

AMERICAN INNOVATION AND THE FUTURE
OF DIGITAL ASSETS: FROM BLUEPRINT
TO A FUNCTIONAL FRAMEWORK
DAY 1 AND DAY 2

HEARING
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED NINETEENTH CONGRESS

FIRST SESSION

JUNE 4, 2025
JUNE 6, 2025

Serial No. 119-25

Printed for the use of the Committee on Financial Services



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**AMERICAN INNOVATION AND THE FUTURE OF DIGITAL ASSETS: FROM BLUEPRINT TO
A FUNCTIONAL FRAMEWORK
DAY 1 AND DAY 2**

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**AMERICAN INNOVATION AND THE FUTURE
OF DIGITAL ASSETS:
FROM BLUEPRINT TO A FUNCTIONAL
FRAMEWORK—DAY 1**

Wednesday, June 4, 2025

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
Washington, DC.

The committee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. French Hill [chairman of the committee] presiding.

Present: Representatives Hill, Lucas, Huizenga, Barr, Williams of Texas, Emmer, Loudermilk, Davidson, Rose, Steil, Timmons, Stutzman, Norman, Meuser, Kim, Donalds, Garbarino, Fitzgerald, Flood, Lawler, De La Cruz, Ogles, Nunn, McClain, Salazar, Downing, Haridopolos, Moore, Waters, Sherman, Meeks, Scott, Lynch, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gonzalez, Casten, Pressley, Tlaib, Garcia, Pettersen, Fields, Bynum, and Liccardo.

Chairman HILL. The Committee on Financial Services will come to order.

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

This hearing is titled, “American Innovation and the Future of Digital Assets: From Blueprint to a Functional Framework.”

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

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

**OPENING STATEMENT OF HON. FRENCH HILL, CHAIRMAN OF
THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REP-
RESENTATIVE FROM ARKANSAS**

Good morning, ladies and gentlemen, and to our members on both sides of the aisle. Today’s hearing will continue our work on digital assets and examining the market structure framework. I encourage members on both sides of the aisle to use this hearing as an opportunity for productive dialog. We should aim to identify areas of consensus within the legislation and thoughtfully address provisions that may require further refinement. Digital assets and blockchain technology are driving the next evolution of the Internet. This technology empowers individuals, spurs innovation, and creates economic opportunities, but to fully recognize these bene-

fits, we must ensure that there is a functional regulatory framework in place.

Currently, there is no Federal framework for digital assets. The Securities Exchange Commission (SEC) and the Commodities Futures Trading Commission (CFTC) do not have clear jurisdictional boundaries over digital assets, leaving investors and entrepreneurs in a state of uncertainty and often discouraging innovation here in the United States. As a result, American consumers and investors have endured prolonged confusion and limited protections due to the absence of a consistent regulatory framework. Companies have asked and even sued the Securities and Exchange Commission to provide them with clarity they need to comply with current regulations. Others have even moved their operations out of the United States to avoid dealing with the SEC's regulation by enforcement approach.

I have worked diligently on the CLARITY Act with House Agriculture (Ag) Committee Chairman GT Thompson and members from across the House of Representatives that have an interest in providing much-needed regulatory clarity for market participants and innovation. Our bill establishes a clear, codified exemption pathway for digital commodity projects to raise capital, support secondary market trading of these assets and enables SEC-registered entities to participate in digital commodity markets, and much more. Ultimately, this is about protecting American consumers, encouraging innovation at home, and ensuring that the United States leads in the future of digital assets.

We started this Congress with a joint press conference with Senate Chairs Tim Scott in Banking, John Boozman in Agriculture, alongside my partner here in the House, Chairman GT Thompson of the House Ag Committee. We committed to provide functional rules of the road for the digital asset ecosystem. The discussion here today is a critical part of that journey, and I look forward to an informed conversation on how digital asset market structure legislation can deliver meaningful protection and benefits for our constituents and for the innovation technology across our economy. With that, I yield back.

The chair recognizes the ranking member of the full committee, Ms. Waters, for 4 minutes for an opening statement.

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

Ms. WATERS. Thank you very much, Mr. Chairman. I, too, would like to have a productive dialog, but it is very difficult to do based on what the President of the United States is doing. As Americans grow poor under Donald Trump's failed policies, Trump and his family grow richer, \$2.9 billion richer. That is how much his net worth has jumped as a result of his crypto schemes, and that is only a conservative estimate. Now, Trump does not just want Americans to use his crypto, he wants to put our money in his digital wallet while he guts our financial regulators, the watchdogs that protect families from financial fraud. To borrow words from Elon Musk, Trump's crypto con is a disgusting abomination.

As Trump cashes in, America's families are bearing the cost. They are cutting back on groceries, putting off starting a family, and abandoning the dream of homeownership. As if his reckless tariffs and efforts to gut the Federal Government were not enough, just 2 weeks ago, Republicans passed a massive tax cut for billionaires while slashing Medicaid, Medicare, food stamps, and student loan assistance. Trump is not just scamming everyday Americans with his crypto con; he is even gifting his own supporters. Two hundred people collectively spent \$148 million to attend his shady meme coin dinner with the promise of an exclusive experience. What did they get? Walmart steak, Costco freezer aisle halibut, recycled talking points, and just 20 minutes of Trump time. I guess you get what you pay for.

Congress cannot normalize this scam any longer. From his fraudulent meme coin to his deals in Abu Dhabi, Donald Trump is using the White House for personal profit by selling influence to the highest bidder, and Republicans are ignoring these dangers, even as the crypto industry raises concerns. That is why I had to introduce Stop TRUMP in Crypto Act of 2025, to prevent the President, Vice President, Members of Congress, and their immediate families from engaging in crypto corruption and blatant conflicts of interest.

Sadly, legitimizing Trump's crypto con is far from the only terrible thing about this confusing and reckless legislation. In fact, this bill should actually be called The Complexity Act. This rushed, overly complicated bill will increase investor harm, which already runs rampant in today's crypto market. Some of the riskiest activities are broadly exempted from the bill, leaving our constituents with no one to turn to when their money vanishes. The bill puts our national security at risk and contains no penalties for crypto criminals. Unsurprisingly, the bill does not even deliver the clarity the industry has long sought. Instead, the bill creates vague new definitions that will result in continued litigation in which the largest players, including big banks, will gain at the expense of crypto startups. The only thing clear about this bill is we need to start over.

It is also troubling that the Securities and Exchange Commission has ignored precedent and refused to share their full technical analysis of the bill with Democrats, even as Republicans rush to pass this bill before the SEC Chair is even invited to testify. We hear a lot of spin from our Republican colleagues today, but make no mistake, this bill will take us backward. I yield back.

Chairman HILL. The gentlewoman yields back. The chair recognizes the Chair of the Digital Assets, Financial Technology, and Artificial Intelligence Subcommittee, Mr. Steil of Wisconsin, for 1 minute for an opening statement.

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. Thank you very much, Chairman Hill. Thank you for your leadership in introducing the CLARITY Act and thank you for your leadership in bringing us together in a nonpartisan way, members on both sides of the aisle who have already come to co-

sponsor the CLARITY Act. The golden age of digital assets is here, and today's hearing brings us closer to ensuring that America wins the Web3 race. The CLARITY Act will unleash innovation and ensure U.S. dominance in digital assets, while protecting consumers from fraud. At the same time, we must preserve the dynamic and democratic and democratizing nature of this technology. Many of the most transformative projects were born in basements and dorm rooms, not in law firms and boardrooms. They were born in incubators across the country, and we have an opportunity to make sure that spirit of creativity and entrepreneurship continues to thrive under a regulatory framework that is modern, supportive of innovation, and clear. Mr. Chairman, I thank you for your leadership and look forward to the hearing. I yield back.

Chairman HILL. The gentleman yields back. The chair recognizes the Ranking Member of the Digital Assets, Financial Technology, and Artificial Intelligence Subcommittee, Mr. Lynch, for 1 minute for an opening statement.

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. Thank you, Mr. Chairman, and to the Ranking Member and to our witnesses for your willingness to help the committee with its work. My Republican colleagues, it appears, are eager to continue doing the bidding of the crypto industry while conveniently ignoring President Trump's blatant corruption. The so-called CLARITY Act seems to be the latest agreement among largest crypto companies on how they would like to be ineffectually regulated. President Trump's exploitation of the presidency, along with the volatile and risky nature of cryptocurrency products, will have a devastating consequence on Americans' financial lives, and Congress cannot allow it to continue. The President's infamous meme coin dinner held at his luxury resort, for which attendees paid \$148 million to attend, makes it clear that President Trump is auctioning off access to the White House and allowing the highest bidder to write its own rules. This bill being considered today will only further President Trump's corruption and expose our financial stability, national security, and consumer protections to greater risk. We must stop President Trump from abusing the presidency by using crypto as his latest scam. Thank you, and I yield back.

Chairman HILL. The gentleman yields back. Today we welcome the testimony of Hon. Elad Roisman, who is a partner at Cravath and a former SEC Commissioner; Mr. Vivek Raman, who is the founder of Etherealize; Hon. Russ Behnam, who is a distinguished Fellow at the Psaros Center for Financial Markets at Georgetown and a former CFTC Chairman; Ms Katherine Minarik, the Chief Legal Officer at Uniswap Labs; and Hon. Tim Massad, Research Fellow, and Director of Digital Assets Policy and Project at the Center of Business and Government at Harvard Kennedy School of Government, and a former Chair of the CFTC.

We thank you for taking time to be here. You will be recognized for 5 minutes to give an oral presentation of your testimony. With-

out objection, your written statement will be made part of the record.

Mr. Roisman, you are recognized for 5 minutes.

**STATEMENT OF HON. ELAD ROISMAN, PARTNER, CRAVATH,
FORMER SEC COMMISSIONER, WASHINGTON, DC**

Mr. ROISMAN. Good morning, Chairman Hill, Ranking Member Waters, and members of the committee. Thank you for inviting me to testify today. My name is Elad Roisman, and I am a Partner at the law firm of Cravath, Swaine & Moore, and today, I am presenting my own views and not those of my firm or any clients at the firm.

Let me begin by saying that the CLARITY Act is important and reflects thoughtful work by members and staff. It is a significant step forward to providing the needed clarity to the digital status of many tokens, market participants, the digital asset system, and decentralized finance more broadly, under the securities and commodities laws. My testimony and my views are informed by nearly 20 years of experience in both the public and private sectors working on securities regulatory and compliance matters affecting public and private companies and other securities market participants.

In my practice, among other things, I advise market participants in the traditional financial markets and in DeFi, which includes the digital asset ecosystems. Prior to joining Cravath, I had the distinct honor and privilege of serving as a commissioner and acting Chairman of the SEC. I previously served as Chief Counsel for the Senate Banking Committee, as a counsel to then SEC Commissioner Daniel Gallagher, as a Chief Counsel at NYSE Euronext, and as a corporate lawyer in New York.

I believe that digital assets, blockchain, and Decentralized Finance (DeFi) are some of the most interesting and exciting developments in financial innovation. Unfortunately, both Congress and Federal regulators have not kept pace with innovation, and as a result, there is significant uncertainty regarding the status and regulation of digital assets. A particular concern for market participants is the scope of the SEC's remit, authority, and jurisdiction over digital assets. Although the SEC has made attempts to provide regulatory clarity, most notably, in recent months, it is primarily known for enforcement actions. For many in the digital asset industry, the SEC's focus on enforcement without first providing clear guidance has been viewed as regulation by enforcement, but as SEC Chairman Atkins recently remarked, "It is a new day at the SEC," explaining that policymaking will no longer result from ad hoc enforcement actions, and that, instead, the Commission will utilize its existing rulemaking interpretive and exemptive authorities to set fit-for-purpose standards for market participants. I applaud Chairman Atkins for this approach. In addition to the recent efforts of the SEC and the CFTC, congressional action is needed. The legislation's name sets forth what it is trying to provide, namely clarity. The bill will do so by providing statutory definitions to key concepts and terms, as well as delineating what is in the remit of the SEC and what is in the remit of the CFTC.

Again, I applaud Congress' attention to these matters. Thank you for inviting me, and I look forward to your questions.

[The prepared statement of Hon. Roisman follows:]

Written Statement of Elad Roisman
before the United States House Committee on Financial Services
hearing entitled
“American Innovation and the Future of Digital Assets: From Blueprint to a
Functional Framework”
June 4, 2025

Submitted on June 2, 2025

Chairman Hill, Ranking Member Waters, and Members of the Committee, thank you for inviting me to testify today.

My name is Elad Roisman. I am a partner at the law firm of Cravath, Swaine & Moore LLP (“Cravath”). Today, I am presenting my own views and not those of my firm or any client of the firm.

Background and Perspective

My testimony and the views I will express today are informed by nearly 20 years of experience in both the public and private sectors working on securities, regulatory, and compliance matters affecting public and private companies and other securities market participants. In my practice at Cravath, among other things, I advise market participants in the traditional financial markets and in decentralized finance (“DeFi”), which includes digital asset ecosystems. Prior to joining Cravath, I had the distinct honor and privilege of serving as a Commissioner and Acting Chairman of the United States Securities and Exchange Commission (the “SEC” or “Commission”). I was appointed to the SEC after serving as Chief Counsel for the U.S. Senate Committee on Banking, Housing, and Urban Affairs and before that I served as Counsel to then-SEC Commissioner Daniel M. Gallagher, as a Chief Counsel at NYSE Euronext, and as a corporate lawyer in private practice in New York.

I commend House Committee on Financial Services Chairman Hill, House Committee on Agriculture Chairman Thompson, House Committee on Financial Services Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence Chairman Steil, and House Committee on Agriculture Subcommittee on Commodity Markets, Digital Assets, and Rural Development Chairman Johnson and Ranking Member Craig for their work on the Digital Asset Market Clarity Act of 2025 (the “CLARITY Act”) to establish a regulatory framework for digital assets in the United States. I also commend House Majority Whip Emmer, Representative Davidson, Representative Davis, and Representative Torres for their work on this effort.

I want to acknowledge the work of the 118th Congress (and in particular this Committee) and this Congress and thank the current administration, and the leadership at the SEC and the Commodity Futures Trading Commission (“CFTC”), for their efforts to bring regulatory clarity to the digital asset industry. In particular, I commend the attention to this important work by SEC Chairman Atkins, SEC Commissioner Peirce, and the SEC Crypto Task Force.

My testimony is divided into three parts. First, I will briefly discuss market participants’ focus on the SEC’s role in regulating digital assets, the SEC’s historical actions in this space, and the importance of this legislation. Second, I will highlight a few provisions of the CLARITY Act which would help define the SEC’s authority and remit over digital assets. Finally, I will provide suggestions for consideration by Congress.

Current State of Play and Why Legislation is Important and Needed

Digital assets have emerged as a new and growing asset class over roughly the last 15 years—a byproduct of financial innovation and increasing retail and institutional interest. While the U.S. digital asset ecosystem and markets are still developing, interesting use cases and products have already been established. These include stablecoins, payment systems, non-fungible tokens, decentralized financial systems, and scaling solutions.

Unfortunately, both the law and federal regulators have failed to keep pace with innovation, and as a result, there is significant uncertainty regarding the status and regulation of digital assets. Of particular concern for market participants has been the scope of the SEC’s remit, authority, and jurisdiction over digital assets. A frequent complaint in recent years has been that the SEC has relied on enforcement actions as a substitute for notice-and-comment rulemaking, subjecting U.S. market participants who engage in digital asset activities to significant SEC regulatory and compliance uncertainty.

Federal securities laws and SEC rules apply only in the context of securities. If an asset is a security, its offer and sale is subject to comprehensive oversight by the SEC. If an asset is not a security, then the SEC does not have jurisdiction. The primary challenge in regulating digital assets is the reality that the existing federal securities statutory and regulatory framework does not, in many cases, squarely address whether the many types of digital assets—with varying characteristics—should be covered. The security status of a particular digital asset has largely been analyzed using U.S. Supreme Court cases about ownership interests in orange groves and notes sold by a farmer cooperative.¹ But this analysis has proven complex and difficult to apply consistently. As digital assets have evolved, it has become clear that many of these assets are unlike the traditional assets for which the existing statutory and SEC regulatory frameworks were designed.

The SEC’s oversight and regulation of digital asset securities is largely new. Although attempts have been made to provide regulatory clarity in this space, the SEC has relied heavily on enforcement actions, especially over the past few years. This is not to say that the SEC should not enforce its rules or that the SEC is not discharging its responsibilities when bringing cases. But for many in the digital asset industry, the SEC’s focus on enforcement—without first providing clear guidance—has been viewed as regulation by enforcement. Moreover, aside from Staff Accounting Bulletin 121, which Congress voted to overturn via the Congressional Review Act (on a bipartisan basis) and the SEC staff recently rescinded, historically, clarity has been sparse regarding the status of market intermediaries and their ability to hold, transact in, and act as custodian of digital asset securities.

As then-Acting Chairman Mark Uyeda noted earlier this year, under the SEC’s recent approach to digital assets, “[c]larity regarding who must register, and practical solutions for those seeking to register, have been elusive. The result has been confusion about

¹ *SEC v. W.J. Howey Co.*, 328 U.S. 293, 301 (1946); *Reves v. Ernst & Young*, 494 U.S. 56, 61 (1990).

what is legal.”² Some market participants have devoted significant resources to determine whether they are required to register with the SEC or subject to SEC oversight—and, if they are, how they can comply with applicable regulatory requirements—while others have incurred even greater costs to defend themselves in enforcement investigations and litigation. Given the significant SEC regulatory and compliance uncertainty facing U.S. market participants who engage in digital asset activities, many participants have decided against offering digital asset products or services in the U.S., choosing instead to innovate overseas.

