (CLARITY) Act which keeps blockchain made here in America, not cede that power out.

I look forward to working with this team as being a leader in this Congress on making sure these things are enshrined in law, building on executive orders (EOs) that are already moving out.

I would like to talk to you, Mr. Kim, about not only your efforts in pushing this, but how can Congress ensure that we balance our innovation as well as our national security to combat these bad actors while not squelching new technology?

Mr. KIM. Thank you so much for your question, Congressman.

As I mentioned earlier today, countering illicit finance and national security are key priorities, including for CCI and our members.

I would encourage additional public-private partnerships. I know CCI would love additional opportunities to engage with all of you and be a resource on any policy issue, including national security.

In order to ensure U.S.'s leadership and innovation, we need to, again, establish comprehensive frameworks for both market structure and stablecoins but also ensure national security to your point, Congressman.

Mr. NUNN. We have a real opportunity here, Mr. Chairman, to make sure this is not only made in America but that the best practices to drive the resourcing, the security, and the onshore investment can happen right here in main streets from Iowa all the way to New York City.

With that, thank you very much, Mr. Chair. I appreciate it. Looking forward to stablecoin made in America.

Chairman STEIL. The gentleman yields back.

The gentleman from Montana, Mr. Downing, is recognized for 5 minutes.

Mr. DOWNING. Thank you, Chairman Steil, and thank you to the witnesses.

I represent Montana's Second Congressional District, which is rural and sparsely populated. Some of the counties in my district have under a thousand people. Actually, there is one that has just over 500 people, so it is very, very sparse. Geographically, we are very large.

Blockchain technology is not something that only highly populated and tech-heavy areas should be concerned with. Rural communities can also reap the benefits of this technology, and I am really excited about it, actually.

I am just going to start out with Mr. Kim. Can you describe the benefits that digital assets and blockchain technology are bringing to rural communities like my district, and explain why rural users might want to use a blockchain-based financial product over something more traditional?

Mr. KIM. Thank you so much for this important question, Congressman.

As I have mentioned throughout today, blockchain and digital assets allow for more efficient, seamless, low-cost and pricing mechanisms, including for payment purposes.

I think we have talked a lot today about the potential. What are the use cases? How can this grow? In order for us to really unlock this potential innovation even more, again, we do need a comprehensive framework to ensure United States can lead when it comes to digital asset innovation, including in your district, Congressman.

Mr. DOWNING. Thank you.

Mr. Fernandez da Ponte, anything to add to that?

Mr. Fernandez da Ponte. Thank you for the question, Congressman.

I subscribe to the potential to drive additional flexibility on payments. In many rural areas, there is a scarcity of traditional payment institutions or financial institutions and banking branches. This ability to be able to have payment instruments that are fast and effective and can circulate widely, we believe that would benefit substantially residents in rural areas.

Mr. DOWNING. Thank you.

Several of my colleagues have mentioned countries around the world are well on their way to establishing regulatory frameworks for digital assets and payment stablecoins. If the United States does not embrace this technology and provide a clear regulatory framework, we will fall behind. Right now, the largest digital asset trading platform and stablecoin issuers are based outside of the United States.

I will go back to Mr. Kim. What are the implications of the United States ceding leadership to other countries in digital assets and blockchain technology?

Mr. KIM. Thank you, Congressman. As I mentioned in my written testimony, it is a race to the top. A lot of other leading jurisdictions are racing to establish the regulatory frameworks, and it remains critical and imperative for the United States to lead in all of this.

Due to the past 4 years of a regulation-by-enforcement approach, as we have talked about throughout today, responsible, established American companies have had to open offices and pursue licensure elsewhere in other jurisdictions. Time is critical. Congress, as I have mentioned respectfully, needs to come up with a comprehensive framework to ensure that leadership innovation stays here in the United States, both for stablecoins but for many other digital asset companies and intermediaries.

Mr. DOWNING. Thank you.

Switching gears a little bit, Montana was part of a multi-State enforcement action under the National Aeronautics and Space Administration (NASA) against FTX. I understand the FTX debacle and other hacks and scams in the digital asset ecosystem have made some people skeptical about this technology. There are legitimate concerns that bad actors in the space are not being held accountable and investors are being defrauded. We can preserve the

promise of this technology while weeding out the bad actors. I have always said bad actors are bad for business. Nobody wants that.

As Montana's former regulator for securities and insurance, I did just that. It was my job to go after fraudsters while making sure Montana remained the place where entrepreneurs came to thrive.

Mr. Garrison, can you explain why someone who is skeptical of digital assets would want Congress to provide regulatory certainty to the digital asset ecosystem through legislation rather than deferring to the regulators?

Mr. GARRISON. It is because the regulators have failed to act that you have situations like FTX, right. This is an example of fraud not coming from the technology but from centralized bad actors.

Right now, there is no current Federal regulator overseeing the spot trading of digital assets; so, therefore, there is no one for FTX to report to in the United States.

Mr. DOWNING. Thank you.

Mr. Jachym, anything you want to add to that?

Mr. JACHYM. Thank you for the question, Congressman.

It is important from a centralized market standpoint we have clear Federal rules. We have tried to navigate this patchwork of multi-State licenses. I think the States will continue to have an important role to play for consumer protection, as you know from your previous roles. As we have seen in the equities and derivatives markets, a clear unified Federal framework is essential in order to protect customers and continue innovation in the United States.

Mr. DOWNING. Thank you all for being here, and thank you, Mr. Chair. I yield my time.

Chairman STEIL. The gentleman yields back.

The gentleman from Florida, Mr. Haridopolos, is recognized for 5 minutes.

Mr. HARIDOPOLOS. Thank you, Mr. Chairman. I appreciate this. It is always eye-opening as we are getting started in the committee and as a new member.

I wanted to pick up where Chairman Hill left off. Mr. Massad, you, in past testimony have advocated for joint SRO to oversee digital assets as a convenient way to sidestep the questions of whether or not an asset is a security or a commodity. In today's testimony, you are advocating for locating authority to regulate nonsecurity digital asset spot markets at the CFTC through legislation.

You were clear that security tokens should be removed from the CFTC's jurisdiction. It seems you have punted on any actual factor of what makes a token a security token, only offering vague hand waves that the agency should consult and there should be provisions to deal with disagreements.

My question, sir, is, how does this actually solve the most pressing issues Congress is currently facing if at the end of the day no one knows who is regulating what?

Mr. MASSAD. Thank you for the question, Congressman.

I would say a couple things. First of all, what I advocated before—and I did this with the former Republican Chair of the SEC, Jay Clayton—was a joint approach, because it is very difficult to draw this line.

Having said that, what I would say today is this, if everyone up here thinks it is so easy and Congress should do it, why not let the SEC and the CFTC do it? They are now going to be chaired by Republican appointees. They have the expertise. They only have to get 3 votes of Republican members to adopt something. They do not have to get 60 votes in the Senate.

If it is so easy, it would be a lot faster to have them do it. The thing is—and I have confidence that they can come up with some interesting ideas. This is a very difficult issue to address, and I am worried that if Congress tries to do it, we will undermine our securities markets more than answer any questions.

Mr. HARIDOPOLOS. I appreciate your answer. I believe in democracy, but I appreciate your answer.

That said, I wanted to get into the question with Mr. Jachym with Kraken. Good customer service is always nice. It seems like when you all attempted to work with the government in good faith—you are in 200 countries I think you had mentioned before, and you are obviously not a fly-by-night company.

Could you describe to a new Member like myself what it was like to deal with the SEC and other government agencies? You attempted to find commonsense regulation.

Mr. JACHYM. Congressman, thank you for the question.

Again, with our global business footprint, about 90 percent of that is North America and Europe. If you look at Canada, the U.K., the EU, we have worked very constructively with the legislatures and the regulators to move regulatory clarity forward, and these jurisdictions are ahead.

Regarding our engagement experience with the SEC, we and others, other industry leaders devoted a significant amount of time and resources to put legal, and policy thought to the agency. We were met with lawsuits.

Again, we are now turning a new page, and we commend the SEC, the leadership of the Crypto Task Force. This work and the evaluation are important, but it cannot slow down the great work that has been done in Congress.

We have seen bipartisan work over the last several congressional cycles. Again, this is not solving every problem in the ecosystem, but statutory authority is needed to put basic rules in place to give the CFTC spot authority and create a comprehensive regime for customers in the United States.

Mr. HARIDOPOLOS. Thank you for your candid answer.

With that, Mr. Chairman, thanks again for your leadership on this. I look forward to working with you and the other side of the aisle in solving this issue.

I think this is an issue that Congress should address and not leave it to regulators exclusively, because administrations change. I think that might be an important part.

Thank you, and I yield back, Mr. Chairman.

Chairman STEIL. The gentleman yields back.

The gentleman from North Carolina, Mr. Moore, is recognized for 5 minutes.

Mr. MOORE. Thank you, Mr. Chairman.

To our witnesses, again, I want to echo what the other members have said. Thank you for your testimony today.

I wish some of the Members on the other side were still here, because I remember when our meeting started out, there were some unfortunate comments made by one of the senior Members on the other side of the aisle taking shots at the President and at Elon Musk, and I think that is very unfortunate. I think this should not be a political enterprise in the sense of this testimony today. This is so important.

Digital assets are not a thing of the future. We are not talking about the Jetsons. We are talking about something that is actually a real thing that roughly 90 million people in this country either invest in, use or both.

The blockchain technology and digital assets hold so much potential to transform our financial system, offering greater efficiency, transparency, and accessibility. Some of the arguments that I would hear from the other side of the aisle were there was worry about fraud so it could not be used.

I am just, before I got here, a small-town lawyer from rural North Carolina, but the best analogy I would know would be someone saying, you should not use a \$20 bill because there might be a counterfeit one out there somewhere.

The reality is in anything you have there are going to be fraudsters and criminals who try to come in and abuse the system. I appreciate what the industry has done to try to deal with it, but I do believe that it is very important, Mr. Chairman, and members of the committee, that we as Congress move forward with a very strong, solid system in place to make sure there are guideposts in place, just like FIT21 and what the industry has worked on.

I had a series of questions, but I think you all have covered most of that, but I did want to follow up on one thing. Mr. Jachym, I believe you are a NC State, North Carolina State, grad, in fact, so you are having a better season than my Tar Heels, so I will give it to you this year on that one.

I did want to ask this. My understanding is that—and I think Representative Haridopolos mentioned this just a moment ago, about last year some of the issues you dealt with, Mr. Gensler. Basically, it sounds like your company was being targeted. It sounded like a lot of that happened after you brought testimony before the committee.

I am just curious, how did this regulation, how did these actions by them affect your company but, more importantly, the digital asset community and investment in digital assets? I think it is unfortunate, but I think folks need to hear how that impacted you.

Mr. JACHYM. Thank you for the question, Congressman.

As a Wolfpack fan, you have to believe, and we believe and are confident that this Congress is going to get a bill done on market structure.

Regarding our experience, again, we were sued once on one of the programs we offered. Again, there was no clear path to registration for staking. There still is no regulatory clarity. We have seen the U.K. move forward with legislation on staking. We have seen other jurisdictions do this. We know the United States can do it, and that is one priority for us.

Kraken did testify in Congress, and the next day we got a phone call that said you are getting sued on another business. I made sure not to wear that same tie for that hearing.

It is important that we move past that. I know we want to make sure actions of the past administration are held to account, but we are looking forward, and we think there has been a lot of bipartisan support that is necessary to get this bill done in this Congress.

Mr. MOORE. I am glad to hear that. To all of the panelists, I really appreciate your expertise and your commitment to this and look forward to your suggestions as we move forward on this legislation.

Mr. Chairman, I yield back.

Chairman STEIL. The gentleman yields back.

This concludes our portion of the questions. I would like to thank our witnesses for their testimony today.

Without objection, all members will have 5 legislative days within which to submit additional questions for the witnesses to the chair. The questions will be forwarded to the witnesses for their response. I ask our witnesses to please respond no later than March 31.

[The information referred to can be found in the appendix.]

The hearing is adjourned.

[Whereupon, at 4:58 p.m., the subcommittee was adjourned.]

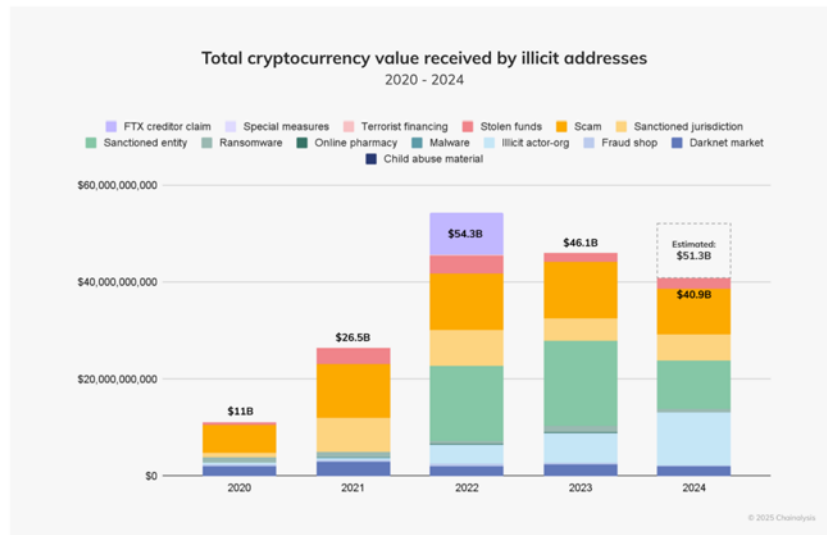
APPENDIX

MATERIALS SUBMITTED FOR THE RECORD

A Golden Age of Crypto Crime?

By Benjamin Schifffrin | *Director of Securities Policy*
February 10, 2025

Crypto crime likely broke [records](#) in 2024. Chainalysis, a cryptocurrency tracking firm that publishes an annual report on crypto crime, has already identified the receipt of over \$40 billion by illicit cryptocurrency addresses, and it estimates that the total amount will be over \$50 billion once it completes its tracking for the year. Even this number is likely to underestimate the amount of crypto crime, as Chainalysis counts only the illicit transactions it can confirm. Regardless, 2024 was already the third consecutive year where the total cryptocurrency value received by illicit addresses exceeded \$40 billion.



On February 11, 2025, the Digital Assets, Financial Technology, and Artificial Intelligence subcommittee of the House Financial Services Committee will hold a hearing entitled “A Golden Age of Digital Assets: Charting a Path Forward.” While Congress ponders a path forward for crypto regulation, it should consider that all too often “standing with crypto”

means [standing with fraudsters](#). As detailed below, crypto's criminal uses continue to proliferate, and **Congress must not adopt a regulatory regime that allows an intended "Golden Age of Digital Assets" to instead become a Golden Age of Crypto Crime.**¹

Ransomware

[Ransomware](#) is a type of malicious software that prevents users from accessing their computer files, systems, or networks unless the users pay the attackers a ransom. In 2024, ransomware attacks [surged](#) both in frequency and sophistication. [Cryptocurrency](#) "remains the dominant form of payment in these attacks, enabling cybercriminals to receive payments anonymously and execute cross-border transactions."

These attacks often target U.S. cities and prevent their residents from receiving basic services. For example, Dallas [suffered](#) a ransomware attack that hindered the city's 911 emergency services and court systems. A ransomware attack in Baltimore [prevented](#) residents from paying their water bills or parking tickets. And Oakland suffered a ransomware attack that resulted in outages to the city's systems that were so [severe](#) that the city administrator declared a state of emergency to fast-track the restoration process.

Smaller towns that have fewer cybersecurity resources are even more vulnerable to having their most crucial systems attacked. The San Bernardino County Sheriff's Department was [forced](#) to pay hackers a \$1 million ransom to recover access to its computer systems, including email, in-car computers, and some law enforcement databases, including a system that deputies use for background checks. Similarly, ransomware attackers held the Plainfield, Connecticut police department's computer systems [hostage](#).

Police Chief Mario Arriaga called the incursion a "complete system failure" that could potentially affect officer safety and response times. "Dispatchers can't access information on criminal histories or on addresses we're sending officers to," he said. "We can't tell if a motor vehicle has a suspended registration or tell how many times we've been dispatched to a certain residence." The department is down to two working phone lines.

Ransomware attacks that impact real people are not limited to government services. Ransomware attacks routinely force [hospitals](#) to divert ambulances and cancel appointments. For example, last May, a ransomware attack hit Ascension, a St. Louis-based nonprofit that oversees 140 hospitals across 19 states.

"It's putting people's lives in danger," said a nurse who works at Ascension Providence Rochester Hospital, a 290-bed facility about 25 miles north of

¹ Of course, while criminal conduct is the most egregious, it is not the only illegal, unlawful, and predatory conduct that victimizes hard-working Main Street Americans. For example, crypto's refusal to follow the securities and commodities laws exposes Americans to conflicts of interest and illegal behavior that needlessly threaten their investments.

downtown Detroit. “People have too many patients for what is safe. Nurses are taking on five or six patients dealing with all of this paper charting.”

Another nurse, who works at a 409-bed Ascension hospital in Birmingham, Alabama, told CNN: “It’s frightening how many safety guardrails [have been] out of service without any computers.”

With crypto “[continuing to play a central role in extortion](#)” through ransomware attacks, Congress should consider the dangers of a lax regulatory regime.

Meme Coins

A [meme coin](#) is a cryptocurrency that is inspired by a meme or other internet trend. Recently, there has been an [explosion](#) of meme coins tied to celebrities and politicians. These meme coins are [highly volatile and speculative assets](#) that are susceptible to fraud.

Scams involving meme coins are so common that they have a name: [rug pulls](#).