SEC Chairman Atkins recently remarked that “[i]t is a new day at the SEC.”³ He promised that “[p]olicymaking will no longer result from *ad hoc* enforcement actions” and that instead “the Commission will utilize its existing rulemaking, interpretive, and exemptive authorities to set fit-for-purpose standards for market participants.”⁴ This is a welcome development—and I have been pleased to follow progress made by the SEC Crypto Task Force.⁵ Nevertheless, the existing statutory and regulatory structures would benefit from greater clarity from Congress. This is especially true with respect to the security status of digital assets and the regulation of digital asset markets and intermediaries.

Important Areas from an SEC Perspective

In its current form, the CLARITY Act would grant the CFTC primary authority for regulating “digital commodities” (as defined in the legislation), while carving out a meaningful role for the SEC in the overall regulation of digital assets. In doing so, the CLARITY Act would delineate jurisdictional boundaries between the two agencies—and provide much-needed guidance regarding the security status of many of these assets.

Any digital asset considered a “digital commodity” or “permitted payment stablecoin” would be excluded from the definition of security under federal securities laws.⁶ The term “digital commodity” would broadly encompass any digital asset intrinsically linked to a blockchain system that derives its value from the use of that blockchain system—but

² Acting SEC Chairman Mark Uyeda, SEC Crypto 2.0: Acting Chairman Uyeda Announces Formation of New Crypto Task Force (Jan. 21, 2025), available at <https://www.sec.gov/newsroom/press-releases/2025-30>.

³ SEC Chairman Paul Atkins, Keynote Address at the Crypto Task Force Roundtable on Tokenization (May 12, 2025), available at <https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-crypto-roundtable-tokenization-051225>.

⁴ *Id.*

⁵ The Crypto Task Force, which is led by SEC Commissioner Peirce, is a newly created SEC task force dedicated to developing a comprehensive and clear regulatory framework for crypto assets.

⁶ “Digital Asset Market Clarity Act of 2025” § 301, 119th Cong. (unintroduced draft dated May 29, 2025) (on file with the House Committee on Financial Services), available at https://financialservices.house.gov/uploadedfiles/052925_clarity_act.pdf.

would not include certain securities, stablecoins, and derivatives, among other assets.⁷ The term “permitted payment stablecoin” would generally apply to any fiat-pegged digital asset that is issued by a state or federally regulated entity and designed to be used as a means of payment or settlement.⁸

Importantly, this legislation would distinguish a digital commodity that is subject to an investment contract from the investment contract, clarifying that a digital asset token is not itself an investment contract security.⁹ This legislation would also create an exemption from registration for certain offers and sales by digital commodity issuers of investment contracts involving units of digital commodities that relate to “mature” blockchain systems and other requirements.¹⁰ Digital commodity issuers relying on the exemption from registration for mature blockchain systems would be required to file with the SEC certain offering statements and documents prescribed by the Commission,¹¹ and the SEC would have authority to promulgate rules identifying conditions by which a blockchain system would be considered mature.¹²

The legislation also provides, with certain exceptions, that the CFTC would be given jurisdiction over many digital commodity transactions—in addition to authority over transactions involving permitted payment stablecoins occurring on or with CFTC-registered entities.¹³ Nevertheless, the SEC would have a limited role with respect to trading facilities and intermediaries conducting digital commodity transactions. For example, the SEC would have jurisdiction over digital commodity activities by SEC-registered broker-dealers and national securities exchanges that are exempt from registration with the CFTC.¹⁴ In turn, the SEC would be required to revise its regulations to accommodate trading of digital commodities and permitted payment stablecoins on alternative trading systems (“ATs”), and to permit broker-dealers and national securities exchanges to operate an ATS for trading digital commodities and permitted payment stablecoins.¹⁵

⁷ *Id.* § 103.

⁸ *Id.* § 101.

⁹ See *id.* § 201 (providing, *inter alia*, that “[t]he term ‘investment contract asset’ means a digital commodity—(A) that can be exclusively possessed and transferred, person to person, without necessary reliance on an intermediary, and is recorded on a blockchain; and (B) sold or otherwise transferred, or intended to be sold or otherwise transferred, pursuant to an investment contract.”).

¹⁰ *Id.* § 202.

¹¹ *Id.*

¹² *Id.* § 205.

¹³ *Id.* § 401.

¹⁴ *Id.* § 304.

¹⁵ *Id.* §§ 303–04.

The SEC would also continue to have jurisdiction over digital assets that are deemed securities (under the new definition) and likewise would retain anti-fraud and anti-manipulation authority over digital commodities and permitted payment stablecoins for transactions engaged in by a broker-dealer or through an ATS or on a national securities exchange.¹⁶

More broadly, the CLARITY Act would involve the SEC in the regulation of digital assets by requiring several joint rulemakings and memorandums of understanding between the SEC and CFTC,¹⁷ and by commissioning several studies.¹⁸ The SEC and CFTC would also be given flexibility to grant relief from duplicative or unduly burdensome requirements.¹⁹

Recommendations for Consideration by Congress

As I have expressed, a new statutory framework that accounts for digital assets would benefit the marketplace and consumers. The CLARITY Act provides a path forward for both market participants and regulators. I hope that Congress will continue to engage with key stakeholders, including interested market participants, and seek technical assistance from the current regulators on the CLARITY Act.

Because digital assets—and the digital asset industry—are regularly evolving, it is crucial that Congress provide clear direction to the relevant regulators while affording them flexibility to iterate on key principles. To this end, Congress may wish to require in the legislation that the SEC and CFTC provide periodic updates to Congress regarding outstanding issues, which would include input from the public, to assess whether additional legislation is needed.

In a similar vein, since tokenization has the potential to reshape financial markets, Congress should consider requiring in the legislation that the SEC and CFTC seek input from other governmental bodies such as the Department of Treasury and Department of Commerce, as well as the President's Working Group on Digital Asset Markets, in their joint study on tokenization set forth in the bill.

Thank you again for the opportunity to participate today. I look forward to answering your questions.

¹⁶ *Id.* § 302.

¹⁷ *Id.* §§ 105, 304.

¹⁸ *Id.* §§ 505–08.

¹⁹ *Id.* §§ 404, 406, 408.

Chairman HILL. I thank the gentleman. Mr. Raman, you are recognized for 5 minutes.

STATEMENT OF VIVEK RAMAN, FOUNDER, ETHEREALIZE, NEW YORK, NY

Mr. RAMAN. Chairman Hill, Ranking Member Waters, and distinguished members of the committee, thank you for the opportunity to testify. My name is Vivek Raman. I am the Co-Founder and CEO of Etherealize. We founded Etherealize to transform U.S. capital markets for the 21st century. Our team is a powerhouse of Wall Street veterans combined with the best technologists across the Ethereum ecosystem. We are ready to push forward new financial innovation in the United States.

Previously, I traded credit on Wall Street at Morgan Stanley, U.S. Bancorp (UBS), Deutsche Bank, and Nomura. During my time there, I saw two things: one, that the United States is the undisputed leader in the global financial system, and two, much of the system still operates like it is in the Stone Age. Today it can take days to send money and weeks to finalize trades. Hundreds of billions of dollars of value still flow through paper, faxes, and manual spreadsheets. Now at last, the technology solution for a one-time upgrade to the U.S. capital markets is sitting right in front of us.

Public blockchains allow for programmable dollars that settle in seconds for global ledgers, that allow real-time regulatory oversight, and for global access that extends opportunity far beyond Wall Street. So, what is the problem? Over the last several years, blockchain innovation in the United States was unfairly penalized. That greatly undersold the potential of blockchains and pushed innovation offshore. The CLARITY Act can change that trajectory. It gives much-needed regulatory certainty, including defining investment contract assets and clarifying SEC and CFTC jurisdiction. It provides America a launch pad for the next generation of financial infrastructure and ensures that the payoff stays here with U.S. jobs, U.S. tax revenue, and U.S. technological leadership.

The private sector already sees this. BlackRock, Franklin Templeton, Fidelity, Deutsche Bank, UBS, and many more are already building on Ethereum because it is the most secure and most decentralized settlement layer in the world. As a result, \$140 billion of stablecoins, \$10 billion of real, useful tokenized assets and institutional-grade financial applications live on Ethereum. All of this happened despite regulatory uncertainty. With the CLARITY Act, we can 100x that innovation. The CLARITY Act provides an excellent framework for responsible digital asset innovation in America, and it does so while preserving the core value of blockchain's decentralization.

What does decentralization really mean? It means a network, just like the internet, that is owned by none and is accessible by all. For Ethereum, it means over a million validators all around the world independently verifying transactions and ensuring trust without a single point of failure. What does decentralization mean in institutional terms? It means resilience, maximum security, and minimized counterparty risk. We applaud the CLARITY Act for valuing decentralization and its control and maturity tests. The CLARITY Act also amplifies America's position as the home for in-

novation. Previous years of regulatory uncertainty and hostility have not been great for America's position in the digital asset space. In 2017, 42 percent of core blockchain developers were U.S. based. By 2025, we are barely at 19 percent. We need to reverse this brain drain and bring high-value engineering jobs back to the United States. We need to keep dollar-denominated stablecoins rather than digital euros or digital yuan at the center of global commerce. The CLARITY Act benefits more than just financial institutions. It also allows for value to flow directly to consumers rather than just to intermediaries.

Let us take a concrete example: payroll. Right now, payroll is inefficient. Employees are paid biweekly or monthly, companies have to wire funds to a payroll provider, and there are multiple intermediaries. Settlement can take multiple days. This changes with blockchains. Ethereum enables real-time automated payments that traditional systems cannot match. Freelancers and gig workers can now get paid by the second as they work, no delays, no middlemen. This gives people immediate access to their earnings, which is powerful for those living paycheck to paycheck. Multiply this effect across millions of U.S. businesses, and the impact is enormous, and that is the power of decentralized programmable finance.

In closing, I would like to emphasize that I could not have started Ethereum until this year because I was waiting for regulatory clarity to build here in the United States. My parents came to America because it is the land of opportunity, and I want to build in America. We are going to change history by embracing the next phase of the internet, and it is really important to get this right. The CLARITY Act recognizes this at this moment in time. Thank you for your time and for your commitment to thoughtful, forward-looking policy. I look forward to your questions.

[The prepared statement of Mr. Raman follows:]

Testimony of Vivek Raman
Co-Founder and CEO, Ethereumize
Before the United States House Committee on Financial Services
“American Innovation and the Future of Digital Assets: From Blueprint to a Functional Framework”
June 4, 2025

Chairman Hill, Ranking Member Waters, and Members of the Committee, thank you for the opportunity to testify today on the critical need for clear regulatory frameworks in the digital asset space. My name is Vivek Raman, and I am the CEO and co-founder of Ethereumize, a firm dedicated to connecting traditional finance with the Ethereum blockchain ecosystem. Prior to founding Ethereumize, I spent a decade on Wall Street as a trader in fixed-income markets at Morgan Stanley, UBS, Deutsche Bank, and Nomura. That experience impressed upon me both the strengths and shortcomings of our traditional financial system. It also fuels my conviction that blockchain networks – and Ethereum in particular – offer a transformative decentralized model for safer, more inclusive, and globally accessible finance.

I am here today in support of the introduced Digital Asset Market Clarity (CLARITY) Act, which establishes a clear, forward looking framework that appropriately reflects the unique characteristics of digital assets and decentralization—while providing strong protections for consumers and investors. In my testimony, I will:

- Highlight **Ethereum** as a premier example of decentralization and innovation in blockchain technology, including its open and fair launch and the vast scale of its current ecosystem;
- Emphasize the need for **regulatory clarity**, outlining how the CLARITY Act's key provisions form a sensible regulatory approach that protects markets while unleashing responsible innovation and the next wave of institutional adoption. Tokenized assets (like Blackrock's BUIDL fund), stablecoins, and financial applications are already flourishing on Ethereum, and a comprehensive federal framework will usher the next wave of institutional growth in the United States; and
- Explain why a **decentralized financial system** is critical for a safer, more inclusive, and globally accessible future of finance, including in the U.S.¹ – and how Ethereum exemplifies this model.

¹ Decentralized finance (DeFi) leverages blockchain technology to provide open, permissionless access to financial services, enabling individuals worldwide to participate without traditional intermediaries. This model promotes financial inclusion and innovation by offering services such as lending, borrowing, and trading to global populations, even in regions with limited banking infrastructure. Additionally, DeFi's transparent and immutable nature enhances security and trust in financial transactions. Sources: Investopedia, What Is Decentralized Finance (DeFi) and How Does It Work?, <https://www.investopedia.com/decentralized-finance-defi-5113835>; World Economic Forum, Why Decentralized Finance Is a Leapfrog Technology for the Unbanked, <https://www.weforum.org/stories/2022/09/decentralized-finance-a-leapfrog-technology-for-the-unbanked/>

Blockchains like Ethereum represent mission-critical infrastructure for the next generation of the internet – a global, neutral financial layer. Just as the U.S. led the development of the internet itself, we now have a strategic opportunity to lead in blockchain adoption through clear and sensible regulation. I applaud this Committee's bipartisan work on the CLARITY Act. My message today is that **decentralization matters**, and the CLARITY Act correctly recognizes how to harness decentralized networks for public good. I respectfully submit that this framework will provide the certainty that entrepreneurs, institutions, investors, and consumers need, which will ensure the U.S. continues to lead in the next iteration of the internet built on blockchain technology.

Ethereum: A Decentralized, Innovative Network with an Open Launch

Ethereum is widely regarded as the leading programmable blockchain platform – the foundation of decentralized finance (DeFi), stablecoins, tokenized assets, and countless other innovative applications.² It achieved this status in large part due to an open and fair launch and its strong **decentralization from day one**. Launched in 2015 following a globally accessible crowdsale of its native token (ETH) in 2014³, Ethereum did not emerge from any single dominant corporation or government. Ethereum was bootstrapped by a diverse group of users, and its development has remained *open-source and community-driven*. No founder or insider holds outsized control over the network today. In fact, Ethereum now exemplifies what the CLARITY Act defines as a “*mature blockchain system*” – a blockchain network (and its related token) “that is not controlled by any person or group of persons under common control.” In practical terms, Ethereum’s consensus mechanism⁴ and governance are distributed across tens of thousands of independent nodes and over one million active validators spread around the world, with no central authority able to unilaterally dictate outcomes⁵.

Ethereum’s launch and growth have been marked by *transparency and broad participation*. The code was developed in the open and released publicly; anyone could run a node or mine (and

² As of early 2025, ~80% of tokenized real-world assets are issued on Ethereum. BlackRock’s Head of Digital Assets called Ethereum “the natural choice” for tokenization. Sources: RWA.xyz (<https://app.rwa.xyz/networks>); Cointelegraph <https://cointelegraph.com/magazine/ethereum-maxis-should-become-assholes-to-win-tradfi-tokenization-race>

³ Ethereum was launched in 2015 following a globally accessible crowdsale of its native token, ETH, in mid-2014. See *Ethereum Foundation — History*. <https://ethereum.org/en/history/#ether-sale>

⁴ In blockchain systems, consensus refers to the process by which network participants agree on the validity and order of transactions. Ethereum uses a proof-of-stake (PoS) consensus mechanism, in which validators are randomly selected to propose and attest to new blocks based on the amount of ETH they have staked. This ensures that no single party can unilaterally alter the blockchain’s history, providing security and integrity without central control.

Source: Ethereum Foundation, Introduction to Ethereum Consensus, <https://ethereum.org/en/developers/docs/consensus-mechanisms/po/>

⁵ Ethereum currently operates with over one million active validators and tens of thousands of globally distributed independent nodes. See: beaconcha.in (Ethereum validator data), ethernodes.org (Ethereum node data), accessed June 2025.

now stake)⁶ to support the network. Over the years, Ethereum's community has only grown more decentralized. According to Electric Capital, as of late 2024, over 6,200 monthly active developers⁷ were contributing to open-source projects across the broader Ethereum ecosystem, including core protocol development, Layer-2 networks, and applications – by far the largest developer pool of any blockchain protocol. This large, worldwide developer community indicates a high degree of decentralization in expertise and control, and it fuels responsible innovation on the platform. Ethereum's security is bolstered with over a dozen independent implementations of its software (vs one implementation for most other Layer-1 chains), resulting in institutional-grade resilience and redundancy. Ethereum's upgrade process is governed by open Improvement Proposals (EIPs)⁸ and consensus among stakeholders, rather than dictated by a corporate board. A striking illustration of Ethereum's decentralized yet coordinated innovation was the "Merge"⁹ in 2022 – a major upgrade where Ethereum switched its consensus mechanism from proof-of-work mining to proof-of-stake **without network downtime**, effectively upgrading the engine of a running global network. This successful transition, involving tens of thousands of independent participants, showcased the resilience and community coordination of Ethereum's decentralized model. It also introduced ETH staking, which by early 2025 had attracted over \$80 billion worth of ETH deposits¹⁰ (about 28% of the supply) to secure the network – underscoring the widespread confidence and participation in Ethereum's security process.

Crucially, Ethereum's **decentralization is not an abstract ideal; it has concrete benefits**. Because no single entity controls Ethereum, the network is extremely resilient (it has never gone down in its 10-year history). There is no central server or small group of data centers to attack or a single company that could mismanage the system – a sharp contrast to centralized financial institutions and infrastructure that can become single points of failure. Moreover,

⁶ In blockchain networks, a node is any device running the network's protocol software, helping to validate and propagate transactions while maintaining a full copy of the ledger. In Ethereum's original proof-of-work system, participants could "mine" blocks by solving cryptographic puzzles to earn rewards and secure the network. Since Ethereum's transition to proof-of-stake, anyone can now support the network by staking ETH to become a validator, helping to process transactions and propose new blocks. Sources: Built In, [What Are Blockchain Nodes and How Do They Work?](https://builtin.com/blockchain/blockchain-node), <https://builtin.com/blockchain/blockchain-node>; Ledger, [What Is a Node and Why Should I Operate One?](https://www.ledger.com/academy/what-is-a-node-and-why-should-i-operate-one?), <https://www.ledger.com/academy/what-is-a-node-and-why-should-i-operate-one?>; Investopedia, [How to Stake Ethereum](https://www.investopedia.com/how-to-stake-ethereum-7482623), <https://www.investopedia.com/how-to-stake-ethereum-7482623>

⁷ As of late 2024, Ethereum and its broader Layer-2 ecosystem had over 6,200 monthly active developers — more than 3x the next largest protocol. Source: <https://www.developerreport.com/ecosystems/ethereum>
Footnote Disclosure: Electric Capital counts developers based on original code authorship across all public Ethereum-related GitHub repositories. This includes protocol clients, Layer 2s, dapps, wallets, and tooling. Developers merging code or duplicating work from forks are excluded.

⁸ Ethereum's upgrade process is governed through Ethereum Improvement Proposals (EIPs), which are openly published, discussed, and reviewed by the community. The official EIP website is eips.ethereum.org, and the full repository of proposals is maintained at github.com/ethereum/EIPs.

⁹ The Merge was Ethereum's most significant upgrade to date, transitioning from energy-intensive proof-of-work to proof-of-stake. It occurred on September 15, 2022.
Source: Andrew Ross Sorkin, "Ethereum, a Virtual Currency, Successfully Transitions to a New Operating System," *The New York Times*, Sept. 15, 2022.

<https://www.nytimes.com/2022/09/15/technology/ethereum-merge-crypto.html>

¹⁰ Source: Ethereum Beacon Chain data — <https://beaconcha.in/>

decisions that affect Ethereum (like changes to fees or supply) are subject to public scrutiny and require broad consensus, which protects users from arbitrary governance. This decentralization has made Ethereum a *neutral platform* for innovation: entrepreneurs can build on Ethereum without needing permission from a gatekeeper and **without the counterparty risk** that comes from centralized platforms that can arbitrarily change their rules, deplatform users, and introduce other risks to the businesses of entrepreneurs building on top of them. This open-access, permissionless quality has unleashed a wave of creativity and competition in financial services and beyond – all happening on top of a shared, public infrastructure. In summary, Ethereum is a premier example of a decentralized blockchain platform with an origin and governance that embody openness and fairness. It provides a living model of the kind of robust, public-interest technology that the CLARITY Act appropriately recognizes and encourages as secure global infrastructure.

The Need for Regulatory CLARITY Now to Further Ensure U.S. Leadership

Despite the remarkable growth of the digital asset ecosystem, the U.S. regulatory environment for cryptocurrencies and blockchain-based assets has been characterized by uncertainty and fragmentation. Innovators and investors have faced a confusing patchwork of guidance and enforcement actions, often having to infer the rules from decades-old statutes that never contemplated this technology. This lack of clear, up-to-date regulation has produced several adverse consequences:

- **Frozen Innovation and Investment:** Entrepreneurs building legitimate blockchain projects have been operating in a fog—uncertain whether their token might suddenly be deemed a security, or whether the platform they rely on could be treated as an unregistered exchange, all amid a lack of clear regulatory guidance. This uncertainty raises the cost of compliance dramatically and has doubtless dissuaded many responsible actors from pursuing promising ideas in the U.S. Investors likewise are hesitant to back U.S.-based projects when basic questions (Which regulator will oversee this asset? Will this token be legal to freely trade?) have no clear answers. As one member of this Committee aptly noted earlier this year, both a stablecoin bill and a market structure (digital asset) bill are needed to provide comprehensive clarity, and Congress “*should be able to get*” both done in 2025.¹¹ Until now, the absence of such legislation has been a drag on the sector’s development in a compliant way.
- **Regulation by Enforcement and Legal Ambiguity:** In lieu of explicit rules, we have seen regulators resort to broad enforcement actions to set de facto policy without offering clear guidance. This approach is inherently reactive and inefficient. It creates an

¹¹ In March 2025, Representative Ro Khanna stated that Congress “should be able to get” both a stablecoin bill and a market structure bill passed this year, reflecting bipartisan momentum toward regulatory clarity in digital assets.
Source: Cointelegraph, *US Lawmakers Introduce Bipartisan Regulatory Framework for Digital Assets*, March 28, 2025.

<https://cointelegraph.com/news/us-lawmakers-bipartisan-regulatory-framework-digital-assets>

adversarial climate between innovators and regulators, who should ideally be working together to protect consumers while enabling growth. We have seen federal agencies previously disagree publicly over whether certain major digital assets (like ETH) are commodities or securities. Such ambiguity not only confuses market participants, it has also driven activity offshore to jurisdictions that have moved faster to provide regulatory clarity. Other regions, such as the European Union with its Markets in Crypto-Assets Regulation (MiCA) and jurisdictions like the United Kingdom, Singapore, Japan, and Dubai, have taken significant steps and are actively crafting comprehensive crypto regulatory frameworks.¹² The U.S. must not fall behind, and clear rules are essential to retain talent and capital onshore.

- **Consumer and Investor Protection Gaps:** Ironically, the lack of clarity harms the very investors we aim to protect. A prime example is the collapse of offshore exchanges or issuers that were not subject to robust oversight and U.S. regulatory standards.¹³ Regulatory clarity will raise the bar for conduct in this industry by bringing serious players into compliance and weeding out bad actors. For instance, if U.S. law clearly delineates when a token issuance triggers securities law, honest projects can comply (e.g. registering or falling under exemptions), and any frauds will be easier to prosecute to best protect consumers and investors. If the U.S. provides for needed clarity through a comprehensive regulatory framework, including establishing appropriate licensed pathways for trading of tokenized, security-like digital assets (such as through registered Alternative Trading Systems or broker-dealers that have the flexibility to seamlessly operate on blockchain rails), then consumers can use such venues, which will be subject to regulatory oversight as well as clear and appropriate guardrails. In short, clarity enables proactive regulation – setting guardrails before crises occur – instead of the current reactive pattern. It will give consumers more confidence that when they engage with crypto services under U.S. jurisdiction, those services adhere to robust standards on disclosures, custody of assets, prevention of conflicts of interest, and much more.

Given these stakes, the introduction of the CLARITY Act is a significant and positive development. This bipartisan effort directly addresses the major ambiguity at the heart of current law: how to classify and regulate digital assets in a way that protects users and markets without smothering innovation. The CLARITY Act provides precisely what its name suggests – clear definitions, roles, and processes. As Representative Ritchie Torres noted, “[t]he CLARITY Act will deliver clear rules of the road that entrepreneurs, investors, and consumers deserve.” It represents the culmination of extensive work by this Committee (including prior efforts like the passage of Financial Innovation and Technology for the 21st Century Act (FIT21)) and incorporates input from industry, legal experts, and regulators.

¹² See *A Golden Age of Digital: Charting a Path Forward: Hearing Before the U.S. House Fin. Services Comm., Sub Comm. on Digital Assets*, 119th Cong. (2025) (statement of Ji Hun Kim, Crypto Council for Innovation)

¹³ The collapse of offshore exchanges which operated outside comprehensive U.S. oversight, underscores the risks posed by unregulated platforms. Source: U.S. Senate Committee on Banking, Housing, and Urban Affairs, *Crypto Crash* <https://www.congress.gov/117/chrg/CHRG-117shrg53797/CHRG-117shrg53797.pdf>

The CLARITY Act sets the stage for a sensible regulatory framework that distinguishes *infrastructure (platforms)* from *activities (assets and their use)*, encourages the development of decentralized networks, and establishes practical oversight for digital asset markets (through mechanisms like ATS registration and tailored disclosure requirements). In my view, these provisions strike an elegant balance: **they bring digital asset activities into compliance** (requiring disclosures, segregating customer funds, mandating registrations), while simultaneously acknowledging the unique nature of blockchain technology and decentralization.

Why Decentralization Matters: Safer, More Inclusive, and Globally Accessible Finance

The core feature of Ethereum and similar public blockchains is **decentralization** – no central operator, open access to all (with safeguards for compliance) – and this feature is not only a technological nuance; it is a fundamental shift that carries significant public policy benefits. A decentralized financial system can address several long-standing issues in traditional finance, including **single points of failure, opacity, counterparty risk, and barriers to innovation**. Let me outline why decentralization is so critical for a safer, more inclusive, globally accessible financial future, and how Ethereum's model exemplifies these advantages:

- **Resilience and Stability Through Decentralization:** In traditional finance, we are accustomed to central intermediaries (e.g., banks, exchanges, and clearinghouses) that must not fail, because failure can cascade systemically. History unfortunately provides many examples – a single large bank's collapse can freeze consumer funds or require taxpayer bailouts; a single stock exchange's technical outage can halt trading in thousands of securities. In a decentralized network like Ethereum, by contrast, there is no single critical point whose failure can bring the system down. Tens of thousands of independent nodes collectively keep the ledger running. The failure of any one node (or even many) does not compromise the network's availability or integrity. This massively distributed architecture makes the system **intrinsically more robust by minimizing counterparty risk**. It is also less attractive as a target for cyberattack or malfeasance – there is no central database to hack to corrupt Ethereum's ledger. This resilience was demonstrated during extreme events (for instance, during periods of market stress or record-high usage, Ethereum has reliably processed transactions, whereas certain other participants, including exchanges, payment apps, and even entire blockchains with centralized models have been affected or gone down under the similar strain).¹⁴ Thus, decentralization can **reduce single-point systemic risks** and enhance the overall stability of the financial system. In essence, we replace the "too big to fail" hub-and-spoke model with a web of many independent operators – a more fault-tolerant design. Regulators and consumers alike should appreciate the built-in risk mitigation that a mature decentralized platform can provide.

¹⁴ During periods of high network congestion and market volatility, centralized exchanges and payment platforms have experienced outages and service disruptions, while Ethereum has maintained continuous uptime. Source: CoinDesk, "Coinbase Resumes Operation after 3-hour Outage," May 14, 2024. <https://www.coindesk.com/business/2024/05/14/coinbase-reports-system-wide-outage>

- Market Integrity and Transparency:** Decentralized networks inherently promote market integrity. On Ethereum, anyone can audit the smart contract code of a decentralized protocol or examine the entire transaction history of an asset. This radical transparency can deter fraud and market manipulation, since any improper activity is quickly apparent to the community and can be openly analyzed by experts and regulators. Moreover, decentralization means no insider or small group can easily distort the market. Ethereum's protocol rules (like how blocks are produced or how token balances update) apply equally to all and are enforced automatically by code. Decentralization is actually designed to protect market integrity: it minimizes the trust we must place in human intermediaries and maximizes the reliance on open, auditable code and broad consensus. Notably, the CLARITY Act recognizes this by tying certain regulatory outcomes to *decentralization criteria*. For example, to be considered a "mature" decentralized network under the Act, a project would need to demonstrate that its value is driven by the functioning of the network itself rather than the efforts of a central managerial team. This concept echoes the idea that if a token's price and utility derive from a *bona fide, decentralized network* (as with ETH on Ethereum), then the opportunities for insider manipulation or misinformation are greatly reduced. In sum, decentralization can foster **fairer, more transparent markets**, aligning well with regulatory goals of market integrity.
- Financial Inclusion and Open Access:** A decentralized financial system built on public blockchains is, by its nature, **open to anyone with an internet connection**. There is no need for permission from a bank to create a crypto wallet, no credit score or paperwork required to interact with a smart contract. This opens the door for billions of unbanked or underbanked individuals globally to access basic financial services. For example, someone in a developing country with only a smartphone can receive or store stablecoin dollars on Ethereum, preserving their savings against local currency inflation – something that previously might require a U.S. bank account (out of reach for many). We already see this in practice: stablecoins on Ethereum and similar networks are used for remittances and savings from Latin America to Africa to Southeast Asia.¹⁵ As noted, stablecoins combine the stability of major currencies with the accessibility of crypto networks, enabling financial independence globally beyond the confines of traditional

¹⁵Stablecoins are increasingly used for remittances and savings in emerging markets, offering a hedge against inflation and currency devaluation. In 2024, Latin America received \$415 billion in crypto flows, with stablecoin usage rising sharply in Argentina, Brazil, and Venezuela. Similar adoption trends are seen in Africa and Southeast Asia.

Sources:

Chainalysis, "2024 LATAM Crypto Adoption: The Rise of Stablecoins," October 9, 2024.

<https://www.chainalysis.com/blog/2024-latin-america-crypto-adoption/>

AICoin, "Web3 Payment Research Report: In 2025, Stablecoins in Africa," May 2025.

<https://www.aicoin.com/en/article/460823>

OpenTrade, "In regions like Latin America, Africa and Southeast Asia...", May 2025.

<https://medium.com/opentrade/in-regions-like-latin-america-africa-and-southeast-asia-inflation-and-currency-depreciation-are-7ee368334772>

banking. Additionally, decentralized finance (DeFi) applications on Ethereum are providing services like lending, borrowing, and yield generation to anyone, often with as little as a few dollars to start.¹⁶ This drastically lowers the barrier to entry compared to legacy finance, where high fees and minimum balances exclude smaller participants. Decentralization means an entrepreneur in Nigeria can directly access a global lending pool on Ethereum, or a farmer in India can insure crops via a decentralized insurance application – all without entrenched intermediaries that might have excluded these customers. The inclusivity gains are profound: by removing gatekeepers, decentralized finance can democratize access to wealth-building tools and cross-border economic activity, while also increasing demand for and usage of the dollar via stablecoins.

- **Innovation and Competition:** Finally, decentralization spurs open innovation. Because protocols like Ethereum are open-source and permissionless, developers around the world can build new financial applications on top of them without needing intermediaries or paying licensing fees. This composable “Lego block” environment has led to an explosion of creative fintech innovation – from automated market maker exchanges¹⁷ to stablecoins to non-fungible tokens¹⁸ – far faster than would be possible in a heavily siloed, permissioned system. The best ideas can gain adoption simply by proving useful to users, rather than relying on access to a distribution channel controlled by incumbents. This dynamic fosters healthy competition and rapid iteration, which ultimately benefits consumers with better services and lower costs. Moreover, because these services run on decentralized infrastructure, they can interoperate in seamless ways. We can already see the power of this interoperability: for instance, a user can take a tokenized asset (say a tokenized Treasury bill) and use it as collateral in a decentralized lending protocol, or trade it on a decentralized exchange, all in a matter of seconds and without needing separate accounts at different institutions. This interconnected innovation is reminiscent of the early internet era – where open protocols allowed an outpouring of new applications. It is no coincidence that blockchains are often compared to the internet in terms of being a general-purpose, transformative platform. Decentralization is the key trait that makes that possible by keeping the platform open and not captured by any single interest.

¹⁶ DeFi (Decentralized Finance) applications on Ethereum offer permissionless access to financial services such as lending, borrowing, and yield generation, often with low minimums, enabling global participation.

Source: World Economic Forum, *Decentralized Finance: (DeFi) Policy-Maker Toolkit*, June 2021.
https://www3.weforum.org/docs/WEF_DeFi_Policy_Maker_Toolkit_2021.pdf

¹⁷ Automated Market Makers (AMMs) are decentralized exchange protocols that enable users to trade digital assets directly with a smart contract–powered liquidity pool, rather than through a centralized order book or counterparty. AMMs allow anyone to provide liquidity and facilitate 24/7, permissionless asset trading.

Source: Coinbase, What Is an Automated Market Maker (AMM)?,
<https://www.coinbase.com/learn/advanced-trading/what-is-an-automated-market-maker-amm>

¹⁸ Non-fungible tokens (NFTs) are unique digital assets recorded on a blockchain, representing ownership of items such as digital art, music, collectibles, or tokenized real-world assets. Unlike cryptocurrencies like Bitcoin or Ether, NFTs are not interchangeable on a one-to-one basis.

Source: Investopedia, Non-Fungible Token (NFT): What It Means and How It Works,
<https://www.investopedia.com/non-fungible-tokens-nft-5115211>

In summary, a decentralized financial system offers a vision of finance that is more resilient, transparent, inclusive, and innovative. Ethereum's track record to date provides compelling evidence of these benefits: it has weathered crises without central bailouts, it has enabled transparent markets like decentralized exchanges with billions in daily volume, it has brought basic financial capabilities to populations that banks do not serve, and it has incubated entirely new financial products at an astonishing pace. Of course, decentralization is not a panacea; it introduces new challenges (e.g. how to govern protocols, how to manage risks in code, etc.). But I firmly believe – and my experiences both on Wall Street and in crypto reinforce – that the net positives are immense. This is why it is so vital that our regulatory framework recognizes and preserves the unique attributes of decentralized platforms. We should regulate to **reinforce** the benefits (e.g. transparency, security, broad access) and to mitigate residual risks, rather than inadvertently smothering the golden goose by applying rules designed for centralized intermediaries. The CLARITY Act, as further detailed below, makes exactly this distinction – and thereby lays the groundwork for harnessing decentralization to improve finance for all.

Differentiating Infrastructure from Applications: The Internet Analogy

Underlying the CLARITY Act's approach is a fundamental insight: **blockchain platforms are infrastructure, while tokens and apps are the content or applications running on that infrastructure.** This mirrors the architecture of the internet itself – and provides a useful analogy for why our regulations must make this distinction. In the early days of the internet, policymakers recognized that the internet (the network of networks, using open protocols like TCP/IP) should be allowed to grow and innovate with appropriately tailored regulation, while specific uses of the Internet (websites, e-commerce businesses, online services) could be regulated under existing laws (consumer protection, commerce laws, etc.). That philosophy proved incredibly successful – it allowed the internet's underlying infrastructure to flourish, scaling to billions of users, while authorities still addressed illicit activities *on top of* the internet (like fraud or intellectual property violations on websites) through targeted enforcement. We did not regulate the internet itself as if it were a single monolithic "communication service" responsible for all content flowing through it; we recognized it as neutral plumbing, and we went after bad actors at the application layer.