While the tokens have no value as currency, their price can soar upon release, as speculators jump on the new offering. That allows insiders who held the coins before their public debut to turn a quick profit, with some top tokens achieving multibillion-dollar valuations in a matter of minutes. But the coins are also likely to crash just as quickly, leaving latecomers with steep losses.

Essentially, these meme coin rug pulls are [pump and dumps](#), where insiders buy up a large percentage of the tokens in advance and then dump them after the price soars, leaving regular investors with tokens that are essentially worthless.

One recent and prominent example is the case of Halley Welch, who gained internet fame after a TikTok video of her went viral. After [parlaying her newfound fame](#) into a merchandise line and podcast, she launched a meme coin in December 2024. The meme coin initially surged in price, but its value quickly [plummeted](#) by over 90% [after](#) a small group of owners sold off more than 80% of the token’s supply. One investor wrote on X that she was a fan of Welch but [as a result](#) of her purchase of the meme coin “you took my life savings.”

This is just the latest example of ordinary investors suffering harm from meme coins. Caitlyn Jenner, Iggy Azalea, and Jason Derulo have [all](#) also launched meme coins that have been incredibly volatile. Most celebrity meme coins have lost more than [90%](#) of their value since their launch. Azalea’s meme coin was relatively more successful—as of last month, it had lost only about [80%](#) of its value since the high it reached two weeks after its launch.

Even President Trump’s meme coin is not immune from this volatility. Although there are no allegations that its debut involved a rug pull, it has lost [75%](#) of its value since its launch. The president’s meme coin has [also sparked a flood of imitators, leading to warnings that investors risk being duped](#). Investors buying the copycat coins are at “[enormous risk](#).”



The fact that meme coins [do not generate revenue or cash flow](#) means that they are mostly for speculation. This makes them a [paradise for gamblers and grifters](#). As a result, meme coins are the perfect example of why lax crypto regulations will endanger investors.

Illicit Transfers

Unfortunately, investment frauds are both [prolific](#) and also just one of the many ways in which criminals use crypto to victimize ordinary Americans. Another increasingly prevalent fraud involves scammers [impersonating](#) a legitimate business to get the victims to transfer their assets into crypto. Criminals prefer crypto for these types of scams because crypto allows them to quickly move large sums of money across borders without having to engage with the traditional financial system. Crypto also offers criminals a level of anonymity. The nature of crypto transactions makes their real identity often impossible to ascertain.

America's most vulnerable citizens appear particularly susceptible to these scams. For example, Lawrence and Ling-Ling Liu, an elderly married couple, [lost \\$18.5 million](#) after they were tricked into transferring their assets to a cryptocurrency exchange. The Lius had accounts at Schwab, and Lawrence Liu received a pop-up warning on his computer telling him those accounts were under attack. Liu also received a phone number ostensibly for a Schwab employee who could help him protect his assets. The fake Schwab employee told Liu to move his and his wife's assets to other institutions for safekeeping. The scammer persuaded the Lius to open an account at crypto exchange Unchained Trading. Eventually, the Lius sold almost \$30 million of stock and transferred the money to their Unchained Trading account. Of the money transferred to Unchained Trading, most of it was used to purchase crypto. The crypto was then sent to an online address believed to be maintained by the scammer who posed as the fake Schwab employee. Ultimately, \$18.5 million was converted into crypto and sent to the scammers, making it most likely unrecoverable.

Similarly, Marjorie Bloom, a retired civil servant, lost [her life savings](#) of \$661,000 after transferring her funds into cryptocurrency at the urging of someone claiming to be a fraud investigator at PNC Bank, where she was a customer. The scammer persuaded Bloom that criminals were in the process of stealing her funds. He said that to protect her money she had to move it quickly. So the scammer had Bloom wire funds from her PNC Bank account to an account at now-defunct Signature Bank in New York. Her funds were then transferred to an account at Coinbase, converted to cryptocurrency, and then moved to an offshore account on the Binance crypto trading platform in the Cayman Islands. When Bloom tried to access the funds that she thought she had worked to secure, she couldn't.

'All of a sudden, this grayness lifted,' said Bloom, who lives in Chevy Chase, Maryland. 'I realized I had been defrauded of everything.'



Bitcoin ATMs

A variation on this type of scam involves the use of bitcoin ATMs. Again, fraudsters contact their victims through a message that looks like a legitimate alert, like a pop-up notification, claiming an urgent problem with an account. They eventually text the victims a QR code connected to a digital wallet and direct the victims to scan the code and deposit cash into a bitcoin ATM under the guise that this will protect the victims' money. The bitcoin ATM then converts the cash to bitcoin that immediately gets transferred to the scammer.

Joseph Buentello, 80, was [one such victim](#). He received a frantic call claiming his son had been arrested and needed \$5,000 for legal fees. Buentello said the caller instructed him to withdraw the money from his bank and deposit it into a Bitcoin ATM at his local grocery store. Buentello followed the instructions, only to realize later that he had been scammed. The money was instantly converted to Bitcoin and sent to a cryptocurrency wallet, making it unrecoverable.

Joe Samuels, an 84-year-old artist, was another [victim](#). He received a call from someone claiming to be in the IT department of his computer company. They told him they had mistakenly deposited \$20,000 into his checking account and demanded that he send it back through a bitcoin ATM. He complied and never saw the money again. Marilyn LoCascio, another senior citizen, [similarly lost money](#) after receiving what looked like a security alert on her iPad. She lost \$31,500 to a fraud group that included people posing as an Apple tech support specialist, a bank representative, and two government officials.

The Federal Trade Commission [reports](#) that consumers reported \$114 million in losses from scams involving bitcoin ATMs in 2023. This was a nearly 900% increase over the preceding three years. Losses through June 2024 were around \$66 million, with the median amount of loss \$10,000—a sign the trend in bitcoin ATM fraud is only growing.

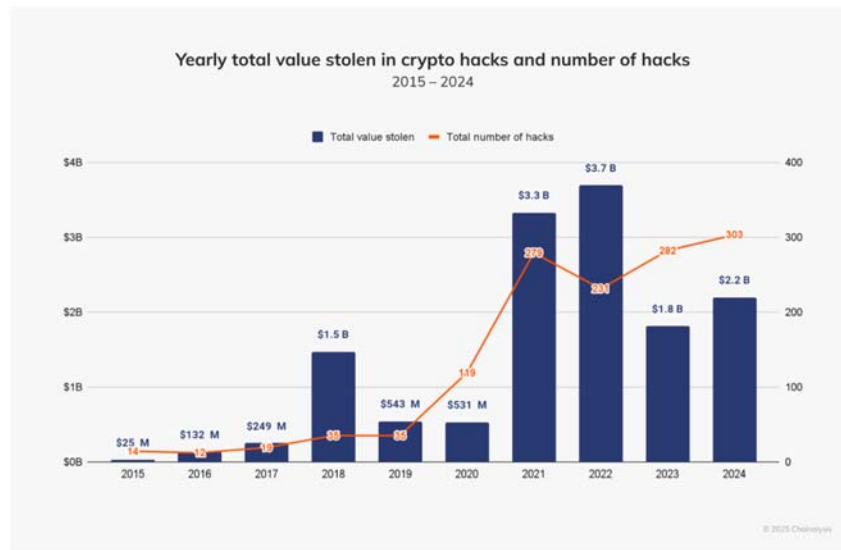
Hacking

Crypto criminals also defraud investors by hacking their accounts. For example, [just last week](#), the Department of Justice charged Andean Medjedovic with exploiting vulnerabilities in two decentralized finance protocols to fraudulently obtain about \$65 million.

Medjedovic exploited the vulnerabilities in the automated smart contracts used by the KyberSwap and Indexed Finance protocols. Ultimately, Medjedovic was able to withdraw millions of dollars of investor funds from the protocols at artificial prices. Medjedovic also schemed to open accounts with digital asset exchanges using false and borrowed identifying information to conceal the source and true ownership of the proceeds. This criminal conduct rendered the victims' crypto investments essentially worthless.

Medjedovic's scheme is emblematic of the rise of investor losses through crypto hacks. In 2024, criminals stole [\\$2.2 billion](#) from crypto platforms through hacking. This was the fourth straight year that more than a billion dollars' worth of crypto was stolen.

2024 also set a [record](#) in terms of the number of individual hacking incidents. The number of individual hacking incidents increased from 282 in 2023 to 303 in 2024. This is why regulations that are designed to safeguard investors' crypto assets are so essential.



Market Manipulation

The crypto markets have long been plagued by manipulative activity. For example, in October, DOJ [charged](#) four crypto companies and four crypto financial services firms with market manipulation and wash trading. The defendants who created the crypto companies made false statements about their tokens and executed wash trades in those tokens to create the appearance of trading activity that would make the tokens look like good investments. The crypto companies also hired financial services firms to wash trade their tokens in exchange for payment. These wash trades attracted new investors and purchasers, which resulted in an increase in the tokens' trading prices. The defendants then sold their tokens at the artificially inflated prices. The scheme involved millions of dollars of wash trades for approximately 60 different cryptocurrencies.



Reports estimate that, in total, there was [\\$2.57 billion](#) in potential crypto wash trading activity in 2024. So market manipulation remains a critical concern in the crypto space.

The complex and dynamic nature of market manipulation, compounded by crypto's unique characteristics—such as its pseudonymity and decentralization—heightens the challenge.

A regulatory regime for crypto must respond to this challenge. Without sufficient regulation, wash trading could cause untold damage to crypto investors.

Conclusion

It is clear that the crypto industry is full of fraudulent, unlawful, illegal, and criminal behavior. Unfortunately, that sordid record does not appear to have any influence on those seeking to deregulate and unleash crypto on the American people. For example, recent news reports [indicate](#) that the SEC is reducing the number of enforcement personnel dedicated to crypto cases. This means there will be fewer “securities cops on the beat” to monitor crypto lawbreakers. The same seems to be happening at the CFTC and at other regulators and prosecutors. Hardworking Americans stand to suffer as a result. These Americans don't have millions of dollars to donate to political campaigns, unlike the millions of dollars the crypto industry [spent](#) during the 2024 election. But these ordinary Americans are the ones who suffer from the rampant fraud and abuse in the crypto sector. Congress needs to ensure that any regulatory regime for crypto protects these Americans.



Better Banks | Better Businesses
Better Jobs | Better Economic Growth
Better Lives | Better Communities

Better Markets is a public interest 501(c)(3) non-profit based in Washington, DC that advocates for greater transparency, accountability, and oversight in the domestic and global capital and commodity markets, to protect the American Dream of homes, jobs, savings, education, a secure retirement, and a rising standard of living.

Better Markets fights for the economic security, opportunity, and prosperity of the American people by working to enact financial reform, to prevent another financial crash and the diversion of trillions of taxpayer dollars to bailing out the financial system.

By being a counterweight to Wall Street's biggest financial firms through the policymaking and rulemaking process, Better Markets is supporting pragmatic rules and a strong banking and financial system that enables stability, growth, and broad-based prosperity. Better Markets also fights to refocus finance on the real economy, empower the buy-side and protect investors and consumers.

For press inquiries, please contact us at press@bettermarkets.com or (202) 618-6430.



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February 10, 2025

The Honorable Bryan Steil
Subcommittee Chairman
Digital Assets, Financial Technology, and Artificial Intelligence
House Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Stephen Lynch
Subcommittee Ranking Member
Administrative State, Regulatory Reform, & Antitrust
House Financial Services Committee
United States House of Representatives
Washington, DC 20515

Subject: Ensuring Credit Unions' Role in the Digital Asset Ecosystem Through Sensible Regulation

Dear Chairman Steil and Ranking Member Lynch:

On behalf of the Defense Credit Union Council (DCUC) and the Dakota Credit Union Association (DAKCU) as well as the millions of service members, veterans, and military families we serve, we submit this letter in advance of the hearing titled "*A Golden Age of Digital Assets: Charting a Path Forward*". DCUC represents credit unions stateside and overseas serving military and veteran communities as well as their families, encompassing over 40 million members and having over \$525 billion in assets.

As the digital asset space continues to evolve, credit unions recognize the growing interest in digital currencies, blockchain-based financial services, and tokenized assets among consumers, businesses, and financial institutions. At the same time, we are also acutely aware of the regulatory and operational challenges credit unions face in this area. While credit unions strive to offer innovative and secure financial services, the current regulatory uncertainty and lack of clear guidance impede our ability to safely integrate digital assets into our financial ecosystem.

In this letter, we outline the key challenges credit unions face regarding digital assets, propose regulatory solutions, and articulate the guiding principles that should inform any future legislation or rulemaking in this space.

Key Challenges for Credit Unions Regarding Digital Assets

1. **Regulatory Uncertainty and the Lack of Clear Guidance** - Credit unions currently operate in a legal and regulatory gray area regarding digital assets. The National Credit Union Administration (NCUA) has yet to establish clear, uniform guidance regarding how credit unions can engage in digital asset-related activities. Additionally, the fragmented federal and state regulatory landscape creates compliance burdens and uncertainties that deter credit unions from offering services such as cryptocurrency custody, stablecoin payments, or digital asset lending.
2. **Lack of Secure Custody and Safekeeping Solutions for Digital Assets** - While credit unions are trusted custodians of financial assets for millions of members, there is no clear framework that allows credit unions to serve as custodians of digital assets like cryptocurrency or tokenized securities. Without proper guidance and support from regulators, credit unions risk being excluded from this emerging financial services sector, leaving their members vulnerable to unregulated third-party providers with weaker consumer protections.
3. **Unequal Access to Federal Payment Systems for Digital Asset Transactions** - Credit unions lack direct access to Federal Reserve payment rails that could facilitate digital asset transactions in a safe and efficient manner. Current Federal Reserve policies make it difficult for credit unions to participate in real-time payment networks for stablecoin settlements and blockchain-based transactions. This puts credit unions at a competitive disadvantage compared to larger financial institutions and non-bank fintech firms.

Serving Those Who Serve Our Country

4. Consumer Protection Concerns and Fraud Risks - The digital asset market has been plagued by fraud, illicit activities, and volatile market behavior, all of which create risks for credit union members—particularly military families who may be targeted by scams. Without clear standards for know-your-customer (KYC), anti-money laundering (AML), and fraud prevention, credit unions face increased risks when engaging in digital asset services.

5. Uncertain Treatment of Stablecoins and Their Role in Credit Union Operations - Stablecoins, when properly regulated, could provide a faster and more efficient payment option for credit union members, particularly for military personnel who frequently conduct cross-border transactions. However, the lack of clear regulatory treatment for stablecoins issued by non-bank entities creates challenges in ensuring their stability, security, and integration into the traditional financial system.

6. Barriers to Innovation for Credit Unions Due to Overregulation - Many existing and proposed digital asset regulations focus primarily on large banks, fintech companies, and securities markets, failing to account for the unique structure and mission of credit unions. Heavy compliance burdens and excessive restrictions could prevent credit unions from participating in digital innovation, ultimately leaving their members without safe and regulated digital asset services.

Proposed Solutions for a Credit Union-Friendly Digital Asset Framework

To ensure that credit unions can participate in the digital asset space while maintaining financial stability and consumer protection, DCUC proposes the following solutions:

1. NCUA-Directed Guidance on Digital Asset Activities

- The NCUA should establish clear, uniform guidance on how credit unions can legally and safely engage in digital asset-related activities, including custody, lending, and payments.
- Credit unions should be explicitly authorized to provide digital asset custody services to their members, ensuring secure storage and fraud protections.

2. Access to Federal Payment Systems for Digital Asset Transactions

- Credit unions should be granted equal access to Federal Reserve payment systems that facilitate stablecoin transactions and other blockchain-based payments.
- The Federal Reserve should provide clear guidelines on how credit unions can integrate stablecoins into their operations for member payments and remittances.

3. Implementation of Tailored Consumer Protection Rules for Digital Assets

- Regulators must ensure strong fraud prevention standards for digital asset transactions without imposing unnecessary burdens on credit unions.
- Clear guidance should be provided on how credit unions can safely integrate digital assets into their financial education and fraud prevention programs for military families.

4. Legal Clarity on Stablecoin Issuance and Credit Union Participation

- Credit unions should have a clearly defined regulatory pathway to use, hold, or issue stablecoins backed by deposits held at insured institutions.
- Stablecoin issuers must be subject to appropriate regulatory oversight to ensure stability, security, and integration with the traditional banking system.

5. Parity in Regulatory Treatment for Credit Unions Engaging in Digital Asset Services

- Credit unions should not face disproportionate compliance burdens compared to banks and non-bank fintech companies when offering digital asset services.
- Any new regulations must preserve the unique cooperative structure of credit unions and recognize their member-focused mission.

Guiding Principles for Future Digital Asset Legislation and Regulation

As policymakers consider new legislation and regulations for digital assets, DCUC urges the following core principles to be included in any framework:

1. **Regulatory Clarity and Consistency** – Credit unions need clear, consistent rules across federal and state jurisdictions to ensure compliance and operational certainty.
2. **Parity in Access and Participation** – Credit unions should have equal access to digital payment networks and emerging financial technologies.
3. **Consumer Protection and Security** – Digital asset regulations should prioritize consumer protection while allowing credit unions to serve as trusted providers.
4. **Inclusion of Credit Unions in Innovation Efforts** – Credit unions must have a seat at the table in discussions on digital asset innovation, ensuring their unique member-first mission is recognized.
5. **Proportional and Tailored Regulation** – Regulations should be appropriately scaled to account for credit unions' smaller size and non-profit cooperative structure.

DCUC strongly supports efforts to establish a safe, fair, and innovative digital asset ecosystem that allows credit unions to serve their members without unnecessary regulatory barriers. We urge Congress to ensure that credit unions have equal access to digital asset markets and payment systems while maintaining strong consumer protections and financial integrity.

We appreciate the Subcommittee's leadership on this issue and welcome the opportunity to work collaboratively on solutions that align with the needs of credit union members, particularly those serving in our nation's military.