Similarly, **Ethereum and other truly decentralized blockchain networks are neutral infrastructure** – they are akin to a global "financial internet" on which various tokens and applications run. It is those tokens and applications (much like websites or digital services) that may warrant regulatory consideration depending on their nature – a token might represent a security or a derivative or a currency; an equity issuance application might facilitate primary sales of company stock and need appropriate rules. But the *blockchain platform* itself is not the actor engaging in those activities; it is merely the protocol – analogous to how HTTP or SMTP underlie the web and email. This distinction is crucial. If we were to treat the blockchain platform as the target of regulation (for example, trying to shut down or license the Ethereum network as if it were a single entity), we would both undermine the technology's benefits and fail to effectively police wrongdoing (since bad actors could simply move offshore). The CLARITY Act recognizes this distinction: it fosters the development of the decentralized platform itself (much

like building out internet infrastructure) and appropriately focuses rules and enforcement on the specific assets and activities on that platform.

The CLARITY Act further explicitly embraces this analogy. By distinguishing *platform* vs. *asset*, by measuring *network decentralization*, and by calibrating regulation to *how tokens are used* (not just how they exist), it sets up a framework akin to “**internet vs. websites.**” A mature, decentralized blockchain (like Ethereum) is more comparable to the internet backbone – it should be seen as mission-critical infrastructure that we want to be robust, neutral, and accessible to all developers and users. Individual tokens or programs (like a stablecoin, or an investment token for a startup, or a trading application) are comparable to the websites and online businesses – those we can regulate through disclosures, licensing (if they take custody of user funds, for instance), and so on. This layered approach ensures we do not strangle innovation at the infrastructure level. Imagine if, in 1995, we had required government registration and approval for anyone to launch a new internet protocol or to run a web server; the U.S. tech boom likely would have faltered. Instead, we set general rules (against hacking and fraud, for example.) and otherwise let the technology develop, which made the U.S. the leader of the internet age.

We have a parallel opportunity with blockchains: to lead the next era of the internet – the internet of value – by differentiating between core protocol and peripheral uses. Decentralization is the mechanism that makes a blockchain more like the internet (open and no single owner) versus a private network (closed and controlled by one entity). This is precisely why the CLARITY Act emphasizes decentralization for platforms – because a decentralized platform can be treated largely as a piece of public infrastructure, whereas a centralized platform (like a private database or a permissioned ledger run by a company) might need a different treatment. By focusing on whether a blockchain is decentralized, the Act effectively asks, *Is this platform more like a public good (like the internet) or more like a private product (like a fintech app)?* If it is the former, regulators will recognize this and let it function as infrastructure (while still policing any illicit use on it); if it is the latter, then perhaps it should be regulated like the company product it is.

To illustrate the internet analogy more concretely: Ethereum (the platform) can be likened to Linux or the World Wide Web protocols – no one “owns” them outright and anyone can build on them.¹⁹ On Ethereum, one application might be a dollar-pegged stablecoin (comparable to a fintech payment app) – that stablecoin can be regulated under payments and prudential rules, but Ethereum itself should not be regulated as if Ethereum created that stablecoin. Another application might be a tokenized stock trading system – that system might need broker-dealer licenses and exchange oversight, but again Ethereum is just the rail, not the broker. The CLARITY Act inherently understands this dichotomy: it does not call Ethereum or any blockchain a security or commodity by itself in the traditional sense; it calls them “digital commodities” when decentralized (placing them under CFTC oversight). It calls for **rules that**

¹⁹ “Ethereum is, first and foremost, a protocol, just like the protocol the internet relies upon: TCP/IP.” Consensus, “Efforts of Many: An Overview of the Ethereum Protocol,” <https://consensus.io/blog/efforts-of-many-an-overview-of-the-ethereum-protocol>.

differentiate infrastructure from applications, much as we differentiate the open internet from the companies operating on the internet.

The CLARITY Act sends the clear message that this Committee understands and appreciates this analogy – that the U.S. will **nurture the blockchain networks as we did the internet**, ensuring they remain open platforms for innovation, while at the same time aggressively policing harmful conduct and appropriately regulating products built on top. This balanced viewpoint is the only sustainable way to regulate an innovation that is, at its heart, *open-source software running on a distributed network*. You cannot regulate it effectively by just banning or blessing code; you have to look at usage and context. That is precisely what the CLARITY Act does: to be clear, it does not give a free pass to everything crypto (far from it, it actually expands regulatory oversight in many areas and provides for additional clarity in needed areas), but it **does** say we should treat a decentralized platform differently from a centralized issuer. The internet analogy can serve as a useful guide in helping frame and understand the issues at hand. In the long run, the U.S. will want Ethereum to do for **value transfer and economic exchange** what the internet did for **information exchange**. To achieve that, we must allow these networks to thrive and remain neutral, just as we did with the internet's protocols, while crafting forward leaning and sensible rules for the businesses and assets that utilize them. The CLARITY Act is a commendable step in that direction.

Ethereum as Critical Financial Infrastructure – and Why the U.S. Should Lead

I would like to close by re-emphasizing the broader vision: public blockchains like Ethereum are *already becoming critical global financial infrastructure*. We have reached a point where this technology is too significant to ignore or push to the shadows. Trillions of dollars in stablecoin transactions, billions in tokenized real assets, millions of users worldwide²⁰ – these are not speculative projections; they are the facts and reality of today. Ethereum, in particular, has proven itself capable of handling this scale while maintaining decentralization and security. The *potential* of a mature Ethereum (and other similar platforms) is vast: imagine real-time settlement of any asset, 24/7 markets that integrate with compliance by design, self-executing contracts that reduce the need for costly intermediaries in trade and finance, and inclusion of populations who have never had access to traditional banking. We are moving toward that future, and **the countries that embrace it will shape the outcome**.

The U.S. has an enormous amount to gain by asserting leadership in the blockchain and crypto space. We are home to many of the world's top innovators, investors, and research institutions in this field. U.S. companies and entrepreneurs have been at the forefront of developing blockchain-based applications (many of the largest crypto exchanges, wallet providers, and

²⁰ Public blockchain networks have processed trillions of dollars in stablecoin transfer volume annually, supported billions in tokenized real-world assets (RWAs), and onboarded millions of users globally. Sources: RWA.xyz, Stablecoin Transfer Volume (select "Transfer Volume" and "Interval: Yearly"), <https://app.rwa.xyz/stablecoins>; RWA.xyz, Tokenized Real-World Assets by Network, <https://app.rwa.xyz/networks>; YCharts, Ethereum Cumulative Unique Addresses, https://ycharts.com/indicators/ethereum_cumulative_unique_addresses

DeFi projects have significant U.S. roots or presence).²¹ However, in recent years, the ambiguity of U.S. regulation has begun to drive that activity overseas. We have seen other global jurisdictions set up clearer regimes and actively court crypto businesses.²² If we do nothing, we risk seeing the “center of gravity” of this technological revolution move outside America – much as we might have if we’d been hostile to the early internet or to past innovations like semiconductors. That would be a strategic and economic mistake. Blockchains and digital assets will form a key layer of the 21st-century financial system – essentially a new global economic operating system. The question is, will the U.S. set the standards for it (embedding our core values of transparency, rule of law, and free markets), or will we import someone else’s standards later? By providing clarity and smart regulation now, Congress can ensure that the U.S. is the hub of responsible blockchain innovation.

Encouragingly, we already see major U.S. institutions recognizing Ethereum’s promise. BlackRock, Franklin Templeton, and other major U.S. banks are tokenizing assets on Ethereum and experimenting with stablecoins and private Ethereum networks.²³ The private sector is ready to capitalize on blockchain efficiency once rules are clear and established. And it is not just the private sector – U.S. government agencies could benefit too (for instance, adopting blockchain for more transparent government auditing or more efficient grant disbursements). None of this can happen at scale without clarity in the law. The CLARITY Act paves the way for that future by removing the legal clouds that currently hang over blockchain usage.

²¹ U.S.-based companies have played a leading role in blockchain innovation. Coinbase, headquartered in San Francisco, is the largest publicly traded U.S. crypto exchange. Consensys, based in Brooklyn, develops MetaMask, one of the most widely used Ethereum wallets. Uniswap Labs, also U.S.-based, created Uniswap, a leading decentralized exchange protocol.

Sources:

Coinbase, About Coinbase, <https://www.coinbase.com/about>

Consensys, About Consensys, <https://consensys.io/about/>

Uniswap Labs, Company Overview, <https://uniswap.org/>

²² The lack of regulatory clarity in the United States has led crypto firms to consider relocating to jurisdictions with more defined frameworks. In April 2023, Coinbase CEO Brian Armstrong warned that without clear U.S. regulations, crypto companies would develop in “offshore havens.”

Source: Reuters, Coinbase CEO: Crypto Firms Will Develop ‘Offshore’ Without Clear US Rules, April 18, 2023.

<https://www.reuters.com/technology/coinbase-ceo-crypto-firms-will-develop-offshore-without-clear-regulations-2023-04-18/>

²³ Major U.S. financial institutions are increasingly leveraging Ethereum for asset tokenization initiatives.

In March 2024, BlackRock launched its first tokenized fund, the BlackRock USD Institutional Digital Liquidity Fund (BUIDL), on the Ethereum blockchain, enabling daily yield distribution and real-time settlement. Franklin Templeton expanded its tokenized U.S. Government Money Fund (FOBXX) to public blockchains including Ethereum, facilitating peer-to-peer transfers and stablecoin integration. UBS Asset Management also launched its first tokenized money market fund, uMINT, using Ethereum-based infrastructure.

Sources: Wall Street Journal, BlackRock Launches First Tokenized Fund on Ethereum Blockchain, March 20, 2024.

<https://www.wsj.com/livecoverage/fed-meeting-fomc-interest-rate-decision-march-2024/card/blackrock-launches-first-tokenized-fund-on-ethereum-blockchain-nzDSJiH5mEijUzKO24T4>; Blockworks, Franklin Templeton Launches Benji on Ethereum in ‘Milestone’ Move, October 31, 2024.

<https://blockworks.co/news/franklin-templeton-launches-benji-on-ethereum>; UBS, UBS Asset Management Launches Its First Tokenized Investment Fund, November 1, 2024.

<https://www.ubs.com/global/en/media/display-page-ndp/en-20241101-first-tokenized-investment-fund.html>

Regulatory certainty is not a green light for anything-goes; it is a pledge to set firm, intelligible guardrails - and the CLARITY Act delivers just that. The bill already shields consumers by requiring that customer assets remain segregated from company funds, compelling firms to manage conflicts of interest, and mandating plain-English disclosures. It also safeguards bedrock crypto freedoms such as self-custody and peer-to-peer transactions—priorities championed by co-sponsor Representative Warren Davidson. Importantly, the bill is still evolving. Etherrealize also appreciates the Committee's ongoing bipartisan efforts to refine this legislation—particularly with respect to disclosure standards and the treatment of related-party token holdings. We would also encourage this Committee to further ensure that circumvention of the excellent frameworks in this bill be prevented with appropriate guidelines. As these refinements take shape, the Act should continue to balance robust oversight of intermediaries with preservation of decentralization, sustaining the ethos of individual financial autonomy within a clear legal order.

Ethereum and decentralized blockchain technology represent a bet on the future of finance – one that the U.S. is uniquely positioned to foster. That bet is paying off; the technology is maturing, and real-world adoption is accelerating.²⁴ Now we need the legal and regulatory framework to catch up. The CLARITY Act provides for this framework. It provides certainty, balances innovation with protection, and distinguishes the signal from the noise. It will unlock capital and creativity – for example, by giving institutional investors confidence that tokens like ETH are not legally dubious, by giving entrepreneurs a clear checklist for how to launch a token lawfully, and by giving consumers more reliable venues and products to interact with.

The U.S. has always led in setting up the “rules of the road” for global finance – from Bretton Woods to securities laws that became gold standards worldwide. We have an opportunity to do so again here, for the digital asset markets. I firmly believe that with regulatory clarity, the U.S. will be the hub of the next-generation financial system just as it was for traditional finance and the internet. The alternative – to remain uncertain or hostile – would not stop the innovation, it would only push it away and cede leadership to others. This is why it is crucial to have a comprehensive federal regulatory framework.

In a future not far off, we can imagine a world where sending money is as seamless as sending an email, where entrepreneurs can raise capital from a global pool of investors in seconds on a blockchain, where financial contracts execute automatically and fairly without legalese, and where everyone globally has access to a stable digital dollar if they choose. This is the promise of blockchain technology – a promise of *greater financial empowerment and efficiency*. Realizing this promise requires that we have *rules in place that both enable and safeguard the process*. The CLARITY Act embodies this by establishing a thoughtful regulatory framework that

²⁴ In 2025, blockchain adoption has transitioned from speculative exploration to operational deployment across various sectors. Major financial institutions such as BlackRock, JPMorgan, and Franklin Templeton are actively utilizing blockchain technology for tokenized assets and settlement processes. This shift signifies blockchain's move from a theoretical concept to a practical infrastructure component in the global financial system.

Source: Financial Times, Finance is ready for a blockchain reset, May 28, 2025.
<https://www.ft.com/content/11c4973a-d798-4819-b342-fcfa4146f3d>

recognizes **blockchains as foundational infrastructure subject to appropriate oversight, while ensuring that the applications and assets built on them are supervised to promote stability, integrity, and responsible innovation.**

I respectfully urge this Committee, the House, and Congress as a whole to seize this opportunity. With the CLARITY Act, it will be a clear signal that the U.S. will continue to lead in embracing the future of finance – doing so on our terms, consistent with our values of fairness, transparency, and innovation. Let us set the precedent that **decentralized technology can thrive under a framework of clear, sensible regulation.** I am confident that with such clarity, the next generation of financial entrepreneurs will flock to build in the U.S., just as past generations did in the eras of banking, markets, and the internet. The time to act is now to ensure U.S. leadership in digital assets and blockchain technology.

Thank you again for the opportunity to share my perspective. I am happy to answer any questions and to continue to serve as a resource as you refine this legislation. Together, we can ensure that Ethereum and networks like it continue to exemplify the positive potential of decentralization – and that the U.S. remains the epicenter of this financial innovation, **to the benefit of consumers, investors, institutions, and the integrity of markets worldwide.**

Chairman HILL. Thanks very much. Chairman Behnam, you are now recognized for 5 minutes for your oral remarks.

STATEMENT OF HON. ROSTIN “RUSS” BEHNAM, DISTINGUISHED FELLOW, PSAROS CENTER FOR FINANCIAL MARKETS & POLICY, GEORGETOWN UNIVERSITY AND FORMER CHAIRMAN, U.S. CFTC, WASHINGTON, DC

Mr. BEHNAM. Chairman Hill, Ranking Member Waters, members of the committee, thank you for the opportunity to testify before you today. Between 2017 and 2025, I had the privilege of serving first as a commissioner, then the Chairman of the CFTC. During that more than 7-year period, I observed the significant growth and growing adoption of digital assets by U.S. investors, both retail and institutional. While I served at the CFTC, the digital asset market endured multiple periods of dramatic volatility, often significant in size and scale. Throughout this time, I publicly stated one consistent message to Congress: under current U.S. law, there is a gap in regulation for the non-security digital asset market.

In 2022, a Financial Stability Oversight Council report highlighted this exact gap. The gap remains today and must be filled with targeted legislation. The gap has facilitated countless scandals and fraudulent activity, some very small and typical in form, others massive in profile. Further, based on my current observations and those while at the CFTC, I do not believe public interest for digital assets will wane. Inaction will only result in greater risk to our financial markets and investors.

As the digital asset market continues to weave itself into traditional financial institutions, concerns regarding market resiliency and even financial stability will grow.

One common refrain in connection with past legislative efforts to fill the non-security gap suggests that a U.S. regulatory framework will legitimize the digital asset market, leaving opportunities for bad actors to capitalize on regulatory loopholes. I believe this argument is, in fact, a loophole. It has only left, for far too long, the vast majority of the digital asset market unregulated and American investors vulnerable. Between pursuing comprehensive regulation that does not undermine existing law and preserves the key pillars of sound market regulation or inaction, I believe there is only one choice: comprehensive regulation. I have consistently and publicly called for new legislative authority for the CFTC in order to provide core customer protections in the non-security digital asset market.

As this committee and the House Committee on Agriculture consider a legislative solution, I believe it is critical to rely on durable legal precedent to define digital tokens as either securities or commodities. As mentioned, the CFTC and SEC have a longstanding partnership that facilitates strong, robust regulation of both securities and commodity derivatives markets. I hope there will be continued consideration of measures to more precisely balance the important needs of each agency to comprehensively regulate their respective markets while finding ways to avoid unnecessary redundancies. As Congress continues to consider legislation to fill the regulatory gap, I would like to focus attention on the compo-

nents of a regulatory framework that would ensure U.S. market regulators have the necessary tools.

The CFTC and SEC have been involved in the digital asset market for over a decade, at the forefront of many of the most complex and historic enforcement cases and also working closely with other State and Federal authorities. The CFTC's principles-based oversight model has served its regulated markets well, striking an appropriate balance between outcomes-based requirements and measured flexibility to meet those outcomes, serving as a solid foundation to build transparent and resilient markets. Second, the law and regulations are only as strong as the agency and personnel that enforce it. Appropriate funding, which includes technology and human capital, is necessary to meet the mandate of any legislatively enacted regulatory program. Third, a sensible disclosure regime is needed for non-security tokens to ensure investors are aware of risk of loss. Fourth, a reliable self-regulatory organization has been critical to the success of both the CFTC and SEC for decades and should be a component of any framework. Fifth, it is essential that legislation provide a comprehensive authority for anti-money laundering, Know Your Customer, and a customer identification program built off of existing requirements for market participants. Finally, a comprehensive education and outreach program to support all investors, including the most vulnerable among us.

We need to act thoughtfully but with urgency to fill this regulatory gap. I thank the chairman, ranking member, and members of the committee for your focus in this area, and look forward to answering your questions.

[The prepared statement of Hon. Behnam follows:]

Written Statement of Rostin Behnam¹
Distinguished Fellow, Psaros Center for Financial Markets & Policy
McDonough School of Business, Georgetown University

before the

United States House Committee on Financial Services

**“American Innovation and the Future of Digital Assets:
From Blueprint to a Functional Framework”**

June 4, 2025

Chairman Hill and Ranking Member Waters, members of the U.S. House Committee on Financial Services (the “Committee”), I am honored to testify before you today on this important topic.

The Gap In Regulation

Between 2017 and 2025, I had the privilege of serving first as a Commissioner, then the Chairman of the U.S. Commodity Futures Trading Commission (“CFTC”). During that more than seven year period, I observed the significant growth of the digital asset market and wider adoption of digital assets by both institutional and retail investors in the United States. Over this time, digital assets evolved from a little known financial product to one that has become ubiquitous globally, owned by nearly 1 in 5 Americans according to a 2024 Pew study², and easily accessible to the public.³

While I served at the CFTC, the digital asset market endured multiple periods of dramatic volatility, often significant in size and scale. Throughout this time, I publicly stated one consistent message to Congress: under current U.S. law, there is a gap in regulation for the non-security digital asset market. In 2022, a Financial Stability Oversight Council report highlighted this gap in regulation of the spot market for digital assets that are not securities.⁴ This gap for non-security tokens continues to constitute a majority of the digital asset market measured by market capitalization.⁵

The regulatory gap remains today, and must be filled with targeted legislation; it has facilitated countless scandals and fraudulent activity, some very small and typical in criminal form, others

¹ Chairman of the U.S. Commodity Futures Trading Commission (2021-2025); Commissioner of the U.S. Commodity Futures Trading Commission (2017-2021)

² <https://www.pewresearch.org/short-reads/2024/10/24/majority-of-americans-arent-confident-in-the-safety-and-reliability-of-cryptocurrency/>

³ <https://www.sec.gov/files/rules/sro/nysearca/2024/34-99306.pdf>

⁴ Financial Stability Oversight Council, *Report on Digital Assets and Financial Stability Risks and Regulation* (Oct. 2022), [Report on Digital Asset Financial Stability Risks and Regulation 2022 \(treasury.gov\)](https://www.treasury.gov/press-releases/2022/10/20221027)

⁵ <https://coinmarketcap.com/>

massive in profile. First and foremost, filling the regulatory gap will provide the needed customer protections that American investors have become accustomed to in traditional financial markets regulated by the CFTC and the U.S. Securities and Exchange Commission (“SEC”).

Further, based on my current observations and those while at the CFTC, I do not believe public interest for digital assets will wane; inaction will only result in greater risk to our financial markets and investors, through lack of market transparency, fraud, market manipulation, and conflicts of interest. As the digital asset market continues to weave itself into traditional financial institutions, concerns regarding broader market resiliency and perhaps even financial stability will grow. In short, our current trajectory is not sustainable.

One common refrain in connection with past legislative efforts to fill the non-security gap suggests that a U.S. regulatory framework will legitimize the digital asset market, leaving opportunities for bad actors and industry players to capitalize on regulatory loopholes and unwitting retail investors. I believe this argument is the loophole; it has only left, for far too long, the vast majority of the digital asset market unregulated and American investors vulnerable to fraud and manipulation. Between pursuing comprehensive regulation that does not undermine existing law and preserves the key pillars of sound market regulation, or inaction, I believe there is only one choice: comprehensive regulation.

A Legislative Solution to Empower Regulators

I have consistently and publicly called for new legislative authority for the CFTC in order to provide core customer protections in the non-security digital asset market.⁶ As this committee and the House Committee on Agriculture consider a legislative solution for this gap in regulation and necessary adjustments to current law for both the CFTC and SEC, I believe it is critical to rely on durable legal precedent as the framework to define digital tokens as either securities or commodities. I believe the digital asset market is another milestone in the evolution of financial markets that pose unique, but solvable policy questions.

Any legislative solution must recognize that commodity assets do not necessitate an identical regulatory framework fit for securities. Most notably, a key pillar of the securities law is bridging information gaps between an issuer of securities and prospective investors through mandated disclosures. While information about a public company’s audited financial statements, executive leadership team, and business risk factors, to name a few, are identifiable and quantifiable for security issuers, and critically important to investors, the same is not the case for commodity assets. A credible digital asset regulatory framework of commodity digital assets must include disclosures, but more limited in scope by virtue of the characteristics of the underlying asset. In addition to disclosures for digital asset investors about risk of loss and the static characteristics of

⁶ See, Rostin Behnam, Chairman, CFTC, Testimony Before U.S. House Committee on Agriculture, <https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehnam42> (Mar. 6, 2024); see also, Rostin Behnam, Chairman, CFTC, Testimony [on The Future of Digital Assets: Providing Clarity for Digital Asset Spot Markets Before the U.S. House Committee on Agriculture](#), <https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehnam42> (Mar. 6, 2023)

a token, the primary focus of a comprehensive market regulatory framework for commodity tokens should rest on the principles of fair, orderly and efficient markets.

Traditional financial market structure has evolved over decades. The life cycle of any tradable asset has very defined touch points from the initiation of a customer order to settlement. While unregulated digital asset markets operate with many of the same characteristics of existing traditional financial market structure, the two are not identical. I urge this committee to carefully examine how current unregulated digital asset market structure differs from traditional financial market structure, and consider where there may be opportunities for change, and where existing requirements of market structure should be preserved, most notably, for customer protections, avoidance of conflicts of interest, and market resiliency.

Dual Registration

Given the critical role the SEC plays in the oversight of security-based digital tokens, the Committee should consider legislating a disciplined, flexible, and balanced framework for the determination of tokens as commodities or securities. As mentioned, the SEC and CFTC have a longstanding partnership that facilitates strong, robust regulation of securities and commodity derivatives markets.

Where an entity handles both security and non-security tokens in the cash market, separate and exclusive jurisdiction is critical to a healthy, comprehensively regulated ecosystem. Any regulatory system that contemplates a different model will be an incomplete effort, leaving bad actors and arbitrageurs opportunities to exploit weakness and leave American investors at risk. Further, any framework where each agency does not retain its exclusive licensing authority portends a future of blurred jurisdiction across other financial products.

Recent discussions have taken significant steps toward this outcome, and I hope there will be further consideration of measures to more precisely balance the important needs of each agency to comprehensively regulate their respective markets, while finding ways to avoid unnecessary redundancies through cross-agency collaboration.

Targeted with Flexibility

As Congress continues to consider legislation to fill the regulatory gap, I would like to focus attention on the components of a regulatory framework that would ensure U.S. market regulators have the tools to provide customer and market protections. The CFTC and SEC have been involved in the digital asset market for over a decade, sharpening their expertise and skillset in a balanced, deliberative fashion. Both agencies have been at the forefront of many of the most complex and historic enforcement cases, working closely with other state and federal authorities.

The CFTC's principles-based oversight model has served its regulated markets well, striking an appropriate balance between clear outcomes-based requirements, and measured flexibility to meet those outcomes. Core principles such as conflicts of interest, compliance with fair and orderly trading, system safeguards, financial resource requirements, and products not being readily susceptible to fraud or manipulation serve as a solid foundation to build transparent and resilient

markets, regardless of asset class. In light of the novel nature of digital assets, market regulators would then, consistent with a legislative mandate, tailor rules to meet the risk and characteristic profile, leaving flexibility to adapt with a changing market landscape, should the digital market evolve in a manner that was not first contemplated.

Second, law and regulations are only as strong as the agency and personnel that enforce it. Appropriate funding, which includes technology and human capital, is necessary to meet the mandate of any legislatively enacted regulatory program. As it pertains to the non-security digital asset market, the CFTC is currently funded for its mandate; it is not funded to oversee a digital asset cash market. I would strongly encourage the Congress, as it would in any instance where it increases agency mandates, to consider a permanent fee-for-service model, similar to the SEC model, and exclusively assessed on digital asset registrants, that is commensurate with the responsibilities outlined in any legislative effort.

Third, and following my earlier point about the need for a sensible disclosure regime, any legislative package should require registrants to provide information regarding a non-security token's structure, purpose, market-based characteristics, and general risks to ensure investors have access to material information.

Fourth, a reliable self-regulatory organization ("SRO") has been critical to the success of the CFTC and SEC for decades. Both the National Futures Association, in the case of the CFTC, and FINRA, in the case of the SEC, have served as effective partners for both agencies, complementing and supporting the missions of each. Any effective legislative effort mandating a regulatory framework for digital assets must include a role for SROs.

Fifth, it is essential that legislation provide comprehensive authority for anti-money laundering ("AML"), know-your-customer ("KYC"), and a customer identification program ("CIP"), built off of existing requirements for market participants. With the right tools, including AML, KYC, and CIP authority, the digital asset ecosystem will not only become exponentially safer and less vulnerable to terrorist organizations and illicit activity.

Finally, given the broad adoption of digital assets by a significant portion of the American population⁷, a comprehensive education and outreach program, building off of both the SEC and CFTC's customer education programs, will enable the investing public to understand both the risks and opportunities of this technology.

International & Domestic Cooperation

While CFTC Chairman, I had the privilege of serving as the Vice-Chairman of the International Organization of Securities Commissions ("IOSCO"). IOSCO's member agencies regulate more than 95% of the world's securities markets in over 130 jurisdictions⁸. As Vice-Chair, I saw major and developing economies establish regulatory frameworks for this new asset class.

⁷ Id. at 2

⁸ International Organization of Securities Commissions, About IOSCO, https://www.iosco.org/v2/about/?subsection=about_iosco (last visited July 8, 2024)

The current divide between the U.S. and our international counterparts creates regulatory arbitrage opportunities that are exploited by bad actors, and prohibits the U.S. from truly contributing to much needed multilateral coordination efforts. Further, the potential economic benefits and innovation arising from this technology ultimately will be stymied without regulatory certainty. Investors, entrepreneurs, and various other stakeholders simply cannot participate in their unique way with sufficient confidence without regulatory protections and certainty.

Domestically, federal law enforcement relies heavily on state and local partners to identify and combat civil and criminal misconduct, which often targets the most vulnerable. While CFTC Chairman, I worked closely with the North American Securities Administrators Association (“NASAA”) and its members to strengthen the CFTC enforcement program. State and local law enforcement are often the boots on the ground when identifying fraud within communities across America. As a former state securities investigator, I encourage this Committee, as it deliberates a digital asset regulatory regime, to ensure state and local law enforcement remain a key partner in fraud prevention.

Conclusion

The principles and regulatory foundations that make U.S. capital markets and derivatives markets the deepest, most liquid, and most resilient in the world provide an effective model for the digital asset market. We need to act thoughtfully, but with urgency, to fill this harmful regulatory gap in order to give American investors the protection they deserve.

I thank the Chairman, Ranking Member, and members of the Committee for your focus in this area, and look forward to answering your questions.

Chairman HILL. Thanks, sir. Ms. Minarik, you are recognized for 5 minutes for your presentation.

**STATEMENT OF KATHERINE MINARIK, CHIEF LEGAL OFFICER,
UNISWAP LABS, NEW YORK, NY**

Ms. MINARIK. Thank you, Chairman Hill, Ranking Member Waters, and members of the committee. It is an honor to be here today with you. I am Katherine Minarik, and I am from Chicago, Illinois. I am the Chief Legal Officer at Uniswap Labs. Uniswap Labs has always been an American company, and we want to stay in America for the long term. Many of us in the industry are grateful for the bipartisan and detailed work put in by this committee and your staff members on the proposed CLARITY Act. This draft is grounded in several important principles already, including recognizing that different crypto technologies present different risks and different benefits, which means they require different legal treatment, and also prioritizing the experience of everyday users of this new technology. These principles are not ideological, just like crypto itself is not ideological. It is a neutral technology that anyone can use.

Uniswap Labs is a pioneer of decentralized finance, or DeFi, which is just one part of the broader crypto landscape. I believe that one of the most important benefits of crypto technology is that it can be a check on the deficiencies of the traditional finance system today, and the promise of DeFi, in particular, is a future where users have more choice and more access to the financial system as a whole where users do not have to give up custody or control of their own assets to a third party when they do not want to. This would open the door of financial access to many Americans underserved by traditional finance today. That promise is exactly what drew me and so many others to this industry but America is at risk of falling behind. Every other major economy, from the EU to the U.K. to Singapore, has already taken steps to provide regulatory standards in the digital asset industry. Here at home, regulation by enforcement and the tactics of the last few years have created so much more uncertainty, not less. It has driven up costs and driven good actors and cutting-edge innovation overseas. Good actors cannot succeed when the law is a moving target, so I believe that time is of the essence for market structure legislation.

If you believe in the promise of crypto technology, then I think you should want legislation like this so the most important innovation has space to grow responsibly here in America, but even if you are deeply skeptical of crypto, I truly believe that you should want legislation like this, too. This bill may not answer every question—I still have questions—but it does more to protect the public than the status quo. It does more to make space for good actors in the industry, and this is a bill that we can build on for the better, for the long term. The proposed Blockchain Regulatory Certainty Act (BRCA) and the Foreign Terrorist Prevention Act (FTPA) are both companions that fit right alongside the CLARITY Act.

America as a country has always been a believer in the possibility of transformational change and not assuming the worst of those who forge those new paths. As Justice Douglas cautioned in dissent in *California Bankers Association v. Schultz*, the 1974 Su-

preme Court case that narrowly upheld the constitutionality of the original Bank Secrecy Act, It is 'sheer nonsense' to craft laws because we 'assume' that every citizen is a crook, an assumption I cannot make. I urge Congress to legislate based on facts, not assumptions, about our industry as a whole.

Uniswap Labs is committed to supporting legislation that enables the best innovation, responsible innovation, in America, that protects everyday users and protects good faith developers. If there are more conversations to be had with any of you or your staff about our vision or our technology, please ask, and we will show up any time. Thank you for the invitation, and I look forward to your questions.

[The prepared statement of Ms. Minarik follows:]



**Written Testimony of
Katherine Minarik
Chief Legal Officer, Uniswap Labs**

**“American Innovation and the Future of Digital Assets:
From Blueprint to a Functional Framework”**

Before the U.S. House Financial Services Committee

June 4, 2025

Chairman Hill, Ranking Member Waters, and Members of the Committee:

Thank you for the invitation to testify today.

My name is Katherine Minarik, and I am the Chief Legal Officer at Universal Navigation Inc., more commonly known as Uniswap Labs. Uniswap Labs has always been based in the United States, and the United States is where we want to stay.

Uniswap Labs and many others in the industry are grateful for the bipartisan work put in by this committee and your staff members on the proposed CLARITY Act, even as we continue to provide our comments alongside those from other industries, organizations, and the public as a whole. The draft legislation is grounded in several important principles already – declining to impose ill-fitting legal frameworks of the past onto new technology; recognizing that digital asset and blockchain technology that present different risks and benefits require different legal treatment; and prioritizing the experience of everyday users of this new technology. None of these principles are ideological, and I hope they lead to bipartisan support for final market structure legislation that secures America’s future with this technology.

Uniswap Labs is a pioneer of decentralized finance, or DeFi, which is one part of the broader digital asset and blockchain landscape. Today our company develops software products that work on top of the Uniswap Protocol, a decentralized network to swap crypto tokens on Ethereum blockchains. Our products make it easier for people to access and interact directly with DeFi more broadly. At its core, DeFi is technology that can make markets more efficient and safer for everyone. And the promise of the work done by Uniswap Labs, along with so many others in DeFi, is a future where users can directly engage with the financial system as a whole without having to give up control of their transactions or custody of their assets or private data.

That promise of a better future and a better financial system is what drew me and so many others to this industry. And that promise is why I’m here today. Congress has a critical role to play in shaping the future of digital asset and blockchain technology in America for the better. When done right, legislation enables responsible innovation, exactly what we want for America’s future. It creates open space for good-faith innovators while also creating guardrails to help users. And it ensures that regulators can administer the law efficiently, responsibly, and consistently, based on well-understood direction from Congress and without surprise to the public following Congress’s direction in good faith.

Every other major economy — from the EU to the UK to Singapore — has already taken steps to provide regulatory structure for digital asset technology. If the United States fails to take first steps of our own, we risk driving good actors and cutting-edge development overseas.¹ We will

¹ See Electric Capital Partners, LLC, *Geography of Crypto Developers: 2023 Developer Report*, Developer Report

not just cede the next wave of financial innovation to other corners of the world, but also end up relying on overseas regulators to set the rules for Americans' use of, and access to, this technology.

But time is of the essence for market structure legislation even without that global regulatory pressure. Right now, the absence of comprehensive legislation for the digital asset industry has created a dangerous vacuum, especially and maddeningly for the innovators in America most committed to building openly and in good faith. Political pressure from a handful of powerful voices, rather than the law itself, drove regulatory agendas on digital assets and turned compliance into a moving target.

I do not say that lightly, but based on the troubling regulatory engagement experienced by good-faith actors in the digital asset industry over the past several years:

- different federal regulators taking contrary positions with one another about how the law applies to particular facts;²
- a regulator advancing a legal theory in one court only to tell another court the opposite just days later;³
- multiple regulators serving subpoenas for thousands of Americans personal identifying information and transaction histories without any suspicion of wrongdoing;⁴
- a regulator allowing a company to go public only to sue that company over the very same business model two years later;⁵
- a regulator making repeated misrepresentations to a court to obtain an emergency order to cripple a private company, leading the court to impose an unprecedented \$2 million penalty of attorneys' fees against the regulator;⁶

(2023), <https://www.developerreport.com/developer-report-geography>. The report shows the U.S. share of blockchain developers fell from 42% in 2018 to 29% in 2022, while countries like Germany and India have seen steady increases.

² See Testimony of Rostin Behnam, Chairman, Commodity Futures Trading Commission, before the U.S. Senate Committee on Agriculture, Nutrition, and Forestry, Oversight of Digital Commodities, 118th Cong. (July 9, 2024), <https://www.congress.gov/event/118th-congress/senate-event/LC73578/text> (estimating that “upwards of 70 to 80 percent of the market are non-securities”); Gary Gensler, Chair, U.S. Sec. & Exch. Comm’n, Remarks Before the SEC Speaks Conference (Sept. 8, 2022), <https://www.sec.gov/newsroom/speeches-statements/gensler-sec-speaks-090822> (stating “the vast majority [of tokens] are securities”).