Thank you for your continued support of credit unions and the financial well-being of America's military communities.

Should you or your team have any questions or desire additional information, please do not hesitate to contact me at 202.557.8528 or by email at jstverak@dcuc.org.

Sincerely,



Jason Stverak
Chief Advocacy Officer
DCUC

CC: HFSC Committee Members
NCUA Board Members



Stablecoin Regulation: The Community Bank Perspective

The Independent Community Bankers of America, representing community banks across the nation with nearly 45,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing: "A Golden Age of Digital Assets: Charting a Path Forward." ICBA looks forward to working with Chairman Hill, Ranking Member Waters, and the members of this Committee on stablecoin legislation, including the Stablecoin Transparency and Accountability for a Better Ledger Economy (STABLE) Act, to ensure economic stability without community bank disintermediation.

Community banks have a strong interest in ensuring that stablecoins issued by non-bank entities do not do harm to investors, consumers, or the financial system. Currently, stablecoin arrangements are not subject to comprehensive consolidated supervision and lack many critical consumer and anti-money laundering protections. This regulatory gap allows risks to the financial system to multiply, provides opportunities for illicit actors to engage in financial crimes, poses risks to consumers, and creates an unequal playing field with highly regulated community banks.

From the community bank perspective, stablecoin legislation should establish a clear federal regulatory framework that addresses gaps in existing regulatory authority. Moreover, as we expand upon below, regulatory frameworks must effectively address risks associated with stablecoins and not create opportunities for regulatory arbitrage. We appreciate the ongoing dialogue with this Committee to address any concerns throughout the legislative process.

ICBA will evaluate any stablecoins regulatory framework against four broad principles:

- Potential for regulatory arbitrage
- Preserving the integrity of Federal Reserve Master Accounts
- Risks posed by commercial and "Big Tech" private currencies
- Community bank disintermediation

Regulatory Arbitrage

Consistent standards of regulatory and supervisory oversight and prudential requirements should be applied to similar activities. This is a longstanding principle of financial regulation and should be applied regardless of the nature of the firm conducting an activity or the technology used. Any regulatory or supervisory regime applicable to stablecoins should be comparable to a functionally similar product offered by a bank or other traditional financial services provider. This will ensure risks created by loosely regulated nonbank firms do not spill over into the traditional banking system.

In particular, ICBA would be concerned with any state pathway or opt-in state regime that would establish a regulatory race to the bottom ripe for exploitation by bad actors to take advantage of loopholes and lax oversight. Without a strong federal floor, nonbank stablecoin issuers would be

incentivized to seek approval from the state with the least regulatory requirements and oversight. Further, it is unlikely that many states are prepared to regulate stablecoins at the level necessary to mitigate risk, especially given stablecoin issuers' capacities to quickly scale into global stablecoins that facilitate international payments.

Federal Reserve Master Account Access

ICBA has strong concerns about nonbank-stablecoin-issuers' access to Federal Reserve master accounts and other Fed programs. Highly regulated depository institutions are given access to Fed master accounts, as well as discount window and borrowing privileges, because they are subject to rigorous and comprehensive federal supervision and examination. Granting this access to nonbank payment stablecoin issuers, which are not subject to the same stringent regulatory oversight, would create systemic risk and put highly regulated community banks at a significant regulatory disadvantage.

Commercial and "Big Tech" Control

ICBA has strong concerns about the entrance of Big Tech and other commercial firms into the banking system, as this would erode the long-standing principle of the separation of banking and commerce on which the American system has flourished. The issuance of stablecoins by Big Tech and other commercial firms would create numerous conflicts of interest and give these firms significant economic power.

This would be a radical change in economic policy carrying far reaching and unintended consequences for consumer security and privacy and American commerce. Such a change warrants rigorous examination.

Community Bank Disintermediation

Digital assets of all kinds, including stablecoins, create a risk of disintermediating community banks. Community banks rely on both business and consumer deposits to fund local lending, including consumer loans such as mortgage and auto loans, as well as small business and small farm loans which undergird local economies. If these deposits migrate to digital assets, they will not be available to fund this lending, and local economies and consumers will suffer reduced access to credit and less favorable borrowing terms. Disintermediation poses a significant threat to local prosperity, particularly in smaller communities. ICBA strongly urges this Committee not to pass legislation that would lead, intended or not, to disintermediation.

Closing

Thank you for convening this hearing. As this committee considers any digital assets legislation, including stablecoins legislation, we urge you to be mindful of the serious risks outlined above.

We remain grateful for the opportunity to review draft legislation and provide the community bank perspective.



215 Pennsylvania Avenue, SE • Washington, D.C. 20003 • 202/546-4996 • www.citizen.org

February 11, 2025

The Honorable French Hill, Chair
 The Honorable Maxine Waters, Ranking Member
 Honorable Members
 House Financial Services Committee
 Washington, DC 20515

Dear Committee members,

On behalf of more than 500,000 members and supporters of Public Citizen¹, we provide the following comment for the House Financial Services Committee hearing scheduled for February 11, 2025, titled "A Golden Age of Digital Assets." We cover three topics. First, this hearing should better be titled "A Golden Age for Digital Grifters." President Trump's recent meme coin venture epitomizes the craven nature of cryptocurrency. Second, Congress only accords cryptocurrency favor because of a tsunami of political spending. Third, the recently introduced stablecoin bill falls short in protecting purchasers and threatens to pierce the separation of banking and commerce.

Crypto Ponzi

Since the conception of Bitcoin in 2009, digital assets have proliferated with few demonstrable, legitimate use cases. Instead, they are a venue for gambling. The crypto industry faces [widespread criticism](#). More than [1500 technologists](#) signed a public letter calling for responsible oversight of the sector. Berkshire Hathaway CEO [Warren Buffett](#) called cryptocurrency "rat poison squared." His associate Charlie Munger labeled trading in this market as "dementia." Investor Mark [Cuban](#) said he'd prefer bananas to Bitcoin, "Because at least as food, bananas have intrinsic value." Bill [Gates](#) says cryptocurrencies are "100% based on greater fool theory," or reliance on a rational assumption of one speculator finding another speculator willing to pay a higher price.

President Donald J. Trump's launched what he called a "meme" on February 17, which typifies this Ponzi character. A purchaser of this meme (otherwise known as a memecoin) buys an "idea," according to the Trump meme website. The purchaser could resell this meme. In early trading, some large purchasers

¹ Public Citizen is a nonprofit consumer advocacy organization with members in all fifty states. Public Citizen regularly appears before Congress, administrative agencies, and courts to support the enactment and enforcement of laws protecting consumers, workers, and the general public.

bought, and the price rose from 18 cents to a high of \$75. Since then, the price has collapsed. According to the [New York Times](#), “A small group of crypto insiders and other early investors in Trump’s meme coin made millions of dollars and inflated the price of the cryptocurrency. But many average investors who came late to the game have lost money.”

[Former aide Anthony Scaramucci](#) said Trump’s effort demeans broader cryptocurrency efforts, calling it “Idi Amin level corruption.” Some, including an author in the Washington Post, characterized this token as a “[sh—coin](#).” Another [commenter](#) said that the Trump meme “is effectively a ‘for sale’ sign on the White House.”

Public Citizen asked the Department of Justice and the Office of Government Ethics to determine whether the president is effectively soliciting a gift from the public by way of this meme coin. The meme purchaser receives nothing tangible, such as a Bible or gold-colored sneakers, which are other Trump sales items. If this gift persists, it would invite any politician to offer a meme, thereby allowing wealthy contributors to escape campaign finance and anti-bribery conflict laws. Our letter is attached.

Beyond the Trump scheme, investment scams involving cryptocurrencies abound. During a five-month period, the Federal Trade Commission reported [7,000 cryptocurrency scams](#) covering some \$80 million in reported losses. That is 12 times the number of scams reported during the same period a year earlier, with a 1000 percent greater estimated loss.

Political Spending

The committee’s hearing clearly responds to unprecedented political spending by the crypto sector. Public Citizen’s Rick Claypool [documented this phenomenon in two reports](#). As of August 2024, the crypto sector amassed \$169 million to spend in support or opposition to candidates based on their crypto statements and votes. That amount is more than any other sector is spending in elections—more than Wall Street, Big Oil, and Pharma. It’s nearly half of all corporate money contributed in the 2024 election cycle. It’s 15 percent of all known corporate money contributions since the U.S. Supreme Court’s disastrous 2010 decision in [Citizens United](#) that made such unlimited corporate political spending legal (expanding the previous 1976 [Buckley](#) decision). Alone, this deluge of corporate spending constitutes an unprecedented, frightening corruption of lawmaking, the starkest example to date, as Public Citizen President Robert Weissman [has opined](#).

Other illicit enterprises will surely learn from the example. A sector that bilks billions from Americans will find it a cheap escape from accountability to redirect a small fraction of these ill-gotten gains to buy off enough politicians to block sensible reform.

Importantly, this spending didn’t pay for political advertisements that discuss crypto. The political ads didn’t mention crypto at all. That’s because crypto policy holds little interest for most Americans. [Ninety-three percent](#) of Americans neither own nor use crypto at all, according to Federal Reserve data. And that figure rose over the last few years as more people learn about crypto. The number of people who own crypto has declined over the last several years as information about the sector has increased. These political ads avoid referencing crypto because a growing number of Americans understand this sector as all hype and little hope. A 2022 [Pew poll](#) found that about half of all crypto investors report their experience fell below expectations, and only 15 percent said they did better than anticipated. In

2023, [Pew found that 88](#) percent of Americans familiar with crypto reported they were not confident that crypto is safe. In the sober confines of the courtroom, where lies and exaggeration aren't tolerated, even crypto lawyers liken crypto to a [Beanie Baby](#) in order to escape SEC oversight, as opposed to an investment in Beanie Baby Inc. (Technically, Ty Inc.) Voters understand the crypto sector includes sector leaders such as Sam Bankman-Fried and Changpeng Zhao who now serve [prison sentences](#) for theft or other lawbreaking connected to their crypto companies. Voters understand that scams abound, as detailed weekly by crypto skeptic [Molly White](#), or recorded on an [SEC website](#). Instead, crypto political spending goes to advertisements with no mention of the candidate's crypto position.

Perniciously, this crypto spending went to super PACS legally divorced from candidate campaigns. This insulated the candidate from criticism that they may be beholden for the crypto Ponzi scheme. By contrast, candidates that accept money from certain rapacious industries such as Wall Street or Big Pharma face public opprobrium for accepting this lucre.

The crypto advocates [openly discuss](#) this protection racket. Said one, "Having money, unfortunately, is a big part of the way government works in the US." Said another, "It's now become quite risky, I would say even maybe political suicide, to be anti-crypto in DC."

Stablecoin Bill

A responsible committee should explore ways to protect the public from these scams and the crypto gambling casino generally. Instead, the committee will consider several pieces of legislation that expose the public to more grifting.

We address Chair French Hill's bill, titled "Stablecoin Transparency and Accountability for a Better Ledger Economy Act, " or the "STABLE Act."

The glaring hazard of any stablecoin is to allow bad actors to amass investor funds in a reserve and then gamble recklessly. This stablecoin bill provide inadequate methods to assure that the reserves remain safe. While the bill provides that the funds be invested in Treasury bonds, it relies on certification of a stablecoin officer as enforcement. A wrongdoer bent on absconding with investor funds would find falsifying such a certification little deterrence. Instead, the bill should also require public certification by an independent audit firm. The bill calls for monthly reporting of the composition of the reserves. This reporting should be more frequent to prevent malefactors from shifting from risky assets back to Treasury bills by the reporting deadline.

The bill authorizes states to regulate stablecoins. While states provide a backstop for securities market frauds, the primary investment regulator for stock and bond trading remains the federal government. This bill invites stablecoin sponsors to court pliable venues. The bill provides that federal authorities could intervene, but only under "exigent" circumstances and after five days prior noticed. Such roadblocks seem designed to favor bad actors. Since there is no size limit, major sponsors could charter in state with few resources to provide adequate oversight.

The bill also limits federal regulators in any effort for oversight, even expanding an applicant's rights to contest a regulator's rejection. The bill also limits the regulator's ability to set adequate capital and liquidity requirements.

This bill would invite traditional commercial firms such as Walmart and Facebook to enter the banking industry through sponsorship of a stablecoin. American financial policy long separates banking and commerce. In addition to conflicts of interest, such as when a lender brings other commercial interests to loan-making decisions, merging banking and commerce poses concentration risk.

The bill fails to provide an adequate resolution process in case of failure. Banks generally enjoy a special process following insolvency given that the average depositor cannot wait for the years it takes in a standard bankruptcy to recover their bank account savings.

While the bill states that stablecoin sponsors must honor the anti-money laundering and other elements of the Bank Secrecy Act, it fails to authorize regulators to promulgate appropriate rules. [One major](#) stablecoin allegedly faces a federal probe for use by North Korean nuclear arms manufacture, Mexican drug cartels, Russian arms companies and more.

Given the recent release of this bill, our examination of this bill is evolving.

In summary, crypto and the Trump meme effort hardly represent a “golden age” but rather something that should be put in the “crosshairs.” Political spending, especially funded by such a sector, must not determine sound financial policy.

For questions, please contact Bartlett Naylor at bnaylor@citizen.org.

Sincerely,

Public Citizen



215 Pennsylvania Avenue, SE • Washington, D.C. 20003 • 202/546-4996 • www.citizen.org

February 5, 2025

John Keller, Chief
Public Integrity Section
Department of Justice
950 Pennsylvania Ave
Washington, D.C. NW
20530-0001

David Huitema, Director
U.S. Office of Government Ethics
250 E Street, SW., Suite 750
Washington, DC 20024

Dear Officers,

We ask you to investigate whether President Donald J. Trump has violated 18 U.S.C. § 201, as implemented in 5 C.F.R. § 2635, barring the president from soliciting gifts.

Federal law strictly regulates payments to government officials, including gifts. Although the president may receive gifts, he may not "solicit" gifts. These prohibitions begin with the Constitution's Emoluments Clause and are reiterated in the anti-bribery statute, 18 U.S.C. § 201, and federal regulations, 5 C.F.R. § 2635. Although [section 2635.205](#) lists several exemptions from the prohibition, none exempts soliciting purchases for personal gain.

As the [Congressional Research Service](#) has explained:

Under these regulations, the President is expressly exempt from the broad restrictions on receiving or accepting gifts from prohibited sources or gifts given because of his official position, and thus may accept gifts from the general public, even from "prohibited sources," or gifts given because of his official position, as long as the President does not "solicit or coerce" the offering of gifts from such sources, nor accept a gift in return for an official act. [Emphasis added.]

President Trump's promotion of a Trump meme appears to violate this prohibition. In a January 17 tweet, also apparently retweeted after January 20, [Trump stated](#): "My NEW Official Trump Meme is

HERE! It's time to celebrate everything we stand for: WINNING! Join my very special Trump Community. GET YOUR [\\$TRUMP](#) NOW. Go to <http://gettrumpmemes.com> — Have Fun!" On Truth Social, [he posted the same content](#), on January 21, at 6:19 PM.

Trump is the principal owner of the Trump Meme. The [website](#) explains that the memes are largely (80 percent) owned by CIC Digital LLC, "an affiliate of The Trump Organization." CIC Digital is [100% owned](#) by the Donald J Trump Revocable Trust. Donald Trump is the "[sole beneficiary](#)" of the revocable trust. Under the question [on the website](#): "Is this an official Trump product?" the website answers: "Yes, this is the only Official Trump Meme, by President Donald J. Trump."

As to why the public might be interested in sending money, the [website explains](#): "On July 13, 2024, President Trump faced death and came up fighting! With his fist in the air and the iconic battle cry FIGHT FIGHT FIGHT, President Trump showed the world what a LEADER is made of. His strength and courage ignited a movement becoming the most memorable meme of the century. Now, you can get your piece of history. This Trump Meme celebrates a leader who doesn't back down, no matter the odds. Join the Trump Community - we're all about fighting for what matters." Under [the Trump meme website's question](#), "What is a meme?" the website explains: "Merriam-Webster's meme noun: 1: an idea, behavior, style, or usage that spreads from person to person within a culture."

The [website states](#) that "Trump Memes . . . are not intended to be, or to be the subject of, an investment opportunity, investment contract, or security of any type."

Accordingly, a person sending money for a Trump meme is not purchasing a tangible product. Instead, the person receives only a digital receipt (in a blockchain), which is similar to a donor sending a check and receiving digital confirmation that the check was received.

Beyond Trump's own declaration that the Trump meme is not an investment, other cryptocurrency observers deride memes generally as without value. [Former aide Anthony Scaramucci](#) said Trump's effort demeans broader cryptocurrency efforts, calling it "Idi Amin level corruption." Another [commenter](#) said that the Trump meme "is effectively a 'for sale' sign on the White House." Some, including an author in the Washington Post, characterized this token as a "[sh—coin](#)."

In short, it appears Trump is not soliciting money in exchange for an investment or tangible product (such as a [Bible, sports shoes, or a guitar](#)), but soliciting money in exchange for nothing—that is, asking for a gift that will benefit him personally.

Beyond the issue of solicitation, the Constitution (Article 1, Section 9) forbids accepting money (specifically a "present" or "emolument") or anything of value from any "king, prince, or foreign state." Because of the nature of a cryptocurrency exchange, it is difficult to know whether foreign state actors are gifting the president by way of purchasing a Trump meme. We urge you to investigate this issue, as well.

The dangers inherent in the Trump meme portend ominously. Should the president be allowed to enrich himself in this way, other politician might follow this path, rendering the prohibition on solicitation in 18 U.S.C. § 201 and the prohibitions on receipt of gifts by officials other than the president virtually meaningless.

Therefore, we ask the Office of Government Ethics and the Department of Justice to investigate this arrangement to determine whether it constitutes an impermissible gift solicitation. If the DOJ and OGE find in the affirmative, we ask that they make appropriate recommendations, including termination of the meme sale, return of monies, and any other available remedies.

For questions, please contact Bartlett Naylor at bnaylor@citizen.org; and/or Dr. Craig Holman at cholman@citizen.org,

Sincerely

Bartlett Naylor
Public Citizen

Dr. Craig Holman
Public Citizen

FRENCH HILL, AR
CHAIRMAN



MAXINE WATERS, CA
RANKING MEMBER

United States House of Representatives
One Hundred Nineteenth Congress
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Questions for the Record
Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence Hearing,
entitled “A Golden Age of Digital Assets: Charting a Path Forward”
February 11, 2025

Ranking Member Maxine Waters:

Mr. Jonathan Jachym

1. Which of the following options best describes your self-identified race? (you may choose more than one)
 - a. White or Caucasian
 - b. Black or African American
 - c. Hispanic/Latinx
 - d. Asian
 - e. Middle Eastern/North African
 - f. Choose not to answer
 - g. Prefer to self-describe (please specify)

2. Which of the following options best describes your gender identity?
 - a. Woman
 - b. Man
 - c. Non-binary
 - d. Transgender Man
 - e. Transgender Woman
 - f. Choose not to answer
 - g. Prefer to self-describe (please specify)

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February 11, 2025

Ranking Member Maxine Waters:

Mr. Ji Hun Kim

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Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence Hearing,
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February 11, 2025

Ranking Member Maxine Waters:

Mr. Coy Garrison

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Questions for the Record
Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence Hearing,
entitled “A Golden Age of Digital Assets: Charting a Path Forward”
February 11, 2025

Ranking Member Maxine Waters:

Mr. Jose Fernandez da Ponte

1. Which of the following options best describes your self-identified race? (you may choose more than one)
 - ☐ a. White or Caucasian
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 - ☒ c. Hispanic/Latinx
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Questions for the Record
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entitled “A Golden Age of Digital Assets: Charting a Path Forward”
February 11, 2025

Ranking Member Maxine Waters:

Mr. Timothy Massad

1. Which of the following options best describes your self-identified race? (you may choose more than one)
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Jonathan Jachym Responses to Questions for the Record

Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence Hearing,

entitled "A Golden Age of Digital Assets: Charting a Path Forward"

February 11, 2025

Congressman Bill Foster:

1. Can you describe, in detail, the AML/KYC process Kraken undertakes when onboarding a new customer? This should include a detailed description of the identity verification process followed for each new customer and a description of checks that are made to ensure compliance with U.S. sanctions and anti-illicit finance requirements.

As a U.S.-based company, the on-boarding process for clients involves processes in line with US Bank Secrecy Act, USA Patriot Act, and other anti-money laundering and sanctions requirements determined by Financial Crimes Enforcement Network (FinCEN), Office of Foreign Asset Control (OFAC), and the numerous State Money Transmission regulatory authorities that regulate Kraken. Kraken's process includes, but is not limited to, the following:

- Obtaining client details (e.g., name, address, social security number, telephone, email, etc.)
- Confirm their identity via documentary and non-documentary verification processes
 - Vendor tools to verify the personal details provided via checks against various regulatory databases.
 - Submission and validation of acceptable identification documentation and/or a face photo where applicable.
- Collection of additional Know Your Client information (e.g., provide source of funds, source of wealth, occupation, etc.)
- Undergo Screening (e.g., Politically Exposed Persons, Adverse Media, Sanctions, Internal Lists, etc.)
- Undergo GeoIP Controls (e.g., Firewall IP based-controls; Location Spoofing Controls, Geo-IP mismatch checks)

- Fund Account (e.g., authenticate bank account & initiate Domestic ACH, or wire/SEPA)
- Screen Funding (e.g., authenticate ownership of incoming funds, screen payment details, etc.)
- Client Risk Rating is calculated and attributed
- Dynamic risk scoring is applied post-onboarding to assess ongoing risks associated with the client.
- Monitoring (e.g., client is monitored against name screening updates, spoofing, IP location, etc.)
- Blockchain Screening (e.g., all virtual currency transactions are screened for anti-money laundering (AML), Terrorist Financing (TF), Child Sexual Abuse Material (CSAM), Sanctions Risk, etc.)
- Transaction Monitoring (e.g., on-going monitoring of account activity for suspicious activity; rule based monitoring taking into account known typologies, geographic risk, value and volumes of transactional activity)

The U.S. has strong AML and sanction regulations, including the application to digital asset exchanges. However, moving forward with legislation to establish a digital asset market structure will help elevate and project these standards abroad and also limit U.S. customers utilizing foreign exchanges with lower standards.

2. Can you describe the safeguards that are in place to prevent bad actors from moving illicit funds or assets onto or off the Kraken platform from unhosted wallets?

Kraken utilizes various tools to prevent bad actors from moving illicit funds or assets onto or off the Kraken platform from unhosted wallets. Risk is multi-faceted and is addressed via each of the processes described above. Blockchain transactions undergo pre-settlement screening as well as screening by Kraken's fraud and security teams. Kraken continues to monitor these transactions in response to list and/or regular vendor updates. Regardless of the amount of transactions between a Kraken client and a potentially bad actor, Kraken reviews these clients and their trends, making risk-based decisions to report and/or offboard clients. Kraken is continuously assessing internal transactional activity and trends and proactively researching new typologies to inform the development of new rules for its transaction monitoring system in order to identify, report and prevent illicit transactions on the platform.

a. a description of any analytical tools or techniques used in the process;

Kraken has a robust framework of controls to address its sophisticated risk. Its compliance tooling includes but is not limited to: Plaid, Castellum.ai, Chainalysis, Cloudflare, Elliptic, FrankieOne, Greenlite.ai, Moodys RDC, Persona, Refinitiv, Sardine.ai, TRM Labs, Trulio, Yanez, etc. The robust resources available for blockchain analysis allows the construction of a unique detailed tapestry of information – arguably stronger than traditional finance from an AML and sanctions perspective. Blockchain tools and techniques allow for continuous monitoring and action against bad actors. Additionally, blockchain monitoring tools attribute risk type directly to the transaction allowing for enhanced risk identification and reporting. This means that rather than relying on interpretive analysis of customer activity, blockchain analytics allow for direct attribution of illicit activity typologies associated with risk exposure from designated wallets and assets. This allows for a greater level of certainty around suspicious activity, especially when combined with comprehensive investigative and due diligence procedures and tools.

b. a description of any quantitative metrics, including confidence levels, used to identify illicit or suspected illicit activity, and;

Kraken applies statistically deduced Transaction Trend Monitoring thresholds when defining its suspicious activity rules/scenarios. The same approach is applied for identifying blockchain monitoring thresholds and rules to reduce noise while maximizing the value of its alerts.

Kraken's proprietary Transaction Monitoring system is a rule based system that alerts on specified risk factors such as dollar values, volumes, timeframe around the transactional activity, geographical nexus, known and identified typologies. Blockchain Monitoring systems identify direct and indirect risk exposure by percentage to specific risk categories, such as TF, CSAM, Fraud (identity theft, scam, pig butchering), and Darknet Markets allowing investigators to confidently see and report illicit activity by typology, value and interconnectivity. Kraken implements testing and validation processes to assess performance metrics, make configuration alterations where applicable and refine each system to increase confidence in quality of alerts and enhance appropriate reporting.

c. a description of how these policies address the use of anonymity enhancing techniques, including the use of digital asset mixers or wallet networks that may conceal, or simulate distance from, the owner of the asset.

We follow the law and are in contact with the U.S. Treasury and appropriate regulators, including proactive communication when suspicious activity is found. This includes following U.S. Bank Secrecy Act, U.S. PATRIOT Act, OFAC, and the various other regulations that govern Money Service Businesses to Know its Customer, have Customer Identification Program ("CIP"), monitor for suspicious activity and terrorist financing, authenticate its client's documentation, know a client Source of Funds and Source of Wealth, monitor for fraud, sanctions, and anomalous activity. While mixers, unhosted wallets, and other privacy techniques add a layer of privacy on-chain, it has limited impact for exchanges when assessing or confirming a person's source of funds and/or wealth. Blockchain analytics companies help us monitor accounts during the on and off ramps to Kraken, but also continuously if suspicious transactions are found after a transaction directly involving has occurred. Kraken's tools ensure compliance, including on sanctions, from terrorist financing to illicit actors.

3. Can you please describe Kraken's internal policies for dealing with suspected illicit activity once it is identified and, separately, provide a description of how those policies comply with federal AML/KYC guidance?

Kraken has implemented a comprehensive AML program designed to prevent Kraken's services from being used as a vehicle for money laundering or any other illicit activity, and detect, prevent, and report suspected money laundering and any activity that facilitates money laundering or funding of terrorist or criminal activities. As a result, Kraken's AML Program includes, the "Five Pillars of AML" as identified in the Bank Secrecy Act and PATRIOT Act and by International Standard setting organizations such as the Financial Action Task Force (FATF): internal controls, customer due diligence, designated compliance officer, training, and independent testing. The aforementioned tools and processes support an established Financial Investigations Unit (FIU), which conducts alert reviews, case investigations and when appropriate Suspicious Activity Reporting (or Suspicious Transaction Reporting) in accordance with regulatory requirements.

.....
(Original Signature of Member)

119TH CONGRESS
1ST SESSION

H. RES.

Expressing support for blockchain technology and digital assets.

IN THE HOUSE OF REPRESENTATIVES

Mr. JOHNSON of South Dakota submitted the following resolution; which was referred to the Committee on _____

RESOLUTION

Expressing support for blockchain technology and digital assets.

Whereas entrepreneurs and innovators are building and deploying this next generation of the internet;

Whereas digital asset networks represent a new way for people to join together and cooperate with one another to undertake certain activities;

Whereas digital assets have the potential to be the foundational building blocks of these networks, aligning the economic incentive for individuals to cooperate with one another to achieve a common purpose;

Whereas the digital asset ecosystem has the potential to grow our economy and improve everyday lives of Americans by

facilitating collaboration through the use of technology to manage activities, allocate resources, and facilitate decision making;

Whereas blockchain networks and the digital assets they empower provide creator control, enhance transparency, reduce transaction costs, and increase efficiency;

Whereas blockchain technology facilitates new types of network participation which businesses in the United States may utilize in innovative ways;

Whereas digital asset companies are establishing operations outside of the United States, in countries that embrace the potential of blockchain technology and digital assets and provide safeguards for consumers through clear legal frameworks; and

Whereas digital assets, despite the purported anonymity, provide law enforcement with an exceptional tracing tool to identify illicit activity and bring criminals to justice:
Now, therefore, be it

1 *Resolved*, That it is the sense of the House of Rep-
2 resentatives that—

3 (1) the United States should seek to prioritize
4 understanding the potential opportunities of the next
5 generation of the internet;

6 (2) the United States should seek to foster ad-
7 vances in technology to improve our financial system
8 and create more fair and equitable access to finan-
9 cial services for everyday Americans;

1 (3) the United States must support the develop-
2 ment of digital assets and the underlying technology
3 in the United States or risk the shifting of the devel-
4 opment of such assets and technology outside of the
5 United States, to less regulated countries;

6 (4) the United States should strive to be a glob-
7 al leader in the development and adoption of digital
8 assets and blockchain technology;

9 (5) Congress should enact a functional frame-
10 work tailored to the specific risks of different digital
11 asset-related activities and unique benefits of distrib-
12 uted ledger technology, distributed networks, and de-
13 centralized systems; and

14 (6) consumers and market participants will ben-
15 efit from a framework for digital assets consistent
16 with longstanding investor protections in securities
17 and commodities markets, yet tailored to the unique
18 benefits and risks of the digital asset ecosystem.

118TH CONGRESS
2D SESSION

H. R. 9633

To codify the Strategic Hub for Innovation and Financial Technology of the Securities and Exchange Commission and LabCFTC of the Commodity Futures Trading Commission, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 17, 2024

Mr. LUCAS introduced the following bill; which was referred to the Committee on Financial Services, and in addition to the Committee on Agriculture, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To codify the Strategic Hub for Innovation and Financial Technology of the Securities and Exchange Commission and LabCFTC of the Commodity Futures Trading Commission, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Securing Innovation
5 in Financial Regulation Act”.

1 **SEC. 2. CODIFICATION OF THE SEC STRATEGIC HUB FOR**
2 **INNOVATION AND FINANCIAL TECHNOLOGY.**

3 Section 4 of the Securities Exchange Act of 1934 (15
4 U.S.C. 78d) is amended by adding at the end the fol-
5 lowing:

6 “(1) STRATEGIC HUB FOR INNOVATION AND FINAN-
7 CIAL TECHNOLOGY.—

8 “(1) OFFICE ESTABLISHED.—There is estab-
9 lished within the Commission the Strategic Hub for
10 Innovation and Financial Technology (referred to in
11 this section as the ‘FinHub’).

12 “(2) PURPOSES.—The purposes of FinHub are
13 as follows:

14 “(A) To assist in shaping the approach of
15 the Commission to technological advancements.

16 “(B) To examine financial technology inno-
17 vations among market participants.

18 “(C) To coordinate the response of the
19 Commission to emerging technologies in finan-
20 cial, regulatory, and supervisory systems.

21 “(3) DIRECTOR OF FINHUB.—FinHub shall
22 have a Director who shall be appointed by the Com-
23 mission, from among individuals having experience
24 in both emerging technologies and Federal securities
25 laws and serve at the pleasure of the Commission.
26 The Director shall report directly to the Commission

1 and perform such functions and duties as the Com-
2 mission may prescribe.

3 “(4) RESPONSIBILITIES.—FinHub shall—

4 “(A) foster responsible technological inno-
5 vation and fair competition within the Commis-
6 sion, including around financial technology, reg-
7 ulatory technology, and supervisory technology;

8 “(B) provide internal education and train-
9 ing to the Commission regarding financial tech-
10 nology;

11 “(C) advise the Commission regarding fi-
12 nancial technology that would serve the Com-
13 mission’s functions;

14 “(D) analyze technological advancements
15 and the impact of regulatory requirements on
16 financial technology companies;

17 “(E) advise the Commission with respect
18 to rulemakings or other agency or staff action
19 regarding financial technology;

20 “(F) provide businesses working in emerg-
21 ing financial technology fields with information
22 on the Commission, its rules and regulations;
23 and

24 “(G) encourage firms working in emerging
25 technology fields to engage with the Commis-

1 sion and obtain feedback from the Commission
2 on potential regulatory issues.

3 “(5) ACCESS TO DOCUMENTS.—The Commis-
4 sion shall ensure that FinHub has full access to the
5 documents and information of the Commission and
6 any self-regulatory organization, as necessary to
7 carry out the functions of FinHub.

8 “(6) REPORT TO CONGRESS.—

9 “(A) IN GENERAL.—Not later than Octo-
10 ber 31 of each year after 2024, FinHub shall
11 submit to the Committee on Banking, Housing,
12 and Urban Affairs of the Senate and the Com-
13 mittee on Financial Services of the House of
14 Representatives a report on the activities of
15 FinHub during the immediately preceding fiscal
16 year.

17 “(B) CONTENTS.—Each report required
18 under subparagraph (A) shall include—

19 “(i) the total number of persons that
20 met with FinHub;

21 “(ii) the total number of market par-
22 ticipants FinHub met with, including the
23 classification of those participants;

24 “(iii) a summary of general issues dis-
25 cussed during meetings with persons;

1 “(iv) information on steps FinHub
2 has taken to improve Commission services,
3 including responsiveness to the concerns of
4 persons;

5 “(v) recommendations—

6 “(I) with respect to the regula-
7 tions of the Commission and the guid-
8 ance and orders of the Commission;
9 and

10 “(II) for such legislative actions
11 as FinHub determines appropriate;
12 and

13 “(vi) any other information, as deter-
14 mined appropriate by the Director of
15 FinHub.

16 “(C) CONFIDENTIALITY.—A report under
17 subparagraph (A) may not contain confidential
18 information.

19 “(7) SYSTEMS OF RECORDS.—

20 “(A) IN GENERAL.—The Commission shall
21 establish a detailed system of records (as de-
22 fined under section 552a of title 5, United
23 States Code) to assist FinHub in commu-
24 nicating with interested parties.

1 “(B) ENTITIES COVERED BY THE SYS-
2 TEM.—Entities covered by the system required
3 under subparagraph (A) include entities or per-
4 sons submitting requests or inquiries and other
5 information to Commission through FinHub.

6 “(C) SECURITY AND STORAGE OF
7 RECORDS.—FinHub shall store—

8 “(i) electronic records—

9 “(I) in the system required under
10 subparagraph (A); or

11 “(II) on the secure network or
12 other electronic medium, such as
13 encrypted hard drives or back-up
14 media, of the Commission; and

15 “(ii) paper records in secure facilities.

16 “(8) EFFECTIVE DATE.—This subsection shall
17 take effect on the date that is 180 days after the
18 date of the enactment of this subsection.”.

19 **SEC. 3. CODIFICATION OF LABCFTC.**

20 (a) IN GENERAL.—Section 18 of the Commodity Ex-
21 change Act (7 U.S.C. 22) is amended by adding at the
22 end the following:

23 “(c) LABCFTC.—

24 “(1) ESTABLISHMENT.—There is established in
25 the Commission LabCFTC.

1 “(2) PURPOSE.—The purposes of LabCFTC
2 are to—

3 “(A) promote responsible financial tech-
4 nology innovation and fair competition for the
5 benefit of the American public;

6 “(B) serve as an information platform to
7 inform the Commission about new financial
8 technology innovation; and

9 “(C) provide outreach to financial tech-
10 nology innovators to discuss their innovations
11 and the regulatory framework established by
12 this Act and the regulations promulgated there-
13 under.