³ See Brief for Amicus Curiae Coinbase, Inc. in Support of Plaintiffs’ Opposition to Defendants’ Motion to Dismiss, *Beba LLC v. SEC*, 24-cv-153, ECF No. 41-2 (W.D. Tex.) at 5.

⁴ See, e.g., Coinbase and the IRS, Brian Armstrong on Medium (Jan. 14, 2017), <https://barnstrong.medium.com/coinbase-and-the-irs-c4e2e386e0cf>.

⁵ See We Asked the SEC for Reasonable Crypto Rules for Americans. We Got Legal Threats Instead, Coinbase Blog (May 10, 2024), <https://www.coinbase.com/blog/we-asked-the-sec-for-reasonable-crypto-rules-for-americans-we-got-legal> (“The SEC reviewed our business and allowed us to become a public company in 2021. Then, two years later, they sued us for essentially the same business.”).

⁶ See, e.g., Helen Partz, U.S. Judge Orders SEC to Pay Legal Fees in Debt Box Case, Cointelegraph (May 29, 2025), <https://cointelegraph.com/news/judge-order-debt-box-sec-fees>.

- multiple regulators pressuring banks not to do business with an industry and their executives as a whole.⁷

This kind of conduct did not just chill innovation, it undermined public trust in our regulatory agencies altogether.

Bipartisan legislation that ensures American standards shape the future of digital asset and blockchain technology is the best path out of this wilderness. If you believe in the promise of digital asset and blockchain technology, you should want legislation so that the most important innovation has space to grow responsibly here in America. If you are deeply skeptical of crypto, then you should want this legislation even more. Because without it, we are not protecting the public, we are abandoning them.

In this testimony, I will walk through what DeFi is, the benefits it provides, and what Uniswap Labs is building as background to explaining why it is crucial that Congress enact thoughtful market structure legislation for digital assets.

I. What is DeFi and why does it matter?

DeFi is technology infrastructure. Like the internet enabled a new generation of communications and commerce, DeFi provides the base layer for a new era of financial services. DeFi consists of self-custody wallets and blockchain-based protocols and smart contracts that operate transparently, enabling users to transact, lend, borrow, and exchange assets without relying on intermediaries. DeFi represents a shift from basic financial services gated by a handful of powerful institutions to open protocols that are programmable, composable, and globally accessible by design.

Decentralized markets have several common features:

- **Self-custodial.** The custodial risks of traditional and centralized finance do not exist in decentralized finance, because there is no third-party custodian. Users always hold and control their own assets in self-custodied wallets, which they use to directly access decentralized services. This is more than a technical shift—it's a structural safeguard. In a world where traditional banking is growing increasingly consolidated, exclusionary, and fragile, self-custody offers a counterbalance: a way for anyone with an internet connection to access financial tools, store value, and participate in the economy without centralized single points of failure.

⁷ See Choke Point 2.0, Press Release, H. Comm. on Fin. Servs., *Meuser: The Biden Administration's Operation Choke Point 2.0 Was Carried Out by The Prudential Regulators to Target and Debank the Digital Asset Ecosystem* (Feb. 6, 2025), <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=409457>.

- **Autonomous.** Typically DeFi protocols, once launched, continue to execute autonomously in perpetuity and generally are immutable—that is, they cannot be altered, even by the creator. It means that there is no single person or company approving or facilitating any DeFi transactions. In DeFi, once the conditions of the underlying smart contract code are met the contract automatically executes.
- **Transparent.** Transactions using DeFi protocols are transparent – all transaction records are recorded on the public blockchain. These records are available to everyone as soon as the transaction is processed using publicly available tools like Etherscan or Dune Analytics. More fundamentally, DeFi protocol smart contract code itself is publicly available and accessible to anyone. This means that, unlike traditional financial markets, there is no information asymmetry in the execution of a transaction. Anyone can review the underlying smart contract code to ensure it does precisely what it purports to do.
- **Interoperable and Composable.** Interoperability refers to the fact that blockchain-based applications can exchange data with other blockchains. Composability allows products to be built on top of each other, leveraging innovation that came before without having to reinvent the wheel. Together these properties mean that services can be offered at lower cost, and innovators use their resources to compete in offering improvements, not reinventing the same tools and processes dozens of times over. Users and builders also retain more control over their own data and choice in which technology to use because the code is not controlled by any single actor, unlike financial services offered by a single private company. Builders cannot be unfairly locked out and users cannot be unfairly locked in.

Users can interact with DeFi protocols in various ways. They can interact directly with the smart contracts, which are essentially blockchain-based software programs. Or, people can utilize user interfaces, which translate the parameters of a transaction into instructions that a user can send to the blockchain using their self-custody wallet. These "front-end" user interfaces do not exert any control over the actual operation of the smart contract. Rather, they provide a convenient interface for users to access the underlying software.

The differences between DeFi, centralized digital asset and blockchain technology, and traditional finance matter meaningfully to their regulatory treatment. We have traditionally regulated intermediaries in the financial system because the very nature of their relationships

with users presents unique risks. Custody of user assets,⁸ access to confidential information,⁹ exercising discretion on behalf of the user,¹⁰ acting as counterparties¹¹ – all of these things have value but come with risks. These risks substantially disappear when, for example, a participant in a transaction retains custody and control of their own assets, and the transaction itself is self-directed by that participant and takes place on a public ledger like a blockchain, and no third party has discretion over or the ability to control any aspect of a transaction.

Attempting to force DeFi into the same framework as traditional finance or centralized service providers, as regulators have attempted over the last several years, fails to recognize these differences. Even worse, it would mean that users would not only lose the benefits that DeFi provides, but would also face *more* risk, not less.

DeFi remains a nascent technology in many ways but its benefits are not hypothetical even at this early stage.¹² For example, DeFi protocols reduce friction and transaction costs for the creation, distribution, trading, and settlement of financial assets with faster settlement times for users.¹³

⁸ In 2011, futures commission merchant MF Global experienced a meltdown of its financial condition, caused by improper transfers of over \$891 million from customer accounts to a MF broker-dealer account to cover certain losses. Corzine Reaches \$5 Million Settlement With Regulators in MF Global Case, (Jan. 5, 2017), <https://www.nytimes.com/2017/01/05/business/dealbook/mf-global-jon-corzine-penalty-settlement.html>.

⁹ The abuse of exchange data market power is a recurring controversy among traditional finance exchanges and has been a priority policy area. *See, e.g.*, Nasdaq, NYSE Dealt Blow in Clash With SEC Over Market-Data Feeds, (May 25, 2022), <https://www.bloomberg.com/news/articles/2022-05-25/nasdaq-nyse-dealt-blow-in-clash-with-sec-over-market-data-feeds>.

¹⁰ In 2020, Robinhood agreed to pay a \$65 million civil penalty to settle the charges. Robinhood to Pay \$65 Million to Settle SEC Charges (Dec. 17, 2020), <https://www.sec.gov/news/press-release/2020-321>.

¹¹ In 2021, the collapse of Archegos Capital Management triggered over \$10 billion in losses for its counterparties, as major banks including Credit Suisse and Nomura were exposed through leveraged derivative trades. Credit Suisse alone lost \$5.5 billion, revealing significant failures in counterparty risk management and internal controls. Archegos Collapse Cost Banks \$10 Billion After Risky Bets Unwind, (Apr. 6, 2021), <https://www.bloomberg.com/news/articles/2021-04-06/archegos-collapse-cost-banks-10-billion-after-risky-bets-unwind>.

¹² *See generally* Caitlin Ostroff & Jared Malsin, Turks Pile Into Bitcoin and Tether to Escape Plunging Lira, Wall St. J. (Jan. 12, 2022),

<https://www.wsj.com/articles/turks-pile-into-bitcoin-and-tether-to-escapeplunging-lira-11641982077>; Roger Huang, Dissidents Are Turning to Cryptocurrency As Protests Mount Around The World, Forbes (Oct. 19, 2020),

<https://www.forbes.com/sites/rogerhuang/2020/10/19/dissidents-are-turning-to-cryptocurrency-as-protests-mount-around-the-world/>; Timour Azhari, Young Lebanese driving crypto 'revolution' after banks go bust, Reuters (Sept. 20, 2021), <https://www.reuters.com/article/lebanon-crypto-currency-youth/feature-young-lebanese-driving-crypto-revolution-after-banks-go-bust-idUSL8N2QH1MW/>; Carlos Hernández, Bitcoin Has Saved My Family, N.Y. Times (Feb. 23, 2019),

<https://www.nytimes.com/2019/02/23/opinion/sunday/venezuelabitcoin-inflation-cryptocurrencies.html>; Jillian Deutsch & Aaron Eglitis, Putin's Crackdown Pushes Independent Russian Media Into Crypto, Bloomberg (May 10, 2022), <https://www.bloomberg.com/news/articles/2022-05-10/putin-s-crackdown-pushes-independent-russian-media-into-crypto>; Cristina Criddle & Joshua Oliver, How Ukraine Embraced Cryptocurrencies in Response to War, Financial Times (Mar. 19, 2022), <https://www.ft.com/content/f3778d00-4c9b-40bb-b91c-84b60dd09698>.

¹³ As additional blockchains are created and new technology, such as scaling solutions, are developed, costs for transacting using DeFi protocols likely will continue to decrease. *See* Austin Adams, Mary-Catherine Lader, Gordon

DeFi interfaces expand access globally to financial services, in countries where “local currencies are collapsing, broken, or cut off from the outside world,” “legacy financial systems falter[],” or “the horrors of monetary colonialism, misogynist financial policy, frozen bank accounts, exploitative remittance companies, and an inability to connect to the global economy” are a constant reality.¹⁴¹⁵ And self-custody wallet technology means that people from all backgrounds and circumstances have a safe, secure, digital means of storing their assets without having to use an intermediary, even if their ability to access traditional financial services has been limited, whether through unfair or discriminatory treatment or excessive pricing.¹⁶

The continued development of reliable, secure DeFi technology matters profoundly to the development of a safer, more efficient, and more accessible financial system and global economy.¹⁷ And this is why protecting the future of DeFi development in America is essential to America’s continued global financial and technology leadership.

II. What are Uniswap Labs and the Uniswap Protocol?

Hayden Adams, the CEO of Uniswap Labs, invented the Uniswap Protocol in 2018 and then founded Uniswap Labs. Uniswap Labs is a New York-based software company that is one of many building non-custodial tools that make it easier for individuals and institutions to interact with the Uniswap Protocol and other DeFi technology. These tools include:

- **Uniswap Interface** – a web-based front-end application that allows users to connect a self-custodial wallet and generate instructions that the user can then communicate to the Uniswap Protocol in order to execute a token swap.
- **Uniswap Wallet** – a mobile, self-custodial software application that allows users to interact with a blockchain.
- **Uniswap Trading API** – a backend tool that enables third-party platforms to route trades through the Uniswap Protocol.

Liao, David Puth, & Xin Wan, On-chain Foreign Exchange and Cross-border Payments, Uniswap Labs (Jan. 18, 2023), <https://app.uniswap.org/OnchainFX.pdf>.

¹⁴ See Letter in Support of Responsible Crypto Policy, *supra*; see also Azhari, *supra*; Hernández, *supra*.

¹⁵ See, e.g., Bitange Ndemo, The role of cryptocurrencies in sub-Saharan Africa, Brookings Inst. (Mar. 16, 2022), <https://www.brookings.edu/articles/the-role-of-cryptocurrencies-in-sub-saharan-africa/> (describing how cryptocurrency platforms can “help level the economic playing field and expand finance options to underserved customer markets”).

¹⁶ See Katherine Minarik, Anyone Can Get Debanked. DeFi is a Critical Safety Net (Feb. 4, 2025), <https://a16zcrypto.com/posts/article/debanking-defi-safety-net/>.

¹⁷ Letter in Support of Responsible Crypto Policy, Open Letter to 117th Congressional Leadership (June 2022), <https://www.financialinclusion.tech/> (“Bitcoin provides financial inclusion and empowerment because it is open and permissionless. Anyone on earth can use it. Bitcoin and stablecoins offer unparalleled access to the global economy for people in countries like Nigeria, Turkey, or Argentina, where local currencies are collapsing, broken, or cut off from the outside world.”); see also Huang, *supra*.

The Uniswap Protocol is a decentralized trading protocol that enables peer-to-peer transactions of digital assets on blockchain networks through smart contracts that utilize the concept of an automated market maker. The Uniswap Protocol's smart contracts are publicly available and operate autonomously on-chain without relying on any centralized intermediaries. More specifically, the Uniswap Protocol operates, executes, and enforces its operations and transactions without human intervention, functioning solely on pre-established, transparent rules encoded directly within the source code of the applicable blockchain, and, since 2020, a decentralized community of UNI token holders provides a narrow set of on-chain governance.¹⁸ Unlike a traditional exchange that facilitates trading through an order book that it maintains itself, the Uniswap Protocol utilizes liquidity pools, allowing users to swap digital assets directly on a peer-to-peer basis using algorithmically-determined pricing mechanisms. The Uniswap Protocol is permissionless and immutable, meaning that its smart contracts cannot be unilaterally altered or controlled by any person or entity, including Uniswap Labs.¹⁹

Cumulative volumes occurring through the Uniswap Protocol through May 2025 exceeds \$3.1 trillion across 166 million distinct wallet addresses.²⁰ Daily volume on the Uniswap Protocol averages well over \$3 billion per day with resting liquidity in the protocol at approximately \$3.73 billion.²¹

Although Hayden Adams also founded Uniswap Labs, the company does not *and cannot* control the Uniswap Protocol. Even if Uniswap Labs ceased to exist, the Uniswap Protocol itself would continue to be accessible to anyone who chooses to interact directly with the underlying smart contracts.

In short, the Uniswap Protocol represents decentralized infrastructure, not a service or a financial institution. And while Uniswap Labs plays a valuable role in enhancing accessibility to the protocol, it does not own, control, or gate access to the protocol, which remains a public good in the Ethereum ecosystem.

III. Regulatory enforcement of digital asset and blockchain technology today is broken

The absence of an initial legislative framework for digital asset and blockchain technology from Congress has already led to irreparable harm to America's digital asset and blockchain industry. What began as attempts to stretch existing authority conferred to regulators to their limits

¹⁸ "Uniswap Governance Launch," *Uniswap Blog*, (September 16, 2020), *see also* UNI Token Governance Docs, <https://blog.uniswap.org/uni>.

¹⁹ Four versions of the Uniswap Protocol have been developed and implemented across several blockchains. The phrase "Uniswap Protocol" is used to generally refer to each unless specifically indicated otherwise.

²⁰ *See* Uniswap Protocol Key Stats, <https://dune.com/mud2monarch/uniswap-protocol-stats> (as of May 31, 2025).

²¹ *See* Explore, Uniswap Labs, <https://app.uniswap.org/explore/#/> (as of May 31, 2025).

evolved quickly into conflicting interpretations of those laws, refusals by some regulators to share their interpretations of those laws before launching enforcement actions, and even at times misrepresentations by regulatory agency lawyers in court leading to sanctions.²² Against this backdrop of expansive enforcement investigation and actions against multiple American companies building in good faith, other regulators took steps to cut off these companies' access to basic operational banking services.

It is no surprise that courts called for help from Congress.²³ And now Congressional action is necessary to put an end to this chapter. While regulatory enforcement remains a vital tool for protecting markets and the public, it must be grounded in transparent and predictable legal frameworks. Without statutory direction, enforcement risks becoming a weapon rather than a safeguard.

SEC v. Debt Box (2023): A “gross abuse of the power entrusted to [the SEC] by Congress”²⁴

In July 2023, the SEC initiated one of its many digital asset industry enforcement actions from the past several years and took the additional step of seeking an ex parte temporary restraining order (TRO), which means it asked the court to impair the defendant Debt Box's business immediately and without giving them the chance to respond. The court took the SEC's concern extremely seriously, as we want courts to do when the government sounds an alarm.

As one law firm has explained, “The emergency relief had swift and severe consequences for the defendants. The court's TRO shut down Debt Box's operations, froze the defendants' personal and business assets, and installed a receiver to take control of the company.”²⁵ But “[s]everal months later, after the defendants had been afforded an opportunity to challenge the emergency relief, Judge Shelby dissolved the TRO and receiver appointment, finding that the SEC had failed to present sufficient evidence of imminent, irreparable harm. More troublingly, the judge expressed concern that the SEC had made ‘materially false and misleading representations’ in obtaining and defending the ex parte TRO. For example, the SEC had falsely claimed that the defendants were actively closing bank accounts and moving assets overseas to evade jurisdiction, when in fact no such activity had occurred. In defending against defendants' motions to dissolve the TRO, the SEC doubled down on these misrepresentations, asserting that “the facts on the

²² See *supra* notes 2-6; see also *Boyd v. United States*, 116 U.S. 616, 635 (1886) (“It may be that it is the obnoxious thing in its mildest and least repulsive form; but illegitimate and unconstitutional practices get their first footing in that way, namely, by silent approaches and slight deviations from legal modes of procedure.”).

²³ See, e.g., *In re Voyager Dig. Holdings, Inc.*, 649 B.R. 111, 119 (Bankr. S.D.N.Y. Mar. 11, 2023) (recognizing the uncertainty around classification of digital assets “has been around for a number of years”).

²⁴ *SEC v. DEBT Box*, No. 2:23-cv-00599 (D. Utah); see also Nikhilesh De, SEC Committed ‘Gross Abuse of Power’ in Suit Against Crypto Company, Federal Judge Rules, CoinDesk, <https://www.coindesk.com/policy/2024/03/18/sec-committed-gross-abuse-of-power-in-suit-against-crypto-company-federal-judge-rules>.