14 “(3) DIRECTOR.—LabCFTC shall have a Direc-
15 tor, who shall be appointed by the Commission and
16 serve at the pleasure of the Commission. Notwith-
17 standing section 2(a)(6)(A), the Director shall re-
18 port directly to the Commission and perform such
19 functions and duties as the Commission may pre-
20 scribe.

21 “(4) DUTIES.—LabCFTC shall—

22 “(A) advise the Commission with respect
23 to rulemakings or other agency or staff action
24 regarding financial technology;

1 “(B) provide internal education and train-
2 ing to the Commission regarding financial tech-
3 nology;

4 “(C) advise the Commission regarding fi-
5 nancial technology that would bolster the Com-
6 mission’s oversight functions;

7 “(D) engage with academia, students, and
8 professionals on financial technology issues,
9 ideas, and technology relevant to activities
10 under this Act;

11 “(E) provide persons working in emerging
12 technology fields with information on the Com-
13 mission, its rules and regulations, and the role
14 of a registered futures association; and

15 “(F) encourage persons working in emerg-
16 ing technology fields to engage with the Com-
17 mission and obtain feedback from the Commis-
18 sion on potential regulatory issues.

19 “(5) ACCESS TO DOCUMENTS.—The Commis-
20 sion shall ensure that LabCFTC has full access to
21 the documents and information of the Commission
22 and any self-regulatory organization or registered fu-
23 tures association, as necessary to carry out the func-
24 tions of LabCFTC.

25 “(6) REPORT TO CONGRESS.—

1 “(A) IN GENERAL.—Not later than Octo-
2 ber 31 of each year after 2024, LabCFTC shall
3 submit to the Committee on Agriculture of the
4 House of Representatives and the Committee
5 on Agriculture, Nutrition, and Forestry of the
6 Senate a report on its activities.

7 “(B) CONTENTS.—Each report required
8 under paragraph (1) shall include—

9 “(i) the total number of persons that
10 met with LabCFTC;

11 “(ii) a summary of general issues dis-
12 cussed during meetings with the person;

13 “(iii) information on steps LabCFTC
14 has taken to improve Commission services,
15 including responsiveness to the concerns of
16 persons;

17 “(iv) recommendations made to the
18 Commission with respect to the regula-
19 tions, guidance, and orders of the Commis-
20 sion and such legislative actions as may be
21 appropriate; and

22 “(v) any other information determined
23 appropriate by the Director of LabCFTC.

1 “(C) CONFIDENTIALITY.—A report under
2 paragraph (A) shall abide by the confidentiality
3 requirements in section 8.

4 “(7) SYSTEMS OF RECORDS.—

5 “(A) IN GENERAL.—The Commission shall
6 establish a detailed system of records (as de-
7 fined in section 552a of title 5, United States
8 Code) to assist LabCFTC in communicating
9 with interested parties.

10 “(B) PERSONS COVERED BY THE SYS-
11 TEM.—The persons covered by the system of
12 records shall include persons submitting re-
13 quests or inquiries and other information to the
14 Commission through LabCFTC.

15 “(C) SECURITY AND STORAGE OF
16 RECORDS.—The system of records shall store
17 records electronically or on paper in secure fa-
18 cilities, and shall store electronic records on the
19 secure network of the Commission and on other
20 electronic media, such as encrypted hard drives
21 and back-up media, as needed.”.

22 (b) CONFORMING AMENDMENTS.—Section
23 2(a)(6)(A) of the Commodity Exchange Act (7 U.S.C.
24 2(a)(6)(A)) is amended—

1 (1) by striking “paragraph and in” and insert-
2 ing “paragraph,”; and

3 (2) by inserting “and section 18(c)(3),” before
4 “the executive”.

5 (c) EFFECTIVE DATE.—The Commodity Futures
6 Trading Commission shall implement the amendments
7 made by this section (including complying with section
8 18(c)(7) of the Commodity Exchange Act) within 180
9 days after the date of the enactment of this Act.

○

118TH CONGRESS
2D SESSION

H. R. 10544

To specify the treatment of covered non-fungible tokens under the securities laws, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 20, 2024

Mr. TIMMONS (for himself and Mr. TORRES of New York) introduced the following bill; which was referred to the Committee on Financial Services

A BILL

To specify the treatment of covered non-fungible tokens under the securities laws, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “New Frontiers in
5 Technology Act”.

6 **SEC. 2. TREATMENT OF COVERED NON-FUNGIBLE TOKENS**
7 **UNDER THE SECURITIES LAWS.**

8 (a) IN GENERAL.—For purposes of the securities
9 laws—

1 (1) a covered non-fungible token is not an in-
2 vestment contract; and

3 (2) an offer or sale of a covered non-fungible
4 token is not a transaction in a security.

5 (b) DEFINITIONS.—In this section and section 3:

6 (1) COVERED NON-FUNGIBLE TOKEN.—

7 (A) IN GENERAL.—The term “covered
8 non-fungible token” means any non-fungible
9 token which was developed primarily for per-
10 sonal, family, or household consumption, includ-
11 ing—

12 (i) a work of art, musical composition,
13 literary work, or other intellectual prop-
14 erty;

15 (ii) a collectible, merchandise, virtual
16 land, or video game asset;

17 (iii) a digital identifier or other certifi-
18 cate or credential;

19 (iv) an affinity, reward, or loyalty
20 point; or

21 (v) a right, license, membership, or
22 ticket.

23 (B) EXCLUSION.— The term “covered
24 non-fungible token” does not include a non-fun-

1 gible token that is marketed by an issuer or
2 promoter—

3 (i) primarily as an investment oppor-
4 tunity; or

5 (ii) that promises future actions or a
6 series of actions designed explicitly and for
7 the purpose of increasing the value of the
8 covered non-fungible token.

9 (2) NON-FUNGIBLE TOKEN.—

10 (A) IN GENERAL.—The term “non-fungible
11 token” means any asset—

12 (i) which is of such uniqueness or lim-
13 ited production that it can be independ-
14 ently assessed or identified;

15 (ii) which is represented by a unique
16 digital identifier;

17 (iii) the record of ownership of which
18 is recorded on a cryptographically secured
19 public distributed ledger;

20 (iv) which—

21 (I) is a digital equivalent of a
22 tangible or intangible good; or

23 (II) has some other inherent
24 function beyond the fact that the
25 record of ownership of the asset is re-

1 corded on a cryptographically secure
2 public distributed ledger; and

3 (v) the record of which can be exclu-
4 sively possessed and transferred, person to
5 person, without necessary reliance on an
6 intermediary.

7 (B) EXCLUSIONS.—The term “non-fun-
8 gible token” does not include—

9 (i) any note, stock, treasury stock, se-
10 curity future, security-based swap, bond,
11 debenture, evidence of indebtedness, cer-
12 tificate of interest or participation in any
13 profit-sharing agreement, collateral-trust
14 certificate, preorganization certificate or
15 subscription, transferable share, put, call,
16 straddle, option, privilege on any security,
17 certificate of deposit, or group or index of
18 securities (including any interest therein or
19 based on the value thereof); or

20 (ii) any asset which, based on its
21 terms and other characteristics, is, rep-
22 resents, or is functionally equivalent to an
23 agreement, contract, or transaction that
24 is—

1 (I) a contract of sale of a com-
2 modity (as defined under section 1a of
3 the Commodity Exchange Act) for fu-
4 ture delivery or an option thereon;

5 (II) a security futures product;

6 (III) a swap;

7 (IV) an agreement, contract, or
8 transaction described in section
9 2(e)(2)(C)(i) or 2(e)(2)(D)(i) of the
10 Commodity Exchange Act;

11 (V) a commodity option author-
12 ized under section 4e of the Com-
13 modity Exchange Act; or

14 (VI) a leverage transaction au-
15 thorized under section 19 of the Com-
16 modity Exchange Act.

17 (C) RULE OF CONSTRUCTION.—Nothing in
18 this subsection may be construed to create a
19 presumption that a non-fungible token is a rep-
20 resentation of any type of security not excluded
21 from the definition under subparagraph (B).

22 (3) SECURITIES LAWS.—The term “securities
23 laws” has the meaning given that term in section
24 3(a) of the Securities Exchange Act of 1934.

1 **SEC. 3. STUDY ON NON-FUNGIBLE TOKENS.**

2 (a) IN GENERAL.—The Comptroller General of the
3 United States shall carry out a study of non-fungible to-
4 kens that analyzes—

5 (1) the nature, size, role, purpose, and use of
6 non-fungible tokens;

7 (2) the similarities and differences between non-
8 fungible tokens and other digital assets, including
9 payment stablecoins, and how the markets for those
10 digital assets intersect with each other;

11 (3) how non-fungible tokens are minted by
12 issuers and subsequently administered to purchasers;

13 (4) how non-fungible tokens are stored after
14 being purchased by a consumer;

15 (5) the interoperability of non-fungible tokens
16 between different blockchain systems;

17 (6) the scalability of different non-fungible
18 token marketplaces;

19 (7) the benefits of non-fungible tokens, includ-
20 ing verifiable digital ownership;

21 (8) the risks of non-fungible tokens, including—

22 (A) intellectual property rights;

23 (B) cybersecurity risks; and

24 (C) market risks;

25 (9) whether and how non-fungible tokens have
26 integrated with traditional marketplaces, including

1 those for music, real estate, gaming, events, and
2 travel;

3 (10) whether non-fungible tokens can be used
4 to facilitate commerce or other activities through the
5 representation of documents, identification, con-
6 tracts, licenses, and other commercial, government,
7 or personal records;

8 (11) any potential risks to traditional markets
9 from such integration; and

10 (12) the levels and types of illicit activity in
11 non-fungible token markets.

12 (b) REPORT.—Not later than 1 year after the date
13 of the enactment of this Act, the Comptroller General shall
14 make publicly available a report that includes the results
15 of the study required by subsection (a).

○

118TH CONGRESS
2D SESSION

H. R. 9579

To establish the Joint Advisory Committee on Digital Assets, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 12, 2024

Mr. ROSE introduced the following bill; which was referred to the Committee on Financial Services, and in addition to the Committee on Agriculture, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To establish the Joint Advisory Committee on Digital Assets,
and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Bridging Regulation
5 and Innovation for Digital Global and Electronic Digital
6 Assets Act” or the “BRIDGE Digital Assets Act”.

1 **SEC. 2. CFTC-SEC JOINT ADVISORY COMMITTEE ON DIG-**
2 **ITAL ASSETS.**

3 (a) ESTABLISHMENT.—The Commodity Futures
4 Trading Commission and the Securities and Exchange
5 Commission (in this section referred to as the “Commis-
6 sions”) shall jointly establish the Joint Advisory Com-
7 mittee on Digital Assets (in this section referred to as the
8 “Committee”).

9 (b) PURPOSE.—

10 (1) IN GENERAL.—The Committee shall—

11 (A) provide the Commissions with advice
12 on the rules, regulations, and policies of the
13 Commissions related to digital assets;

14 (B) further the regulatory harmonization
15 of digital asset policy between the Commissions;

16 (C) examine and disseminate methods for
17 describing, measuring, and quantifying digital
18 asset—

19 (i) decentralization;

20 (ii) functionality;

21 (iii) information asymmetries; and

22 (iv) transaction and network security;

23 and

24 (D) examine the potential for digital as-
25 sets, blockchain systems, and distributed ledger
26 technology to improve efficiency in the oper-

1 ation of financial market infrastructure and
2 better protect financial market participants, in-
3 cluding services and systems which provide—

- 4 (i) improved customer protections;
5 (ii) public availability of information;
6 (iii) greater transparency regarding
7 customer funds;
8 (iv) reduced transaction cost; and
9 (v) increased access to financial mar-
10 ket services.

11 (2) REVIEW BY AGENCIES.—Each Commission
12 shall—

13 (A) review the findings and recommenda-
14 tions of the Committee;

15 (B) promptly issue a public statement each
16 time the Committee submits a finding or rec-
17 ommendation to a Commission—

18 (i) assessing the finding or rec-
19 ommendation of the Committee;

20 (ii) disclosing the action or decision
21 not to take action made by the Commis-
22 sion in response to a finding or rec-
23 ommendation; and

24 (iii) explaining the reasons for the ac-
25 tion or decision not to take action; and

1 (C) each time the Committee submits a
2 finding or recommendation to a Commission,
3 provide the Committee with a formal response
4 to the finding or recommendation not later than
5 3 months after the date of the submission of
6 the finding or recommendation.

7 (c) MEMBERSHIP AND LEADERSHIP.—

8 (1) NON-FEDERAL MEMBERS.—

9 (A) IN GENERAL.—The Commissions shall
10 appoint at least 20 nongovernmental stake-
11 holders who represent a broad spectrum of in-
12 terests, equally divided between the Commis-
13 sions, to serve as members of the Committee.
14 The appointees shall include—

15 (i) digital asset issuers;

16 (ii) persons registered with the Com-
17 missions and engaged in digital asset re-
18 lated activities;

19 (iii) individuals engaged in academic
20 research relating to digital assets; and

21 (iv) digital asset users.

22 (B) MEMBERS NOT COMMISSION EMPLOY-
23 EES.—Members appointed under subparagraph

24 (A) shall not be deemed to be employees or

1 agents of a Commission solely by reason of
2 membership on the Committee.

3 (2) CO-DESIGNATED FEDERAL OFFICERS.—

4 Notwithstanding section 1009 of title 5, United
5 States Code, the Committee shall have two des-
6 ignated Federal officers or employees, as described
7 under such section, with each Commission desig-
8 nating one officer or employee of the Commission to
9 serve as a designated Federal officer or employee,
10 from among individuals who possess an under-
11 standing of digital assets, blockchain systems, and
12 financial technology.

13 (3) COMMITTEE LEADERSHIP.—

14 (A) COMPOSITION; ELECTION.—The Com-
15 mittee members shall elect, from among the
16 Committee members—

- 17 (i) a chair;
18 (ii) a vice chair;
19 (iii) a secretary; and
20 (iv) an assistant secretary.

21 (B) TERM OF OFFICE.—Each member
22 elected under subparagraph (A) in a 2-year pe-
23 riod referred to in section 1013(b)(2) of title 5,
24 United States Code, shall serve in the capacity

1 for which the member was so elected, until the
2 end of the 2-year period.

3 (d) NO COMPENSATION FOR COMMITTEE MEM-
4 BERS.—All Committee members shall—

5 (1) serve without compensation; and

6 (2) while away from the home or regular place
7 of business of the member in the performance of
8 services for the Committee, be allowed travel ex-
9 penses, including per diem in lieu of subsistence, in
10 the same manner as persons employed intermittently
11 in the Government service are allowed expenses
12 under section 5703(b) of title 5, United States Code.

13 (e) FREQUENCY OF MEETINGS.—The Committee
14 shall meet—

15 (1) not less frequently than twice annually; and

16 (2) at such other times as either Commission
17 may request.

18 (f) DURATION.—Section 1013(a)(2) of title 5, United
19 States Code, shall not apply to the Committee.

20 (g) TIME LIMITS.—The Commissions shall—

21 (1) adopt a joint charter for the Committee
22 within 90 days after the date of the enactment of
23 this section;

24 (2) appoint members to the Committee within
25 120 days after such date of enactment; and

1 (3) hold the initial meeting of the Committee
2 within 180 days after such date of enactment.

3 (h) FUNDING.—The Commissions shall jointly fund
4 the Committee.

5 (i) DEFINITIONS.—In this section:

6 (1) BLOCKCHAIN.—The term “blockchain”
7 means any technology—

8 (A) where data is—

9 (i) shared across a network to create
10 a public ledger of verified transactions or
11 information among network participants;

12 (ii) linked using cryptography to
13 maintain the integrity of the public ledger
14 and to execute other functions; and

15 (iii) distributed among network par-
16 ticipants in an automated fashion to con-
17 currently update network participants on
18 the state of the public ledger and any other
19 functions; and

20 (B) composed of source code that is pub-
21 licly available.

22 (2) DIGITAL ASSET.—The term “digital asset”
23 means any fungible digital representation of value
24 that can be exclusively possessed and transferred,
25 person to person, without necessary reliance on an

1 intermediary, and is recorded on a cryptographically
2 secured public distributed ledger.

3 (3) DIGITAL ASSET ISSUER.—With respect to a
4 digital asset, the term “digital asset issuer” means
5 any person that, in exchange for any consideration—

6 (A) issues or causes to be issued a unit of
7 such digital asset to a person; or

8 (B) offers or sells a right to a future
9 issuance of a unit of such digital asset to a per-
10 son.

○

118TH CONGRESS
2D SESSION

H. R. 9758

To require the Securities and Exchange Commission, Commodity Futures Trading Commission, and the Secretary of the Treasury to jointly carry out a study on decentralized finance.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 23, 2024

Mr. DAVIDSON introduced the following bill; which was referred to the Committee on Financial Services

A BILL

To require the Securities and Exchange Commission, Commodity Futures Trading Commission, and the Secretary of the Treasury to jointly carry out a study on decentralized finance.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Evaluating DeFi Op-
5 portunities Act”.