²⁵ James V. Masella III & Brad Gershel, Overreach and Misrepresentation: The SEC's Pursuit of Emergency Relief in ‘DEBT Box,’ Ballard Spahr LLP (June 12, 2024), <https://www.ballardspahr.com/insights/alerts-and-articles/2024/06/overreach-and-misrepresentation-the-sec-pursuit-of-emergency-relief-in-debt-box>.

ground” showed defendants had made ‘significant efforts to move investor funds outside of the court’s jurisdiction in the months leading up to the SEC’s filing.’”²⁶

The judge ultimately “issued a scathing order, finding that the SEC had engaged in a ‘gross abuse of the power entrusted to it by Congress’ and that the SEC’s defenses for its misrepresentations to the court were ‘entirely without color’” and that “‘the [SEC’s] repeated misstatements were made wantonly for an improper purpose—to improperly harm Defendants by obtaining and defending the extraordinary ex parte relief the [SEC] was not entitled to through abuse of judicial process.’”²⁷ The judge sanctioned the SEC and ordered it to pay \$1.8 million in attorneys’ fees to Debt Box.²⁸

The *Debt Box* case did not involve a single error or misrepresentation to a court – it was a series of knowing misrepresentations and omissions as if the ends justified the means. This is the danger of regulatory enforcement actions becoming so untethered from existing law for years on end. Misguided agendas can take hold and take over from the law itself.

The *Debt Box* case is therefore an important reminder of the important role Congress must play in providing directions and guardrails for those regulators, for the protection of the public as a whole.

Operation Chokepoint 2.0 – Debanking an American industry and its leaders

Similarly, the de facto campaign by regulators and bank supervisors to pressure financial institutions into denying services to legally operating American companies in the digital asset and blockchain industry – often referred to as “Operation Chokepoint 2.0” – reveals another troubling example of regulatory politicization in the absence of direction from Congress.

This informal pressure—carried out through opaque risk assessments, unofficial guidance, and regulatory intimidation—has been documented by industry leaders and members of Congress.²⁹ The effort resembles the original Operation Chokepoint a decade ago, a controversial program that discouraged banks from serving politically disfavored but lawfully operating businesses in industries like payday lending.³⁰ In both cases, regulators relied on backdoor tactics to impose their own policy preferences and exclude lawful businesses from the financial system.

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

²⁹ See Nic Carter, “Operation Chokepoint 2.0 Is Real and Happening Now,” *Substack*, (Feb. 2023); see also “Congressional Inquiry into Banking Restrictions for Crypto Firms,” *The Block*, May 2023; see also U.S. House Financial Services Committee Hearing, “Coincidence or Coordinated? The Administration’s Attack on the Digital Asset Ecosystem” (April 2023).

³⁰ See “FDIC’s ‘Operation Choke Point’: Illegally Choking Off Legitimate Businesses?” *House Oversight Committee* (2014), <https://oversight.house.gov/wp-content/uploads/2014/05/Staff-Report-Operation-Choke-Point1.pdf>.

No industry operating lawfully should have to depend on maintaining political favor in order to continue to operate at all. Congress can prevent that existential risk to the digital asset industry through legislation that acknowledges the lawful existence of this technology and the companies that develop it.

IV. Market structure legislation can address these risks and safeguard innovation in the United States

Broadly, market structure legislation is essential to establish a predictable legal environment for the digital asset industry through codifying key definitions and outlining agency authorities and regulatory boundaries. In regards to DeFi specifically, comprehensive legislation should offer:

Accurate categorization of technology in legislation is essential to real risk mitigation

One of the most important aspects of market structure legislation like the CLARITY Act is providing direction to companies that take custody or control of user assets or transactions. That transfer of control to a third party can provide meaningful benefits to users who do not want to execute or even decide on their transactions on their own. But the benefits of centralized digital asset and blockchain activities come with risks – not dissimilar to the risks customers of the traditional finance industry face today.

As discussed above, DeFi does not present those risks. It *protects* users from many of those risks because users never have to give custody or control of their assets to a third party. So it is imperative that any market structure legislation does not categorize DeFi technology the same way as centralized technology. Otherwise, legislation could end up *increasing* the risks to users of DeFi today and eliminating DeFi’s benefits altogether.

We have seen how easy it is for regulators to conflate even very different technology within the digital asset industry. For example, last December, the Internal Revenue Service (IRS) promulgated additional rulemaking to implement the Infrastructure Investment and Jobs Act of 2021. That statute expanded the definition of “broker” for tax reporting purposes, intending to ensure proper reporting of taxable digital asset transactions. However, the IRS’s proposed regulations went significantly beyond the statute and attempted to classify a broad range of participants in DeFi—including smart contract developers, front-end interface providers, and potentially even node operators—as “brokers.” As the DeFi Education Fund and others explained at the time, the IRS’s requirements are “technologically infeasible, legally unsound, and economically damaging,” contrary to Congress’s intentions.³¹ Congress overturned the IRS

³¹ DeFi Education Fund, *Comment Letter on Proposed Digital Asset Broker Rules* (Nov. 2023), https://www.defieducationfund.org/_files/ugd/e53159_40d4255857d142f2a1744be79f1dab3f.pdf.

rule through the Congressional Review Act (CRA) earlier this year.³² But that tool is rightly only available sparingly and for a subset of regulatory activity.

The best check against regulatory misinterpretation of technology is accurate delineation of that technology in the legislation itself, flexible enough to allow for the development of the industry and specific enough to prevent circumvention of Congress's well-considered intent. This is critical for any market structure legislation – and especially for the future of DeFi, as conflation of DeFi with centralized technology companies could inadvertently cripple DeFi development in America entirely.

Preservation of the right to self-custody benefits the public

One of DeFi's most powerful innovations is enabling individuals to control their own digital assets without reliance on third parties. Any market structure legislation should explicitly protect self-custody rights by preventing the government from infringing on individuals' and businesses' rights to custody their own assets. This principle aligns with personal property rights and digital sovereignty and should not be eroded through indirect regulation or enforcement.

By establishing a right to self-custody, the CLARITY Act includes an important first step. Additional clarity on that right will ensure that the benefits of self-custodial technology are protected for Americans and that development of this important technology can continue here at home. Market structure legislation like the CLARITY Act is rightly focused on those persons and entities who have custody or control over user assets. But further codifying the existing reality that developers of non-custodial, peer-to-peer blockchain software that allow users to control their own digital assets are *not* financial institutions, as the recently introduced Blockchain Regulatory Certainty Act does,³³ further safeguards self-custodial technologies for the long-term.

Market structure legislation rightly rejects the unfounded worst assumptions about the industry as a whole.

The most repeated narrative against market structure legislation assumes the worst of the entire digital asset and blockchain industry. It assumes there is no present or future benefit in this technology. It assumes that every user of the technology today is mistaken in the value they perceive in it. It assumes that every person within the industry is out for themselves alone.

Refusing to legislate based on assumptions like these is not the right approach to facing down the risks and benefits of a new industry. Skeptics of this industry should want market structure legislation more than anyone, so there are much more robust rules in place to hold bad actors to

³² Congressional Review Act, 5 U.S.C. §§ 801–808; see also U.S. Congress, *Joint Resolution Disapproving the Rule Submitted by the Internal Revenue Service Relating to "Digital Asset Broker Reporting"* (2024) (resolution number TBD).

³³ H.R. 3533, 119th Cong. (2025), <https://www.congress.gov/bills/119th-congress/house-bill/3533>.

account. But more fundamentally, America as a country has always been a believer in the possibility of transformational change, not assuming the worst of those who forge a new path. As Justice Douglas cautioned in dissent in *California Bankers Association v. Schultz*, the 1974 Supreme Court case that narrowly upheld the constitutionality of the original Bank Secrecy Act, it is “sheer nonsense” to craft laws because we “assume that every citizen is a crook, an assumption I cannot make.” 416 U.S. 21, 85 (1974). I urge Congress to legislate based on facts, not assumptions.

V. Conclusion

The U.S. has long been a global leader in capital markets and financial services, in large part because of its commitment to clear rules, strong investor protections, and dynamic innovation. Today, we are at an inflection point. A new model of financial infrastructure—one that is open, transparent, and powered by blockchain technology—is emerging. When innovation leaves the U.S., users don’t stop participating—they simply turn to platforms based abroad or to less accountable systems. If we do not quickly begin the work of enacting legislative solutions, we risk driving U.S. innovation overseas, ceding technological leadership to adversarial jurisdictions, and making American users of this technology more vulnerable.

Uniswap Labs is committed to continuing to support efforts to create legislation that enables innovation in America, protects everyday users and good-faith developers, and differentiates between the risks and benefits of different technologies within our industry, so we can realize the full potential of digital asset and blockchain technology for all of us.

Chairman HILL. Thank you very much. Chairman Massad, formerly of the CFTC, you are recognized for 5 minutes for your oral remarks.

STATEMENT OF HON. TIMOTHY MASSAD, RESEARCH FELLOW AND DIRECTOR OF DIGITAL ASSETS POLICY PROJECT OF THE MOSSAVAR-RAHMANI CENTER FOR BUSINESS AND GOVERNMENT, AT THE KENNEDY SCHOOL OF GOVERNMENT AT HARVARD UNIVERSITY AND FORMER CHAIRMAN, U.S. CFTC, WASHINGTON, DC

Mr. MASSAD. Chair Hill, Ranking Member Waters, members of the committee and staff, thank you for inviting me today. The views I express are my own and do not represent the views of the Kennedy School of Government.

Mr. Chairman, I appreciate all the work that you have done, and others have done on the CLARITY Act, but with all due respect, you need to go back to the drawing board. The key objective of market structure legislation should be to provide regulatory oversight for digital assets that are not securities. We all know there is no Federal regulator for that spot market, and we all know there has been a high degree of fraud, manipulation, lack of investor protection, and rampant speculation as a result. That gap arises because we have a fragmented regulatory system. We have two market regulators, neither of whom has full jurisdiction over that spot market. The industry has taken advantage of this by arguing that most digital assets are not securities and therefore can be issued and traded without regulation, but that has also put pressure on the Howey Test because the choice facing courts is either securities regulation or no regulation. The solution has to bring the SEC and the CFTC together, give them sufficient authority to address the gap, and that will also get us to clarity.

Mr. Chairman, in addition to your six principles for legislation, I suggest above all two: do no harm and keep it simple. Do no harm means do not undermine our existing securities and derivatives laws and keep it simple means just that. Now, 2 years ago, former SEC Chair, Jay Clayton, who was appointed by President Trump, and I proposed a way of doing so. We said Congress should mandate that the SEC and the CFTC should work together through a self-regulatory organization or otherwise to develop joint rules that would apply to every intermediary that trades or handles Bitcoin or Eth. We used those two just to establish jurisdiction over the market without, as we said, debating classification of each token or Congress pursuing tortured rewriting of existing definitions of securities and commodities. We added that, "Rewriting existing law might fail to bring clarity and inadvertently undermine decades of regulation and jurisprudence as they apply to traditional securities and commodities markets."

Now, the CLARITY Act seems to start with technology and asks how can we make it easier to invest, but that is not the same as seeking to make sure our regulatory goals are met with rules that are technologically neutral. This is, after all, a technology, it is not an asset class, so I do not think the act will provide the necessary investor protection nor the clarity that we seek, and it certainly does not satisfy the do no harm or keep it simple principles.

Let me give a couple of examples. The act provides an exemption for capital-raising transactions for blockchain systems that are too broad to begin with and can easily be exploited. It has an expansive exemption for decentralized finance trading protocols, which will permit all sorts of activities, including potentially transactions in digital versions of securities to be exempt from the securities laws. Other provisions rely on concepts of decentralization that are difficult to measure. It uses metrics for control that are weaker than existing securities law standards and calls for assessments of value relative to a blockchain that are highly subjective. Although the act gives the CFTC authority over the trading of digital commodities, that definition would appear to cover only a small handful of what is traded in the crypto market today. The rest of the market would appear to be unregulated.

Finally, the act does not do enough to address illicit finance. It is 236 pages and has extremely complicated provisions. It will provide endless opportunities for regulatory arbitrage. Lawyers will structure transactions to achieve lesser compliance burdens. I was a corporate lawyer for 25 years at one of the best firms in the world. I know how this works, and you should have no doubt this will come massively and immediately.

Finally, I know many of you do not want to discuss this, but President Trump's efforts to personally profit from crypto cannot be ignored. He is making billions of dollars selling meme coins and stablecoins, investing in crypto exchanges and wallets and Bitcoin mining, all of which are potentially the subject of legislation. If any member of this committee did any of those things, you would all be outraged, and so it should be no different with the President. His activities create a cloud over this process. The issues we are debating here are about technology and money, they are not about life and death, but when it comes to whether something should be done about these conflicts and who should do it, it seems to me the following question is pertinent: If not you, then who, and if not now, then when?

Thank you, and I look forward to your questions.

[The prepared statement of Hon. Massad follows:]

Written Statement of Timothy G. Massad*
before the
U.S. House of Representatives Financial Services Committee
“American Innovation and the Future of Digital Assets:
From Blueprint to a Functional Framework”
June 4, 2025

Chairman Hill and Ranking Member Waters, members of the committee and staff, thank you for inviting me to testify today.

Introduction

The goals of promoting innovation and providing clarity with respect to digital asset technology are ones that everyone can support. But there is no consensus on the blueprint for getting there. If the Digital Asset Market CLARITY Act of 2025 (the “Clarity Act”) is the committee’s blueprint, we should step back and consider what we are trying to build.

The Clarity Act seems to start with the technology and ask, what do we need to do to make it easier for people to invest in this technology? But the strength of our securities and derivatives laws lies in the fact that we have traditionally focused on regulatory goals, and provided regulators with the flexibility to respond to changing conditions, including evolutions in technology, in order to achieve those goals.

If we ask, what is it that *Congress* needs to do to make sure the goals of our securities and derivatives laws are met as technology evolves, that leads to a different approach. The principal objective of market structure *legislation*—as opposed to *regulation* by the market regulators—should be to provide regulatory oversight of the spot market for digital asset tokens that are not securities. That structural gap in our regulatory framework has led to the high degree of fraud, manipulation and lack of investor protection, as well as rampant speculation, that has characterized the digital asset sector to date.

I have spoken about this gap since shortly after I became chairman of the Commodity Futures Trading Commission (CFTC) in 2014 and we declared bitcoin to be a commodity.¹ But efforts

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¹ See Timothy Massad, *It’s Time to Strengthen the Regulation of Crypto-Assets*, The Brookings Institute, p. 2 (Mar. 2019), <https://www.brookings.edu/research/its-time-to-strengthen-the-regulation-of-crypto-assets/> (hereinafter “Massad 2019”); and my testimony before the Subcommittee on Digital Assets, Financial Technology and Inclusion

to address this gap have been bogged down by an ongoing debate about how to classify digital asset tokens: are they securities, commodities or something else? Some would say we cannot provide for oversight of the market in digital asset tokens that are not securities unless we rewrite the definition of security and related standards. But having Congress rewrite the securities laws to “clarify” this boundary will do more harm than good.

Therefore, the first challenge in filling that gap is how to define the scope of jurisdiction, or how to define the digital asset tokens that are not securities and should not be regulated as securities. This committee’s prior attempt—the Financial Innovation and Technology Act for the 21st Century—proposed an incredibly complicated tri-partite test. It was unworkable and fortunately has been discarded. In its place, the Clarity Act proposes a slightly different approach but one built on a similar concept: when is a digital asset sufficiently “decentralized” so that it should not be considered a security? This approach is embodied in complex definitions that would be difficult to apply and measure in the real world. (Ironically, the Act offers an escape from some of its own tortured definitions by providing that a “blockchain system” need not actually *be decentralized* in order to be exempt from certain regulatory requirements. Instead, it is sufficient for the issuer to have the *intent that it be decentralized*.)

Thus, the Clarity Act takes us down a rabbit hole, one likely to generate more confusion than clarity. That is not to say decentralization is irrelevant; it can be an important factor in disclosure and other regulatory requirements, and I suggested the same when first writing about the need to strengthen crypto regulation in 2019.² But as used in the Clarity Act, it is an unstable foundation on which to build a regulatory framework.

The path forward should recognize that the regulatory gap arises in large part because we have a fragmented regulatory system. Indeed, the industry has exploited this fragmentation, by arguing that tokens are not securities and therefore not subject to regulation since neither agency had that spot market authority. The solution should therefore involve bringing the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) closer together, and giving them the authority, to address the gap.

Two years ago, Jay Clayton, the former SEC chair appointed by President Trump, and I argued that the critical way forward was to have Congress require the SEC and CFTC to work together to develop joint standards, either through a self-regulatory organization (SRO) or otherwise, that would apply to any intermediary that trades bitcoin or Ether—the two tokens whose status as non-securities is generally agreed upon. In this way, regulators would capture all relevant platforms “without first debating classification of each token or Congress pursuing tortured rewriting of existing definitions of securities and commodities.” The rules would apply to all tokens traded on such platforms, with the proviso that the SEC would retain jurisdiction over tokens that were securities. We warned that rewriting existing law “might fail to bring clarity

of the U.S. House of Representatives Financial Services Committee and the Subcommittee on Commodity Markets, Digital Assets and Rural Development of the U.S. House of Representatives Committee on Agriculture, “The Future of Digital Assets: Measuring the Regulatory Gaps in the Digital Asset Market,” May 10, 2023, <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408754> (“2023 Testimony”).

²*Ibid*, Massad 2019 at 49ff.

and inadvertently undermine decades of regulation and jurisprudence as they apply to traditional securities and commodities markets.”³

I have proposed bringing the SEC and CFTC closer together through an SRO in more detail in other writings and describe it further below.⁴ The SRO envisioned here would not mean the industry is governing itself. Consistent with U.S. practice since the 1930s, this SRO would be closely supervised and overseen by regulators—in this case, by the SEC and the CFTC jointly.

There may be other ways to bring the SEC and CFTC closer together to fill the regulatory gap and make sure regulations are technologically neutral, such as appointing common commissioners, or mandating that there be shared staff. The fact that this committee and the House Agriculture Committee have worked together on these issues is a good example of the cooperation that is needed.