6 **SEC. 2. STUDY ON DECENTRALIZED FINANCE.**

7 (a) STUDY REQUIRED.—The Secretary of the Treas-
8 ury, in coordination with the Securities and Exchange

1 Commission and Commodity Futures Trading Commis-
2 sion, shall carry out a study on decentralized finance that
3 analyzes—

4 (1) the nature, size, role, and use of decentral-
5 ized finance blockchain-based protocols;

6 (2) the operation of blockchain-based protocols
7 that comprise decentralized finance;

8 (3) the interoperability of blockchain-based pro-
9 tocols and blockchain systems;

10 (4) the interoperability of blockchain-based pro-
11 tocols and software-based systems, including
12 websites and wallets;

13 (5) the decentralized governance systems
14 through which blockchain-based protocols may be de-
15 veloped, published, constituted, administered, main-
16 tained, or otherwise distributed, including—

17 (A) whether the systems enhance or de-
18 tract from—

19 (i) the decentralization of the decen-
20 tralized finance; and

21 (ii) the inherent benefits and risks of
22 the decentralized governance system; and

23 (B) any procedures, requirements, or best
24 practices that would mitigate the risks identi-
25 fied in subparagraph (A)(ii);

1 (6) the benefits of decentralized finance, includ-
2 ing—

3 (A) operational resilience and availability
4 of blockchain systems;

5 (B) interoperability of blockchain systems;

6 (C) market competition and innovation;

7 (D) transaction efficiency;

8 (E) transparency and traceability of trans-
9 actions;

10 (F) disintermediation;

11 (G) privacy of user data;

12 (H) security of user personally identifiable
13 information;

14 (I) autonomy;

15 (J) accessibility by users; and

16 (K) affordability for users;

17 (7) the risks of decentralized finance, includ-
18 ing—

19 (A) pseudonymity of users and trans-
20 actions;

21 (B) disintermediation; and

22 (C) cybersecurity vulnerabilities;

23 (8) the extent to which decentralized finance
24 has integrated with the traditional financial markets

1 and any potential risks or improvements to the sta-
2 bility of the markets;

3 (9) how the levels of illicit activity in decentral-
4 ized finance compare with the levels of illicit activity
5 in traditional financial markets;

6 (10) methods for addressing illicit activity in
7 decentralized finance and traditional markets that
8 are tailored to the unique attributes of each;

9 (11) how decentralized finance may increase the
10 accessibility and efficiency of cross-border trans-
11 actions;

12 (12) the feasibility of embedding self-executing
13 compliance and risk controls into decentralized fi-
14 nance; and

15 (13) any businesses or service providers that
16 are necessary to the communication of user informa-
17 tion for a material portion of any decentralized fi-
18 nance transaction.

19 (b) REPORT.—Not later than 180 days after the date
20 of enactment of this Act, the Secretary of the Treasury,
21 in coordination with the Securities and Exchange Commis-
22 sion and Commodity Futures Trading Commission, shall
23 submit to the relevant congressional committees a report
24 that includes the results of the study required by sub-
25 section (a).

1 (c) GAO STUDY.—The Comptroller General of the
2 United States shall—

3 (1) carry out a study on decentralized finance
4 that analyzes the information described in para-
5 graphs (1) through (13) of subsection (a); and

6 (2) not later than 180 days after the date of
7 enactment of this Act, submit to the relevant con-
8 gressional committees a report that includes the re-
9 sults of the study required by paragraph (1).

10 (d) DEFINITIONS.—In this section:

11 (1) DECENTRALIZED FINANCE.—The term “de-
12 centralized finance” means blockchain-based proto-
13 cols that allow users to engage in financial trans-
14 actions in a self-directed manner so that a third-
15 party intermediary does not effectuate the trans-
16 actions or take custody of digital assets of a user
17 during any part of the transactions.

18 (2) RELEVANT CONGRESSIONAL COMMIT-
19 TEES.—The term “relevant congressional commit-
20 tees” means—

21 (A) the Committees on Financial Services
22 and Agriculture of the House of Representa-
23 tives; and

1 (B) the Committees on Banking, Housing,
2 and Urban Affairs and Agriculture, Nutrition,
3 and Forestry of the Senate.

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[DISCUSSION DRAFT]119TH CONGRESS
1ST SESSION**H. R.** _____

To provide for the regulation of payment stablecoins, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. STEIL (for himself and Mr. HILL of Arkansas) introduced the following
bill; which was referred to the Committee on

A BILL

To provide for the regulation of payment stablecoins, and
for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Stablecoin Trans-
5 parency and Accountability for a Better Ledger Economy
6 Act of 2025” or the “STABLE Act of 2025”.

7 **SEC. 2. DEFINITIONS.**

8 In this Act:

1 (1) BANK SECRECY ACT.—The term “Bank Se-
2 crecy Act” means—

3 (A) section 21 of the Federal Deposit In-
4 surance Act (12 U.S.C. 1829b);

5 (B) chapter 2 of title I of Public Law 91–
6 508 (12 U.S.C. 1951 et seq.); and

7 (C) subchapter II of chapter 53 of title 31,
8 United States Code.

9 (2) BOARD.—The term “Board” means the
10 Board of Governors of the Federal Reserve System.

11 (3) COMPTROLLER.—The term “Comptroller”
12 means the Comptroller of the Currency.

13 (4) CORPORATION.—The term “Corporation”
14 means the Federal Deposit Insurance Corporation.

15 (5) DIGITAL ASSET.—The term “digital asset”
16 means any digital representation of value which is
17 recorded on a cryptographically-secured distributed
18 ledger.

19 (6) DISTRIBUTED LEDGER.—The term “distrib-
20 uted ledger” means technology where data is shared
21 across a network that creates a public digital ledger
22 of verified transactions or information among net-
23 work participants and the data is linked using cryp-
24 tography to maintain the integrity of the public ledg-
25 er and execute other functions.

1 (7) FEDERAL QUALIFIED NONBANK PAYMENT
2 STABLECOIN ISSUER.—The term “Federal qualified
3 nonbank payment stablecoin issuer” means a sub-
4 sidiary of a nonbank entity approved by the primary
5 Federal payment stablecoin regulator, pursuant to
6 section 5, to issue payment stablecoins.

7 (8) INSTITUTION-AFFILIATED PARTY.—With re-
8 spect to a permitted payment stablecoin issuer, the
9 term “institution-affiliated party” means any direc-
10 tor, officer, employee, or person in control of, or
11 agent for, the permitted payment stablecoin issuer.

12 (9) INSURED DEPOSITORY INSTITUTION.—The
13 term “insured depository institution” means—

14 (A) an insured depository institution, as
15 defined in section 3 of the Federal Deposit In-
16 surance Act (12 U.S.C. 1813); and

17 (B) an insured credit union, as defined in
18 section 101 of the Federal Credit Union Act
19 (12 U.S.C. 1752).

20 (10) MONETARY VALUE.—The term “monetary
21 value”—

22 (A) means a national currency or deposit
23 (as defined under Section 3 of the Federal De-
24 posit Insurance Act) that is denominated in a
25 national currency; and

1 (B) does not include any agricultural or
2 other physical commodity (as such term is de-
3 fined under section 1a of the Commodity Ex-
4 change Act).

5 (11) NATIONAL CURRENCY.—The term “na-
6 tional currency” means a Federal Reserve note, (as
7 the term is used in the first undesignated paragraph
8 of section 16 of the Federal Reserve Act (12 U.S.C.
9 411)), money issued by a central bank, and money
10 issued by an intergovernmental organization pursu-
11 ant to an agreement by one or more governments.

12 (12) NONBANK ENTITY.—The term “nonbank
13 entity” means a person that is not an insured depos-
14 itory institution or subsidiary of an insured deposi-
15 tory institution.

16 (13) PAYMENT STABLECOIN.—The term “pay-
17 ment stablecoin” means a digital asset—

18 (A) that is or is designed to be used as a
19 means of payment or settlement;

20 (B) the issuer of which—

21 (i) is obligated to convert, redeem, or
22 repurchase for a fixed amount of monetary
23 value; or

24 (ii) represents will maintain or creates
25 the reasonable expectation that it will

1 maintain a stable value relative to the
2 value of a fixed amount of monetary value;
3 and

4 (C) that is not—

5 (i) a national currency; or

6 (ii) a security issued by an investment
7 company registered under section 8(a) of
8 the Investment Company Act of 1940 (15
9 U.S.C. 80a–8(a)).

10 (14) PERMITTED PAYMENT STABLECOIN
11 ISSUER.—The term “permitted payment stablecoin
12 issuer” means—

13 (A) a subsidiary of an insured depository
14 institution that has been approved to issue pay-
15 ment stablecoins under section 5;

16 (B) a Federal qualified nonbank payment
17 stablecoin issuer that has been approved to
18 issue payment stablecoins under section 5; or

19 (C) a State qualified payment stablecoin
20 issuer.

21 (15) PERSON.—The term “person” means an
22 individual, partnership, company, corporation, asso-
23 ciation (incorporated or unincorporated), trust, es-
24 tate, cooperative organization, or other entity.

1 (16) PRIMARY FEDERAL PAYMENT STABLECOIN
2 REGULATOR.—

3 (A) IN GENERAL.—The term “primary
4 Federal payment stablecoin regulator” means—

5 (i) with respect to an insured deposi-
6 tory institution (other than an insured
7 credit union) or a subsidiary of an insured
8 depository institution (other than an in-
9 sured credit union), the appropriate Fed-
10 eral banking agency of such insured deposi-
11 tory institution (as defined under section
12 3 of the Federal Deposit Insurance Act
13 (12 U.S.C. 1813));

14 (ii) with respect to an insured credit
15 union or a subsidiary of an insured credit
16 union, the National Credit Union Adminis-
17 tration; and

18 (iii) with respect to a Federal quali-
19 fied nonbank payment stablecoin issuer
20 and any nonbank entity that seeks to have
21 a subsidiary approved as a Federal quali-
22 fied nonbank payment stablecoin issuer,
23 the Comptroller.

24 (B) PRIMARY FEDERAL PAYMENT
25 STABLECOIN REGULATORS.—The term “pri-

1 mary Federal payment stablecoin regulators”
2 means the Comptroller, the Board, the Corpora-
3 tion, and the National Credit Union Adminis-
4 tration.

5 (17) REGISTERED PUBLIC ACCOUNTING
6 FIRM.—The term “registered public accounting
7 firm” has the meaning given that term under section
8 2 of the Sarbanes-Oxley Act of 2002 (15 U.S.C.
9 7201).

10 (18) STATE.—The term “State” means each of
11 the several States, the District of Columbia, and
12 each territory of the United States.

13 (19) STATE QUALIFIED PAYMENT STABLECOIN
14 ISSUER.—The term “State qualified payment
15 stablecoin issuer” means an entity that—

16 (A) is legally established and approved to
17 issue payment stablecoins by a State payment
18 stablecoin regulator; and

19 (B) issues a payment stablecoin in compli-
20 ance with the requirements under section 4.

21 (20) STATE PAYMENT STABLECOIN REGU-
22 LATOR.—The term “State payment stablecoin regu-
23 lator” means a State agency that has primary regu-
24 latory and supervisory authority in such State over
25 entities that issue payment stablecoins.

1 (21) SUBSIDIARY OF AN INSURED CREDIT
2 UNION.—With respect to an insured credit union,
3 the term “subsidiary of an insured credit union”
4 means—

5 (A) an organization providing services to
6 the insured credit union that are associated
7 with the routine operations of credit unions, as
8 described under section 107(7)(I) of the Fed-
9 eral Credit Union Act (12 U.S.C. 1757(7)(I));
10 and

11 (B) a credit union service organization, as
12 such term is used under part 712 of title 12,
13 Code of Federal Regulations, with respect to
14 which the insured credit union has an owner-
15 ship interest or to which the insured credit
16 union has extended a loan.

17 **SEC. 3. LIMITATION ON WHO MAY ISSUE A PAYMENT**
18 **STABLECOIN.**

19 It shall be unlawful for any person other than a per-
20 mitted payment stablecoin issuer to issue a payment
21 stablecoin for use by any person in the United States.

22 **SEC. 4. REQUIREMENTS FOR ISSUING PAYMENT**
23 **STABLECOINS.**

24 (a) STANDARDS FOR THE ISSUANCE OF PAYMENT
25 STABLECOINS.—

1 (1) IN GENERAL.—Permitted payment
2 stablecoin issuers shall—

3 (A) maintain reserves backing the issuer’s
4 payment stablecoins outstanding on an at least
5 1 to 1 basis, with reserves comprising—

6 (i) United States coins and currency
7 (including Federal reserve notes);

8 (ii) funds held as insured demand de-
9 posits or insured shares at insured deposi-
10 tory institutions, subject to limitations es-
11 tablished by the Corporation and the Na-
12 tional Credit Union Administration, re-
13 spectively, to address safety and soundness
14 risks of such insured depository institu-
15 tions;

16 (iii) Treasury bills with a maturity of
17 90 days or less;

18 (iv) repurchase agreements with a ma-
19 turity of 7 days or less that are backed by
20 Treasury bills with a maturity of 90 days
21 or less; or

22 (v) central bank reserve deposits;

23 (B) publicly disclose the issuer’s redemp-
24 tion policy;

1 (C) establish procedures for timely redemp-
2 tion of outstanding payment stablecoins; and

3 (D) publish the monthly composition of the
4 issuer's reserves on the website of the issuer,
5 containing—

6 (i) the total number of outstanding
7 payment stablecoins issued by the issuer;
8 and

9 (ii) the amount and composition of
10 the reserves described under subparagraph
11 (A).

12 (2) PROHIBITION ON REHYPOTHECATION.—Re-
13 serves described under paragraph (1)(A) may not be
14 pledged, rehypothecated, or reused, except for the
15 purpose of creating liquidity to meet reasonable ex-
16 pectations of requests to redeem payment
17 stablecoins, such that reserves in the form of Treas-
18 ury bills may be pledged as collateral for repurchase
19 agreements with a maturity of 90 days or less, pro-
20 vided that either—

21 (A) the repurchase agreements are cleared
22 by a central clearing counterparty that is ap-
23 proved by the primary Federal payment
24 stablecoin regulator or the State payment
25 stablecoin regulator; or

1 (B) the permitted payment stablecoin
2 issuer receives the prior approval of the primary
3 Federal payment stablecoin regulator or the
4 State payment stablecoin regulator.

5 (3) MONTHLY CERTIFICATION; EXAMINATION
6 OF REPORTS BY REGISTERED PUBLIC ACCOUNTING
7 FIRM.—

8 (A) IN GENERAL.—A permitted payment
9 stablecoin issuer shall, each month, have the in-
10 formation disclosed in the previous month-end
11 report required under paragraph (1)(D) exam-
12 ined by a registered public accounting firm.

13 (B) CERTIFICATION.—Each month, the
14 Chief Executive Officer and Chief Financial Of-
15 ficer of a permitted payment stablecoin issuer
16 shall submit a certification as to the accuracy
17 of the monthly report to—

18 (i) the primary Federal payment
19 stablecoin regulator; or
20 (ii) in the case of a State qualified
21 payment stablecoin issuer, to the State
22 payment stablecoin regulator.

23 (C) CRIMINAL PENALTY.—Any person who
24 submits a certification required under subpara-
25 graph (B) knowing that such certification is

1 false shall be subject to the criminal penalties
2 set forth under section 1350(c) of title 18,
3 United States Code.

4 (4) CAPITAL, LIQUIDITY, AND RISK MANAGE-
5 MENT REQUIREMENTS.—

6 (A) IN GENERAL.—The primary Federal
7 payment stablecoin regulators shall, jointly, (or
8 in the case of a State qualified payment
9 stablecoin issuer, the State payment stablecoin
10 regulator may) issue—

11 (i) capital requirements applicable to
12 permitted payment stablecoin issuers,
13 which may not exceed what is sufficient to
14 ensure the permitted payment stablecoin
15 issuer’s ongoing operations;

16 (ii) liquidity requirements applicable
17 to permitted payment stablecoin issuers,
18 which may not exceed what is sufficient to
19 ensure the financial integrity of the per-
20 mitted payment stablecoin issuer and the
21 ability of the issuer to meet the financial
22 obligations of the issuer, including redemp-
23 tions; and

24 (iii) risk management requirements
25 applicable to permitted payment stablecoin

1 issuers, tailored to the business model and
2 risk profile of the permitted payment
3 stablecoin issuer.

4 (B) TAILORING OF REQUIREMENTS.—The
5 primary Federal payment stablecoin regulators
6 shall, in issuing requirements under this para-
7 graph, tailor or differentiate among permitted
8 payment stablecoin issuers on an individual
9 basis or by category, taking into consideration
10 such issuers' capital structure, riskiness, com-
11 plexity, financial activities (including financial
12 activities of any subsidiaries), size, and any
13 other risk-related factors that the primary Fed-
14 eral payment stablecoin regulators determine
15 appropriate.

16 (C) RULE OF CONSTRUCTION.—Nothing in
17 this paragraph may be construed to limit the
18 supervisory, regulatory, or enforcement author-
19 ity of a Federal banking agency (as defined
20 under section 3 of the Federal Deposit Insur-
21 ance Act) to further the ability of an institution
22 under the supervision of the Federal banking
23 agency to comply with this Act.

24 (5) TREATMENT UNDER THE BANK SECRECY
25 ACT.—A permitted payment stablecoin issuer shall

1 be treated as a financial institution for purposes of
2 the Bank Secrecy Act.

3 (6) LIMITATION ON PAYMENT STABLECOIN AC-
4 TIVITIES.—A permitted payment stablecoin issuer
5 may only—

6 (A) issue payment stablecoins;

7 (B) redeem payment stablecoins;

8 (C) manage related reserves (including
9 purchasing and holding reserve assets);

10 (D) provide custodial or safekeeping serv-
11 ices for payment stablecoins or private keys of
12 payment stablecoins;

13 (E) in the case of a permitted payment
14 stablecoin issuer described in section (14)(A),
15 provide custodial or safekeeping services for re-
16 serves; and

17 (F) undertake other functions that directly
18 support the work of issuing and redeeming pay-
19 ment stablecoins.

20 (7) REGULATION BY THE COMPTROLLER.—

21 (A) IN GENERAL.—A Federal qualified
22 nonbank payment stablecoin issuer shall be reg-
23 ulated and supervised exclusively by the Comp-
24 troller.

1 (B) RULEMAKING.—The Comptroller may,
2 in consultation with the other primary Federal
3 payment stablecoin regulators, issue such regu-
4 lations and orders as may be necessary to en-
5 sure the safety and soundness of Federal quali-
6 fied nonbank payment stablecoin issuers, con-
7 sistent with the provisions of this Act.

8 (b) STATE-LEVEL REGULATORY REGIMES.—Not-
9 withstanding subsection (a), a person that wishes to be-
10 come a State qualified payment stablecoin issuer may opt
11 to be regulated, for purposes of issuing payment
12 stablecoins, under a State-level regulatory regime, if the
13 State-level regulatory regime meets the standards and re-
14 quirements described in subsection (a).

15 (c) RULEMAKING.—

16 (1) IN GENERAL.—The primary Federal pay-
17 ment stablecoin regulators and the State payment
18 stablecoin regulators may issue such orders and reg-
19 ulations as may be necessary to administer and
20 carry out the requirements of this section, including
21 to establish conditions, and to prevent evasions
22 thereof.

23 (2) JOINT ISSUANCE OF REGULATION.—All reg-
24 ulations issued to carry out this section by the pri-

1 mary Federal payment stablecoin regulators shall be
2 issued jointly.

3 (3) RULEMAKING DEADLINE.—Not later than
4 the end of the 180-day period beginning on the date
5 of enactment of this Act, the Federal payment
6 stablecoin regulators shall issue regulations to carry
7 out this section.

8 **SEC. 5. APPROVAL OF SUBSIDIARIES OF INSURED DEPOSI-**
9 **TORY INSTITUTIONS AND SUBSIDIARIES OF**
10 **NONBANK ENTITIES.**

11 (a) IN GENERAL.—

12 (1) APPLICATION.—

13 (A) IN GENERAL.—The primary Federal
14 payment stablecoin regulator shall receive and
15 review applications from any insured depository
16 institution that seeks to issue payment
17 stablecoins through a subsidiary and any
18 nonbank entity that seeks to issue payment
19 stablecoins through a subsidiary.

20 (B) COMPLETION OF APPLICATION.—With
21 respect to an application filed under this para-
22 graph, once the primary Federal payment
23 stablecoin regulator has informed the applicant
24 that the application is complete, such applica-
25 tion shall be deemed to be complete unless the

1 primary Federal payment stablecoin regulator
2 determines that a significant change in cir-
3 cumstances requires otherwise.

4 (2) EVALUATION OF APPLICATIONS.—A com-
5 plete application received under paragraph (1) shall
6 be evaluated by the primary Federal payment
7 stablecoin regulator based on the ability of the sub-
8 sidiary of the applicant, based on the financial con-
9 dition and resources, to meet the requirements set
10 forth in section 4.

11 (3) TIMING FOR DECISION; GROUNDS FOR DE-
12 NIAL.—

13 (A) TIMING.—The primary Federal pay-
14 ment stablecoin regulator shall—

15 (i) inform the applicant whether the
16 applicant has submitted a complete appli-
17 cation no later than 45 days after receiving
18 the application; and

19 (ii) render a decision on an applica-
20 tion no later than 120 days after informing
21 the applicant that the application is com-
22 plete.

23 (B) DENIAL OF APPLICATION.—

24 (i) GROUNDS FOR DENIAL.—The pri-
25 mary Federal payment stablecoin regulator

1 may only deny a complete application re-
2 ceived under paragraph (1) if the regulator
3 determines that the activities of the appli-
4 cant would be unsafe or unsound based on
5 the ability of the subsidiary of the appli-
6 cant, based on the financial condition and
7 resources, to meet the requirements set
8 forth in section 4.

9 (ii) EXPLANATION REQUIRED.—If the
10 primary Federal payment stablecoin regu-
11 lator denies a complete application received
12 under paragraph (1), the regulator shall,
13 not later than 30 days after the date of
14 such denial, provide the applicant with
15 written notice explaining the denial with
16 specificity, including all findings made by
17 the regulator with respect to all identified
18 material shortcomings in the application,
19 including actionable recommendations on
20 how the applicant could address the identi-
21 fied material shortcomings.

22 (iii) OPPORTUNITY FOR HEARING;
23 FINAL DETERMINATION.—

24 (I) IN GENERAL.—Not later than
25 30 days after the date of receipt of

1 any notice of the denial of an applica-
2 tion under this subsection, the appli-
3 cant may request, in writing, an op-
4 portunity for a written or oral hearing
5 before the primary Federal payment
6 stablecoin regulator to appeal the de-
7 nial.

8 (II) TIMING.—Upon receipt of a
9 timely request, the primary Federal
10 payment stablecoin regulator shall no-
11 tice a time (not later than 30 days
12 after the date of receipt of the re-
13 quest) and place at which the appli-
14 cant may appear, personally or
15 through counsel, to submit written
16 materials or provide oral testimony
17 and oral argument.

18 (III) FINAL DETERMINATION.—
19 Not later than 60 days after the date
20 of a hearing under this clause, the
21 primary Federal payment stablecoin
22 regulator shall notify the applicant of
23 the final determination of the primary
24 Federal payment stablecoin regulator,
25 which shall contain a statement of the

1 basis for that determination, with spe-
2 cific findings.

3 (IV) NOTICE IF NO HEARING.—If
4 an applicant does not make a timely
5 request for a hearing under this
6 clause, the primary Federal payment
7 stablecoin regulator shall notify the
8 applicant, not later than 10 days after
9 the date by which the applicant may
10 request a hearing under this clause, in
11 writing, that the denial of the applica-
12 tion is a final determination of the
13 primary Federal payment stablecoin
14 regulator.

15 (C) FAILURE TO RENDER A DECISION.—If
16 the primary Federal payment stablecoin regu-
17 lator fails to render a decision on a complete
18 application within the time period specified in
19 subparagraph (A), the application shall be
20 deemed approved.

21 (D) RIGHT TO REAPPLY.—The denial of
22 an application under this subsection shall not
23 prohibit the applicant from filing a subsequent
24 application.

1 (4) REPORT ON PENDING APPLICATIONS.—

2 Each of the primary Federal payment stablecoin
3 regulators shall annually report to Congress on—

4 (A) the number of calendar days each ap-
5 plicant waited for either an approval or denial
6 of the applicants' application;

7 (B) the number of calendar days each out-
8 standing application has waited for a decision;
9 and

10 (C) the number of applications that have
11 been pending for 6 months or longer since the
12 date of the initial application filed under para-
13 graph (1) where the applicant has been in-
14 formed that the application remains incomplete,
15 including providing documentation on the sta-
16 tus of the application and why the application
17 has not yet been approved.

18 (5) RULEMAKING.—The primary Federal pay-
19 ment stablecoin regulators shall, jointly, issue rules
20 necessary for the regulation of the issuance of pay-
21 ment stablecoins, but may not impose requirements
22 inconsistent with the requirements specified under
23 section 4.

24 (b) EFFECTIVE DATE.—

1 (1) IN GENERAL.—This section shall take effect
2 on the earlier of—

3 (A) 18 months after the date of enactment
4 of this Act; or

5 (B) the date that is 120 days after the
6 date on which the primary Federal payment
7 stablecoin regulators issue final regulations im-
8 plementing this section.

9 (2) AUTHORITY TO ISSUE REGULATIONS AND
10 PROCESS APPLICATIONS.—The primary Federal pay-
11 ment stablecoin regulators may, before the effective
12 date described under paragraph (1)—

13 (A) issue regulations to carry out this sec-
14 tion; and

15 (B) pursuant to regulations described
16 under subparagraph (A), accept and process ap-
17 plications described under this section.

18 (3) NOTICE TO CONGRESS.—Each of the pri-
19 mary Federal payment stablecoin regulators shall
20 notify Congress once beginning to process applica-
21 tions described under this section.

22 (4) SAFE HARBOR FOR PENDING APPLICA-
23 TIONS.—The primary Federal payment stablecoin
24 regulator may waive the application of the require-
25 ments of this section for a period not to exceed 12

1 months beginning on the effective date described
2 under paragraph (1), with respect to—

3 (A) a subsidiary of an insured depository
4 institution, if the insured depository institution
5 has an application pending for the subsidiary to
6 become a permitted payment stablecoin issuer
7 on the effective date described under paragraph
8 (1); or

9 (B) a subsidiary of a nonbank entity, if the
10 nonbank entity has an application pending to
11 become a Federal qualified nonbank payment
12 stablecoin issuer on the effective date described
13 under paragraph (1).

14 **SEC. 6. SUPERVISION AND ENFORCEMENT WITH RESPECT**
15 **TO SUBSIDIARIES OF INSURED DEPOSITORY**
16 **INSTITUTIONS AND FEDERAL QUALIFIED**
17 **NONBANK PAYMENT STABLECOIN ISSUERS.**

18 (a) SUPERVISION.—

19 (1) SUBSIDIARY OF AN INSURED DEPOSITORY
20 INSTITUTION.—

21 (A) IN GENERAL.—Each permitted pay-
22 ment stablecoin issuer that is a subsidiary of an
23 insured depository institution shall be subject to
24 supervision by the primary Federal payment

1 stablecoin regulator in the same manner as
2 such insured depository institution.

3 (B) GRAMM-LEACH-BLILEY ACT.—For
4 purposes of title V of the Gramm-Leach-Bliley
5 Act (15 U.S.C. 6801 et seq.) each permitted
6 payment stablecoin issuer that is a subsidiary
7 of an insured depository institution shall be
8 deemed a financial institution.

9 (2) FEDERAL QUALIFIED NONBANK PAYMENT
10 STABLECOIN ISSUER.—

11 (A) SUBMISSION OF REPORTS.—Each Fed-
12 eral qualified nonbank payment stablecoin
13 issuer shall, upon request, submit reports to the
14 Comptroller as to—

15 (i) the financial condition of the Fed-
16 eral qualified nonbank payment stablecoin
17 issuer;

18 (ii) systems for monitoring and con-
19 trolling financial and operating risks; and

20 (iii) compliance with this Act by the
21 Federal qualified nonbank payment
22 stablecoin issuer.

23 (B) EXAMINATIONS.—The Comptroller
24 may make examinations of a Federal qualified

1 nonbank payment stablecoin issuer in order to
2 inform the Comptroller of—

3 (i) the nature of the operations and fi-
4 nancial condition of the Federal qualified
5 nonbank payment stablecoin issuer;

6 (ii) the financial, operational, and
7 other risks within the Federal qualified
8 nonbank payment stablecoin issuer that
9 may pose a threat to—

10 (I) the safety and soundness of
11 the Federal qualified nonbank pay-
12 ment stablecoin issuer; or

13 (II) the stability of the financial
14 system of the United States; and

15 (iii) the systems of the Federal quali-
16 fied nonbank payment stablecoin issuer for
17 monitoring and controlling the risks de-
18 scribed in clause (ii).

19 (C) REQUIREMENTS FOR EFFICIENCY.—In
20 supervising and examining a Federal qualified
21 nonbank payment stablecoin issuer, the Comp-
22 troller shall, to the fullest extent possible, use
23 existing reports and other supervisory informa-
24 tion.

1 (D) AVOIDANCE OF DUPLICATION.—The
2 Comptroller shall, to the fullest extent possible,
3 avoid duplication of examination activities, re-
4 porting requirements, and requests for informa-
5 tion in carrying out this Act with respect to a
6 Federal qualified nonbank payment stablecoin
7 issuer.

8 (E) GRAMM-LEACH-BLILEY ACT.—For
9 purposes of title V of the Gramm-Leach-Bliley
10 Act (15 U.S.C. 6801 et seq.) each Federal
11 qualified nonbank payment stablecoin issuer
12 shall be deemed a financial institution.

13 (b) ENFORCEMENT.—

14 (1) SUSPENSION OR REVOCATION OF REGISTRA-
15 TION.—The primary Federal payment stablecoin
16 regulator may prohibit a permitted payment
17 stablecoin issuer from issuing payment stablecoins, if
18 the primary Federal payment stablecoin regulator
19 determines that such permitted payment stablecoin
20 issuer, or an institution-affiliated party of the per-
21 mitted payment stablecoin issuer, is—

22 (A) materially violating or has materially
23 violated this Act or any regulation or order
24 issued under this Act; or

1 (B) materially violating or has materially
2 violated any condition imposed in writing by the
3 primary Federal payment stablecoin regulator
4 in connection with a written agreement entered
5 into between the permitted payment stablecoin
6 issuer and the primary Federal payment
7 stablecoin regulator.

8 (2) CEASE-AND-DESIST PROCEEDINGS.—If the
9 primary Federal payment stablecoin regulator has
10 reasonable cause to believe that a permitted payment
11 stablecoin issuer or any institution-affiliated party of
12 a permitted payment stablecoin issuer is violating,
13 has violated, or is attempting to violate this Act, any
14 regulation or order issued under this Act, or any
15 written agreement entered into with the primary
16 Federal payment stablecoin regulator or condition
17 imposed in writing by the primary Federal payment
18 stablecoin regulator in connection with any applica-
19 tion or other request, the primary Federal payment
20 stablecoin regulator may, by provisions that are
21 mandatory or otherwise, order the permitted pay-
22 ment stablecoin issuer or institution-affiliated party
23 of the permitted payment stablecoin issuer to—

24 (A) cease and desist from such violation or
25 practice; or

1 (B) take affirmative action to correct the
2 conditions resulting from any such violation or
3 practice.

4 (3) REMOVAL AND PROHIBITION AUTHORITY.—

5 The primary Federal payment stablecoin regulator
6 may remove an institution-affiliated party of a per-
7 mitted payment stablecoin issuer from their position
8 or office or prohibit further participation in the af-
9 fairs of the permitted payment stablecoin issuer or
10 all permitted payment stablecoin issuers by such in-
11 stitution-affiliated party, if the primary Federal pay-
12 ment stablecoin regulator determines that—

13 (A) the institution-affiliated party has, di-
14 rectly or indirectly, committed a violation or at-
15 tempted violation of this Act or any regulation
16 or order issued under this Act; or

17 (B) the institution-affiliated party has
18 committed a violation of any provision of sub-
19 chapter II of chapter 53 of title 31, United
20 States Code.

21 (4) PROCEDURES.—

22 (A) IN GENERAL.—If the primary Federal
23 payment stablecoin regulator identifies a viola-
24 tion or attempted violation of this Act or makes
25 a determination under paragraph (1), (2), or

1 (3), the primary Federal payment stablecoin
2 regulator shall comply with the procedures set
3 forth in subsections (b) and (e) of sections 8 of
4 the Federal Deposit Insurance Act (12 U.S.C.
5 1818).

6 (B) JUDICIAL REVIEW.—A person ag-
7 grieved by a final action under this subsection
8 may obtain judicial review of such action exclu-
9 sively as provided in section 8(h) of the Federal
10 Deposit Insurance Act (12 U.S.C. 1818(h)).

11 (C) INJUNCTION.—The primary Federal
12 payment stablecoin regulator may, in the dis-
13 cretion of the regulator, follow the procedures
14 provided in section 8(i)(1) of the Federal De-
15 posit Insurance Act (12 U.S.C. 1818(i)(1)) for
16 judicial enforcement of any effective and out-
17 standing notice or order issued under this sub-
18 section.

19 (D) TEMPORARY CEASE-AND-DESIST PRO-
20 CEEDINGS.—If the primary Federal payment
21 stablecoin regulator determines that a violation
22 or attempted violation of this Act or an action
23 with respect to which a determination was made
24 under paragraph (1), (2), or (3), or the con-
25 tinuation thereof, is likely to cause insolvency or

1 significant dissipation of assets or earnings of a
2 permitted payment stablecoin issuer, or is likely
3 to weaken the condition of the permitted pay-
4 ment stablecoin issuer or otherwise prejudice
5 the interests of the customers of the permitted
6 payment stablecoin issuer prior to the comple-
7 tion of the proceedings conducted under this
8 paragraph, the primary Federal payment
9 stablecoin regulator may follow the procedures
10 provided in section 8(c) of the Federal Deposit
11 Insurance Act (12 U.S.C. 1818(c)) to issue a
12 temporary cease-and-desist order.

13 (5) CIVIL MONEY PENALTIES.—

14 (A) FAILURE TO BE APPROVED.—Any per-
15 son who issues a payment stablecoin and who is
16 not a permitted payment stablecoin issuer, and
17 any institution-affiliated party of such a person
18 who knowingly participates in issuing such a
19 payment stablecoin, shall be liable for a civil
20 penalty of not more than \$100,000 for each day
21 during which such payment stablecoins are
22 issued.

23 (B) FIRST TIER.—Except as provided in
24 subparagraph (A), a permitted payment
25 stablecoin issuer or institution-affiliated party

1 of such permitted payment stablecoin issuer
2 that materially violates this Act or any regula-
3 tion or order issued under this Act, or that ma-
4 terially violates any condition imposed in writ-
5 ing by the primary Federal payment stablecoin
6 regulator in connection with a written agree-
7 ment entered into between the permitted pay-
8 ment stablecoin issuer and the primary Federal
9 payment stablecoin regulator, shall be liable for
10 a civil penalty of up to \$100,000 for each day
11 during which the violation continues.

12 (C) SECOND TIER.—Except as provided in
13 subparagraph (A), and in addition to the pen-
14 alties described under subparagraph (B), a per-
15 mitted payment stablecoin issuer or institution-
16 affiliated party of such permitted payment
17 stablecoin issuer who knowingly participates in
18 a violation of any provision of this Act, or any
19 regulation or order issued thereunder, is liable
20 for a civil penalty of up to an additional
21 \$100,000 for each day during which the viola-
22 tion continues.

23 (D) PROCEDURE.—Any penalty imposed
24 under this paragraph may be assessed and col-
25 lected by the primary Federal payment

1 stablecoin regulator pursuant to the procedures
2 set forth in section 8(i)(2) of the Federal De-
3 posit Insurance Act (12 U.S.C. 1818(i)(2)).

4 (E) NOTICE AND ORDERS AFTER SEPARA-
5 TION FROM SERVICE.—The resignation, termi-
6 nation of employment or participation, or sepa-
7 ration of an institution-affiliated party (includ-
8 ing a separation caused by the closing of a per-
9 mitted payment stablecoin issuer) shall not af-
10 fect the jurisdiction and authority of the pri-
11 mary Federal payment stablecoin regulator to
12 issue any notice or order and proceed under
13 this subsection against any such party, if such
14 notice or order is served before the end of the
15 6-year period beginning on the date such party
16 ceased to be an institution-affiliated party with
17 respect to such permitted payment stablecoin
18 issuer.

19 (6) NON-APPLICABILITY TO A STATE QUALI-
20 FIED PAYMENT STABLECOIN ISSUER.—This sub-
21 section shall not apply to a State qualified payment
22 stablecoin issuer, except in exigent circumstances, as
23 described in section 7(e).

1 **SEC. 7. STATE QUALIFIED PAYMENT STABLECOIN ISSUERS.**

2 (a) IN GENERAL.—A State payment stablecoin regu-
3 lator shall have supervisory, examination, and enforcement
4 authority over a State qualified payment stablecoin issuer
5 of such State.

6 (b) AUTHORITY TO ENTER INTO AGREEMENTS.—A
7 State payment stablecoin regulator may enter into a
8 memorandum of understanding with the Board and Comp-
9 troller, by mutual agreement, under which the Board and
10 Comptroller may carry out the supervision, examination,
11 and enforcement authority with respect to the State quali-
12 fied payment stablecoin issuers of such State.

13 (c) SHARING OF INFORMATION.—A State payment
14 stablecoin regulator, the Board, and the Comptroller shall
15 share information on an ongoing basis with respect to a
16 State qualified payment stablecoin issuer of such State,
17 including a copy of the initial application and any accom-
18 panying documents.

19 (d) RULEMAKING.—A State payment stablecoin regu-
20 lator may issue orders and rules under section 4 applicable
21 to State qualified payment stablecoin issuers to the same
22 extent as the primary Federal payment stablecoin regu-
23 lators issue orders and rules under section 4 applicable
24 to permitted payment stablecoin issuers that are not a
25 State qualified payment stablecoin issuers.

1 (e) ENFORCEMENT AUTHORITY IN EXIGENT CIR-
2 CUMSTANCES.—

3 (1) BY THE BOARD.—

4 (A) IN GENERAL.—Subject to subpara-
5 graph (C), in exigent circumstances, the Board
6 may, after no less than 5 days prior written no-
7 tice to the applicable State payment stablecoin
8 regulator, take an enforcement action against a
9 State qualified payment stablecoin issuer that is
10 a subsidiary of an insured depository institution
11 or an institution-affiliated party thereof for vio-
12 lations of this Act that are exigent in nature.

13 (B) RULEMAKING.—Not later than the end
14 of the 180-day period beginning on the date of
15 enactment of this Act, the Board shall issue
16 rules to set forth those exigent circumstances in
17 which the Board may act under this paragraph.

18 (C) LIMITATIONS.—If the Board deter-
19 mines that there is reasonable cause to believe
20 that the continuation by a State qualified pay-
21 ment stablecoin issuer that is a subsidiary of an
22 insured depository institution of any activity
23 constitutes a violation of this Act, the Board
24 may impose such restrictions as the Board de-
25 termines to be necessary to address such risk.

1 (D) EXIGENT AUTHORITY UNDER SECTION
2 6(b).—Solely for purposes of carrying out this
3 paragraph, section 6(b) shall apply to a State
4 qualified payment stablecoin issuer that is a
5 subsidiary of an insured depository institution
6 as if the Board were the primary Federal pay-
7 ment stablecoin regulator with respect to the
8 State qualified payment stablecoin issuer.

9 (2) BY THE COMPTROLLER.—

10 (A) IN GENERAL.—Subject to paragraph
11 (C), in exigent circumstances, the Comptroller
12 shall, after no less than 5 days prior written no-
13 tice to the applicable State payment stablecoin
14 regulator, take an enforcement action against a
15 State qualified payment stablecoin issuer that is
16 a nonbank entity or an institution-affiliated
17 party thereof for violations of this Act.

18 (B) RULEMAKING.—Not later than the end
19 of the 180-day period beginning on the date of
20 enactment of this Act, the Comptroller shall
21 issue rules to set forth those exigent cir-
22 cumstances in which the Comptroller may act
23 under this paragraph.

24 (C) LIMITATIONS.—If the Comptroller de-
25 termines that there is reasonable cause to be-

1 lieve that the continuation by a State qualified
2 payment stablecoin issuer that is a nonbank en-
3 tity of any activity constitutes a violation of this
4 Act, the Comptroller shall impose such restric-
5 tions as the Comptroller determines to be nec-
6 essary to address such risk.

7 (D) EXIGENT AUTHORITY UNDER SECTION
8 6(b).—Solely for purposes of carrying out this
9 paragraph, section 6(b) shall apply to a State
10 qualified payment stablecoin issuer that is a
11 nonbank entity as if the Comptroller were the
12 primary Federal payment stablecoin regulator
13 with respect to the State qualified payment
14 stablecoin issuer.

15 (f) GRAMM-LEACH-BLILEY ACT.—For purposes of
16 title V of the Gramm-Leach-Bliley Act (15 U.S.C. 6801
17 et seq.) a State qualified payment stablecoin issuer is
18 deemed a financial institution.

19 (g) EFFECT ON STATE LAW.—The provisions of this
20 section do not preempt any law of a State and do not su-
21 persede any State licensing requirement.

22 **SEC. 8. CUSTOMER PROTECTION.**

23 (a) IN GENERAL.—A person may only engage in the
24 business of providing custodial or safekeeping services for

1 permitted payment stablecoins or private keys of per-
2 mitted payment stablecoins, if the person—

3 (1) is subject to—

4 (A) supervision or regulation by a primary
5 Federal payment stablecoin regulator or a pri-
6 mary financial regulatory agency described
7 under subparagraph (B) or (C) of section 2(12)
8 of the Dodd-Frank Wall Street Reform and
9 Consumer Protection Act (12 U.S.C.
10 5301(12)); or

11 (B) supervision by a State bank super-
12 visor, as defined under section 3 of the Federal
13 Deposit Insurance Act (12 U.S.C. 1813) or a
14 State credit union supervisor, as defined under
15 section 6003 of the Anti-Money Laundering Act
16 of 2020, and such state bank supervisor or
17 state credit union supervisor makes available to
18 the Board such information as the Board deter-
19 mines necessary and relevant to the categories
20 of information under subsection (d); and

21 (2) complies with the segregation requirements
22 under subsection (b), unless such person complies
23 with similar requirements as required by a primary
24 Federal payment stablecoin regulator, the Securities

1 and Exchange Commission, or the Commodity Fu-
2 tures Trading Commission.

3 (b) SEGREGATION REQUIREMENT.—A person de-
4 scribed in subsection (a) shall—

5 (1) treat and deal with the payment stablecoins,
6 private keys, cash, and other property of a person
7 for whom or on whose behalf the person receives, ac-
8 quires, or holds payment stablecoins, private keys,
9 cash, and other property (hereinafter in this section
10 referred to as the “customer”) as belonging to such
11 customer; and

12 (2) take such steps as are appropriate to pro-
13 tect the payment stablecoins, private keys, cash, and
14 other property of a customer from the claims of
15 creditors of the person.

16 (c) COMMINGLING PROHIBITED.—

17 (1) IN GENERAL.—Payment stablecoins, cash,
18 and other property of a customer shall be separately
19 accounted for by a person described in subsection
20 (a) and shall not be commingled with the funds of
21 the person.

22 (2) EXCEPTION.—Notwithstanding paragraph
23 (1)—

24 (A) the payment stablecoins, cash, and
25 other property of a customer may, for conven-

1 ience, be commingled and deposited in an omni-
2 bus account holding the payment stablecoins,
3 cash, and other property of more than 1 cus-
4 tomer at an insured depository institution or
5 trust company;

6 (B) such share of the payment stablecoins,
7 cash, and other property of the customer that
8 shall be necessary to transfer, adjust, or settle
9 a transaction or transfer of assets may be with-
10 drawn and applied to such purposes, including
11 the payment of commissions, taxes, storage,
12 and other charges lawfully accruing in connec-
13 tion with the provision of services by a person
14 described in subsection (a); and

15 (C) in accordance with such terms and
16 conditions as the Board may prescribe by rule,
17 regulation, or order, any customer payment
18 stablecoin, cash, and other property described
19 in this subsection may be commingled and de-
20 posited in customer accounts with payment
21 stablecoins, cash, and other property received
22 by the person and required by the Board to be
23 separately accounted for, treated, and dealt
24 with as belonging to customers.

1 (d) REGULATORY INFORMATION.—A person de-
2 scribed under subsection (a) shall submit to the primary
3 Federal payment stablecoin regulator (or, if the person
4 does not have a primary Federal payment stablecoin regu-
5 lator, to the Board) information concerning the person’s
6 business operations and processes to protect customer as-
7 sets, in such form and manner as the primary Federal
8 payment stablecoin regulator (or, if the person does not
9 have a primary Federal payment stablecoin regulator, the
10 Board) shall determine.

11 (e) EXCLUSION.—The requirements of this section
12 shall not apply to any person solely on the basis that such
13 person engages in the business of providing hardware or
14 software to facilitate a customer’s own custody or safe-
15 keeping of the customer’s payment stablecoins or private
16 keys.

17 **SEC. 9. INTEROPERABILITY STANDARDS.**

18 The primary Federal payment stablecoin regulators,
19 in consultation with the National Institute of Standards
20 and Technology, other relevant standard setting organiza-
21 tions, and State governments, shall assess and, if nec-
22 essary, may, pursuant to section 553 of title 5 and in a
23 manner consistent with the National Technology Transfer
24 and Advancement Act of 1995 (Public Law 104–113),

1 prescribe standards for payment stablecoin issuers to pro-
2 mote compatibility and interoperability.

3 **SEC. 10. MORATORIUM ON ENDOGENOUSLY**
4 **COLLATERALIZED STABLECOINS.**

5 (a) **MORATORIUM.**—During the 2-year period begin-
6 ning on the date of enactment of this Act, it shall be un-
7 lawful to issue, create, or originate an endogenously
8 collateralized stablecoin not in existence on the date of en-
9 actment of this Act.

10 (b) **STUDY BY TREASURY.**—

11 (1) **STUDY.**—The Secretary of the Treasury, in
12 consultation with the Board, the Comptroller, the
13 Corporation, and the Securities and Exchange Com-
14 mission, shall carry out a study of endogenously
15 collateralized stablecoins.

16 (2) **REPORT.**—Not later than 365 days after
17 the date of the enactment of this Act, the Secretary
18 shall provide to the Committee on Financial Services
19 of the House of Representatives and the Committee
20 on Banking, Housing, and Urban Affairs of the Sen-
21 ate a report that contains all findings made in car-
22 rying out the study under paragraph (1), including
23 an analysis of—

1 (A) the categories of non-payment
2 stablecoins, including the benefits and risks of
3 technological design features;

4 (B) the participants in non-payment
5 stablecoin arrangements;

6 (C) utilization and potential utilization of
7 non-payment stablecoins;

8 (D) nature of reserve compositions;

9 (E) types of algorithms being employed;

10 (F) governance structure, including aspects
11 of decentralization;

12 (G) nature of public promotion and adver-
13 tising; and

14 (H) clarity and availability of consumer
15 notices disclosures.

16 (c) ENDOGENOUSLY COLLATERALIZED STABLECOIN
17 DEFINED.—In this section, the term “endogenously
18 collateralized stablecoin” means any digital asset—

19 (1) in which its originator has represented will
20 be converted, redeemed, or repurchased for a fixed
21 amount of monetary value; and

22 (2) that relies solely on the value of another
23 digital asset created or maintained by the same
24 originator to maintain the fixed price.

1 **SEC. 11. REPORT ON RULEMAKING STATUS.**

2 Not later than 6 months after the date of enactment
3 of this Act, the primary Federal payment stablecoin regu-
4 lators shall provide a status update on the development
5 of the rulemaking under this Act to the Committee on Fi-
6 nancial Services of the House of Representatives and the
7 Committee on Banking, Housing, and Urban Affairs of
8 the Senate.

9 **SEC. 12. AUTHORITY OF BANKING INSTITUTIONS.**

10 (a) **RULE OF CONSTRUCTION.**—Nothing in this Act
11 may be construed to limit the authority of a depository
12 institution, Federal credit union, State credit union, or
13 trust company to engage in activities permissible pursuant
14 to applicable State and Federal law, including—

15 (1) accepting or receiving deposits and issuing
16 digital assets that represent deposits;

17 (2) utilizing a distributed ledger for the books
18 and records of the entity and to affect intrabank
19 transfers; and

20 (3) providing custodial services for payment
21 stablecoins, private keys of payment stablecoins, or
22 reserves backing payment stablecoins.

23 (b) **TREATMENT OF CUSTODY ACTIVITIES.**—The ap-
24 propriate Federal banking agency (as defined under sec-
25 tion 3 of the Federal Deposit Insurance Act (12 U.S.C.
26 1813)), the National Credit Union Administration (in the

1 case of a credit union), and the Securities and Exchange
2 Commission may not require a depository institution, na-
3 tional bank, Federal credit union, State credit union, or
4 trust company, or any affiliate thereof—

5 (1) to include assets held in custody as a liabil-
6 ity on any financial statement or balance sheet, in-
7 cluding payment stablecoin custody or safekeeping
8 activities;

9 (2) to hold additional regulatory capital against
10 assets in custody or safekeeping, except as necessary
11 to mitigate against operational risks inherent with
12 the custody or safekeeping services, as determined
13 by—

14 (A) the appropriate Federal banking agen-
15 cy;

16 (B) the National Credit Union Administra-
17 tion (in the case of a credit union);

18 (C) a State bank supervisor (as defined
19 under section 3 of the Federal Deposit Insur-
20 ance Act (12 U.S.C. 1813)); or

21 (D) a State credit union supervisor (as de-
22 fined under section 6003 of the Anti-Money
23 Laundering Act of 2020);

24 (3) to recognize a liability for any obligations
25 related to activities or services performed for digital

1 assets that the entity does not own if that liability
2 would exceed the expense recognized in the income
3 statement as a result of the corresponding obliga-
4 tion.

5 (c) DEFINITIONS.—In this section:

6 (1) DEPOSITORY INSTITUTION.—The terms
7 “depository institution” has the meaning given that
8 term under section 3 of the Federal Deposit Insur-
9 ance Act.

10 (2) CREDIT UNION TERMS.—The terms “Fed-
11 eral credit union” and “State credit union” have the
12 meaning given those terms, respectively, under sec-
13 tion 101 of the Federal Credit Union Act.

14 **SEC. 13. AMENDMENTS TO CLARIFY THAT PAYMENT**
15 **STABLECOINS ARE NOT SECURITIES.**

16 (a) INVESTMENT ADVISERS ACT OF 1940.—Section
17 202(a)(18) of the Investment Advisers Act of 1940 (15
18 U.S.C. 80b–2(a)(18)) is amended by adding at the end
19 the following: “The term ‘security’ does not include a pay-
20 ment stablecoin issued by a permitted payment stablecoin
21 issuer, as such terms are defined, respectively, in section
22 2 of the STABLE Act of 2025.”.

23 (b) INVESTMENT COMPANY ACT OF 1940.—Section
24 2(a)(36) of the Investment Company Act of 1940 (15
25 U.S.C. 80a–2(a)(36)) is amended by adding at the end

1 the following: “The term ‘security’ does not include a pay-
2 ment stablecoin issued by a permitted payment stablecoin
3 issuer, as such terms are defined, respectively, in section
4 2 of the STABLE Act of 2025.”.

5 (c) SECURITIES ACT OF 1933.—Section 2(a)(1) of
6 the Securities Act of 1933 (15 U.S.C. 77b(a)(1)) is
7 amended by adding at the end the following: “The term
8 ‘security’ does not include a payment stablecoin issued by
9 a permitted payment stablecoin issuer, as such terms are
10 defined, respectively, in section 2 of the STABLE Act of
11 2025.”.

12 (d) SECURITIES EXCHANGE ACT OF 1934.—Section
13 3(a)(10) of the Securities Exchange Act of 1934 (15
14 U.S.C. 78c(a)(10)) is amended by adding at the end the
15 following: “The term ‘security’ does not include a payment
16 stablecoin issued by a permitted payment stablecoin
17 issuer, as such terms are defined, respectively, in section
18 2 of the STABLE Act of 2025.”.

19 (e) SECURITIES INVESTOR PROTECTION ACT OF
20 1970.—Section 16(14) of the Securities Investor Protec-
21 tion Act of 1970 (15 U.S.C. 78lll(14)) is amended by add-
22 ing at the end the following: “The term ‘security’ does
23 not include a payment stablecoin issued by a permitted
24 payment stablecoin issuer, as such terms are defined, re-
25 spectively, in section 2 of the STABLE Act of 2025.”.

1 **SEC. 14. RECIPROCITY FOR STABLECOINS ISSUED IN OVER-**
2 **SEAS JURISDICTIONS.**

3 The Board, in collaboration with the Secretary of the
4 Treasury, shall create and implement reciprocal arrange-
5 ments or other bilateral agreements between the United
6 States and jurisdictions with substantially similar pay-
7 ment stablecoin regulatory regimes to facilitate inter-
8 national transactions and interoperability with the United
9 States dollar-denominated stablecoins issued overseas.