Some members of the committee might say legislation must respond to the fact that previous regulators were not willing to consider whether rules needed to be revised in light of the technology. But if so, I would suggest they are fighting the last war. Some may feel that delegating authority to the SEC and the CFTC, even with general principles mandated by Congress, does not bring enough certainty: how do we know that the rules won’t be changed? Yet it is this type of administrative process that many on this committee, as well as many in the crypto industry, have been wanting the SEC and CFTC to undertake with respect to digital assets for many years. While success will depend on the mandate and direction from Congress, and the execution by the agencies, it is far better than writing into law complicated standards that are likely to be exploited and that cannot be easily fixed.

Others worry whether creating an SRO under the control of the SEC and CFTC will lead to vigorous investor protection in light of the current environment. The SEC, the CFTC and the Department of Justice have ended or paused nearly every crypto-related enforcement action, and disbanded teams with crypto expertise. The DOJ has publicly stated that it will not prosecute someone in the crypto sector for regulatory violations unless the defendant both knew of the regulatory requirement and violated it willfully. Considered together with the Clarity Act, it seems you need not comply with regulatory requirements as long as you either have the right intent or remain ignorant of what those requirements are.

In addition, the President of the United States and members of his family have launched several business ventures to personally profit from crypto, including issuing meme coins and a stablecoin. Traditional ethical standards have been ignored. He is selling the very tokens that his Administration will regulate. It increasingly seems as if this Administration’s primary goal is not to promote innovation but to promote the President’s own personal enrichment.

³See Clayton, Jay and Timothy Massad. “A Path Forward for Regulating Crypto Markets.” *Wall Street Journal*, 7 July 2023, and also “How to Start Regulating the Crypto Markets—Immediately.” *Wall Street Journal*, 4 December 2022.

⁴See 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 (“Massad-Jackson 2022”). I also proposed the SRO concept in my testimony in May 2023. See n. 1.

I have spoken to many people involved in crypto who abhor the President's activities. They recognize it hurts the industry. Unfortunately, they do not speak out because they fear it will adversely affect their business interests and they doubt speaking out will make any difference. They know that the President's activity can only be addressed by Congress, but they doubt that Congress will do anything. So the question is, if not you, then who? And if not now, then when?

My testimony proceeds as follows. I first discuss two principles that should inform market structure legislation: it must do no harm to our existing markets, and it should be kept simple. I then discuss why I believe the Clarity Act violates both these principles and why an alternative approach such as an SRO is better. I then turn to the risks of illicit activity, a subject that unfortunately gets very little attention in the Clarity Act, as well as some general comments on decentralized finance. Finally, I conclude with a discussion of how the current environment affects the consideration of market structure legislation.

The Importance of Doing No Harm and Keeping Things Simple

There have been several suggestions for the principles that should inform market structure legislation, including by the chairs of this Committee and the House Agriculture Committee.⁵ I suggest two simple ones: do no harm and keep it simple.

Do no harm means making sure that any digital asset market structure legislation does not undermine our existing capital markets. The U.S.'s \$120 trillion equity and debt markets, together with our derivatives markets, are the foundation of the U.S. economy and the envy of the world. They directly impact the health and well-being of our citizens and our businesses. Their depth, liquidity and diversity has been the source of great innovation over the years—and probably more useful innovation since the launching of bitcoin fifteen years ago than has come from digital asset technology. Their strength and integrity rests on a legal regulatory framework that has been gradually and thoughtfully created over almost 100 years.

For all the talk about the innovative potential of digital asset technology, it is vital to maintain perspective about its relative role in our economy and the fact that it is a *technology*, not an asset class.

Here is one point of comparison: the collective market capitalization of the “Magnificent Seven” companies—Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla—is \$16 trillion today. At the time bitcoin was launched in early 2009, two of these companies were not even public, and the other five had a collective market capitalization of just over \$300 billion. Their collective growth (of over 5,000%) and the incredible innovation they have brought over that period is due in part to the strength of our capital markets.

⁵ See French Hill and Glenn GT Thompson, “A Blueprint for Digital Assets in America,” Coindesk, April 4, 2025. <https://www.coindesk.com/opinion/2025/04/04/a-blueprint-for-digital-assets-in-america>. Chairs Hill and Thompson proposed the following principles: promote innovation; provide clarity for the classification of assets; codify a framework for the issuance of new digital assets; establish the regulation of spot market exchanges and intermediaries; establish best practices for the protection of customer assets; and protect innovative decentralized projects and activities and an individual's right to self-custody their digital assets.

Legislation that rewrites the definition of a security or revises the Howey test⁶ to promote this technology can easily undermine the markets. It could create fractures in the legal underpinnings of our markets that lead to evasion and regulatory arbitrage as market participants seek to take advantage of new standards to avoid compliance obligations.

This might include attempts to use digital wrappers around instruments that would otherwise be classified as securities, or distributing assets through an autonomous protocol that qualifies as “decentralized” and therefore exempt from regulation. The ingenuity of market participants will come up with endless ways to test, evade and exploit any legislative rewrite of core provisions of the securities laws. This could undermine disclosure requirements, position reporting requirements, control standards, rules to prevent fraud and manipulation and other standards.

I point out examples of how the Clarity Act could give rise to this below.

The desire to rewrite the definition of a security or revise the Howey test has also been motivated in large part not by the *absence* of legal clarity as to what constitutes a security, but rather by a *dislike* of recent judicial decisions as to that standard. The fact is the SEC has won most of its cases as to what constitutes a security, particularly in the context of primary offerings. A submission for a recent SEC roundtable documented in detail how the Howey test has been consistently applied in digital asset cases.⁷

There is another argument for clarity, however, that is sound. If it is not clear *how* one complies with the law in the case of digital technology—as opposed to simply being unwilling to do so—regulators can and should address that complaint. Whether the rules pertain to registration of intermediaries, custody, clearing and settlement, recording and transfer of securities or other areas, regulations should be technologically neutral. They should work for securities held in digital asset form.

Consistent with the keep it simple principle, that task should be left to the regulatory process and should not be the focus of legislation at this time. The SEC and the CFTC are now led by chairs who wish to address those issues and they can be expected to do so, ideally through public rule-making or other processes open to public input. Congress should step in only if regulators determine that they lack the authority to do so.

The keep it simple principle calls for choosing a path forward that is most likely to achieve the primary goals most efficiently, with least risk of inadvertent harm. That means writing legislation that is not overly complicated, that establishes general principles, and that leaves to an administrative process the development of more detailed rules or guidance. Unfortunately, the Clarity Act, as with its predecessor, FIT 21, does not do this.

⁶ SEC v. W.J. Howey Co., 328 U.S. 293 (1946).

⁷ Lee Reiniers, Prepared Statement for SEC’s Crypto Task Force March 21, 2025 Roundtable titled “How We Got Here and How We Get Out – Defining Security Status” and Responses to “Security Status” Questions in SEC Commissioner Hester Peirce’s February 21, 2025 Statement Titled “There Must Be Some Way Out of Here.” <https://www.sec.gov/files/ctf-input-reiniers-2025-3-18.pdf>

The CLARITY Act

The CLARITY Act is an extremely complicated bill, and I do not claim to have fully understood all its provisions in the short time since its publication. I would guess that most members of Congress will not have the time to fully understand its provisions and implications. That concern alone should lead us to question whether this is the right “blueprint.”

There should be no doubt that many, many lawyers will spend huge amounts of time developing ways to exploit this legislation and engage in regulatory arbitrage strategies on behalf of their clients, in order to find ways to take advantage of lesser compliance burdens. (I was a corporate lawyer for 25 years with one of the top firms in the world and am very familiar with how complex legislation can be very susceptible to regulatory arbitrage.)

With over 200 pages of detailed, complicated provisions, the implications of which are difficult to assess, I fear the Clarity Act is likely to have two principal effects: first, it will guarantee its own obsolescence, because the technology will evolve and the particulars of provisions will become outdated or not relevant. Second, and of far greater danger, it will encourage people to make investment or transaction decisions because something is a digital asset, or a digital commodity, or can be certified as a mature blockchain system, or can be traded on a decentralized finance trading protocol, and would therefore be subject to materially different regulation. In short, it will generate massive exploitation of its provisions and regulatory arbitrage.

I wish to highlight a few examples of the reasons why I say this.

Excessive Reliance on the Concept of Decentralization. The Act relies excessively on the concept of decentralization. It is used to rewrite and provide exemptions from important provisions of the securities laws. But the concept of decentralization is unstable ground on which to build a regulatory framework: it is difficult to define and measure, it can change over time, and it is not necessarily even the right metric by which to judge innovation.

Even those who might be expected to support legislation that is built on this concept have expressed their skepticism or even opposition. Consider the recent article by Joseph Hall, a partner at the law firm of Davis Polk and Wardwell and one of the top lawyers advising crypto companies. He testified, along with me and others, at a hearing of the Agriculture Committee two years ago. He recently wrote that it isn’t clear that decentralization is the best framework to use for market structure legislation. “The difficulty in saying whether decentralization occurs counsels against using it as the dividing line” between securities and commodities. In addition, whether an asset is decentralized can change over time, and a test built on decentralization excludes business models which are centralized, which is not a good way to advance development of digital assets. The subtitle of his article is that “policymakers are asking the wrong questions.”⁸

⁸ Joseph A. Hall, “Rethinking Crypto Regulation Means Throwing Out Old Questions,” Bloomberg Law, April 18, 2025, at <https://www.davispolk.com/sites/default/files/2025-04/Rethinking%20Crypto%20Regulation%20Means%20Throwing%20Out%20Old%20Questions.pdf>

The Chopping Block, a podcast hosted by three veteran crypto proponents who are widely followed in the industry and are quite knowledgeable about how crypto markets actually work, put it well in the title of a recent episode: “Decentralization Used to Mean Something. Now It Is Just a Vibe.”⁹

As I noted earlier, the concept of decentralization may be one factor to consider in fine-tuning disclosure or other requirements for digital assets.¹⁰ But it is very dependent on facts and circumstances, and it pertains to how a token is stored or maintained, not what it represents. For these and other reasons, it should not be the basis for a legislative definition of when a digital asset is or is not a security.

The Act Will Not Fill the Regulatory Gap. The Clarity Act is also unlikely to fill the gap in regulation that exists today—that is, the absence of spot market regulation of digital assets that are not securities. That gap has been the principal cause of investor abuses, as it has allowed crypto intermediaries—especially large, centralized ones on which most trading takes place—to operate largely as they please and without following the investor protection standards common in other financial markets. The problem is that although the Act provides for regulation of the spot market in “digital commodities,” the Act’s definition arguably would refer to just a handful of tokens. Indeed, that was the view of a few crypto industry experts to whom I put the question. Yet, the main centralized exchanges such as Coinbase, Kraken and Gemini list anywhere from 70 to 400 tokens.

What, then, about the rest? Nothing in the Act would appear to regulate the offer, sale or trading of those other tokens. There appears to be no prohibition on a centralized entity trading those other tokens, though it might have to be a sister platform to one on which “digital commodities” are traded. As a result, investors or users would remain with no protection unless those tokens are deemed securities.

Moreover, the tokens listed on centralized exchanges are just a fraction of the total tokens created each year. The crypto web site CoinGecko estimates that 600,000 new tokens were created in January of 2025 alone.¹¹ Those that aren’t listed on centralized exchanges may then be traded on decentralized exchanges.

With respect to these other tokens, whether traded on centralized as well as decentralized platforms, many are meme coins, which the SEC has stated are not securities. There has been a dramatic increase in recent years in the issuance of meme coins and investor abuses pertaining to them—most notably pump and dump schemes. Other tokens may be the equivalent of reward points, or tokens used in video games, or other types of “utility” tokens. It may well be that many of these tokens should not be viewed as financial instruments and should not be subject to

⁹ “Decentralization Used to Mean Something. Now It Is Just a Vibe.” The Chopping Block/Unchained podcast, May 29, 2025. The episode focuses on how the \$223 million Sui hack illustrates how the term decentralization is “being quietly redefined.” In their May 10, 2025 episode, the hosts discuss the Clarity Act and one says “I didn’t totally understand what the boundaries of [the mature blockchain system definition] are. And I think it’s intended to be a little bit vague. But it’s not really clear what it means for a team or a small group of people to have control over this thing.”

¹⁰ See *n.* 2.

¹¹ <https://www.coingecko.com/research/publications/bobbys-crypto-aggregate-2025-02>

regulation by either the SEC or the CFTC. But we need a process for deciding how to classify them and should decide what type of standards should apply—including whether the activity more closely resembles gambling and should be regulated as such.

Other Examples of How the Clarity Act May Undermine Existing Securities Laws. The Act could also undermine existing securities laws in other ways. I will offer a few examples, which require some detailed explanations of how the provisions work.

The definition and use of the term “**mature blockchain system**” is one example of how the Clarity Act’s excessive reliance on the concept of decentralization would subvert traditional securities laws and fail to create adequate investor protection. This term is a building block for offerings of “digital commodities”, the new asset category that the Act would distinguish from securities. The term “mature blockchain system” is defined to be a system “that is not controlled by any person *or group of persons under common control*” (ital. added). But the concept of a “group” and the concept of “under common control” are separate and distinct attributes in the securities laws, either of which can constitute a form of control: a group can exist by virtue of a contract or unwritten understanding among multiple persons, while “under common control” is a measure of affiliate status. By combining the two, “control” is far less likely to be deemed to exist, thus making it easier to qualify as a mature blockchain system and to get the benefit of a lesser regulatory burden. Compounding that problem, the certification of a blockchain system as being mature uses a 20% threshold for control—as long as there is no person (or “group of persons under common control”) above that threshold, there is no control. But control is often deemed to exist at a much lower level, depending on the facts and circumstances. The certification also requires that an issuer not have “unique permission or privilege” to alter the system except in certain respects. That standard is one that an issuer seeking to maintain effective control could easily get around, by providing token holders with a limited supermajority veto right, for example.

All these elements make it easier for someone to maintain effective control of a blockchain system but still meet the test of being considered “mature.” A further weakness of the Act is that one need not actually *satisfy* the “mature” standard to be entitled to the new exemption from the Securities Act for a capital raising transaction. One need only have the *intent* to create a “mature blockchain system.”

Another problematic area is **the definition of “digital commodity” and the revision of the term “investment contract.”** The Act revises the term “investment contract”—a core component of the definition of “security” in the securities laws—so as to exclude an “investment contract asset,” which is defined as a digital commodity. This creates the basis for exempting offers and sales of digital commodities from the securities laws, both offerings by the issuer (subject to meeting certain minimal requirements) and secondary offerings. Although the definition of “digital commodity” excludes certain securities, the relationship of these two definitions and the way they relate to certain exemptions is likely to lead to confusion and attempts to evade requirements.

This, together with the “mature blockchain system” standard, illustrates the dangers of writing complex definitions based on decentralization. Even SEC Commissioner Hester Peirce has

warned against the dangers exemptions of this sort can create. In recent comments about the general idea of exempting sales of investment contract assets from the securities laws, her words are equally applicable to the Clarity Act provisions:

[T]reating all secondary sales of crypto assets as being free of the investment contract runs the risk of facilitating bad behavior: the dumping of crypto assets bought as part of an investment contract on retail investors while the crypto asset lacks function and its associated network or application remains centralized (and thus subject to information asymmetry concerns). If the initial holders are out of the picture because they have sold their crypto assets, the investment contract is unenforceable, and the issuer can dump its crypto assets too and walk away—wealthy and unaccountable—for completing the project. Companies looking at capital raising options might even be tempted to use such crypto asset sales instead of other capital-raising methods: promise to build a network or functional product, do a crypto asset presale to venture capitalists, stop developing the network or product once they have sold out to retail, and plow the proceeds of the initial crypto asset sale into building their actual business.¹²

Her remarks are ample reason why we should not create such an exemption legislatively. Even if it makes sense for the SEC to develop customized disclosure or other rules for such transactions, matters that are very facts-and-circumstances dependent such as these should be left to an administrative process.

A final example I will cite of how the Clarity Act could create confusion and potentially undermine existing law is in the **definition of and exemptions for “decentralized finance trading protocols.”** A decentralized finance trading protocol means a blockchain system through which participants can “execute a financial transaction,” subject only to minimal conditions such as “without reliance on any other person to maintain control of the *digital assets* [ital. added] of the user”. The Act provides that activities related to decentralized finance trading protocols are largely exempt from the Securities Exchange Act. The scope of activities is broad, and includes “providing a user-interface that enables a user to . . . interact with a blockchain system.” That could be a business which exercises discretion over routing of transactions, or which could be the source of asymmetrical information—both reasons we should consider it an attachment point for regulation. But none appears to be provided in the Act. Moreover, given the breadth of the phrase “execute a financial transaction” and the definition of “digital asset”—which includes any representation of value on a blockchain system—all sorts of activities could conceivably take place on such platforms and be exempt from the law, including transactions in securities.

These are just a handful of examples. The Act’s detailed provisions over the course of its almost 200 pages create other ways in which it may generate confusion and undermine our securities laws. Even where there is a valid argument for customizing rules for assets in digital form, Congress should focus on higher level principles and leave the work of writing detailed rules or guidance to an administrative process.

¹² Commissioner Hester Peirce, “New Paradigm: Remarks at SEC Speaks,” May 19, 2025, at <https://www.sec.gov/newsroom/speeches-statements/peirce-remarks-sec-speaks-051925-new-paradigm-remarks-sec-speaks>

The SRO and Other Alternative Approaches

Congress should not try to write detailed rules and should instead direct the SEC and CFTC to work together to (i) address the gap in investor protection that exists with respect to the spot market in non-security digital assets and (ii) make sure existing rules are technologically neutral. This could be done with a joint SRO or otherwise.

A primary reason why the security versus commodity debate has been so vexing is because of our fragmented regulatory structure. It has been easier for countries with a single regulator with broad authority to respond to the rise of digital asset technology because it did not trigger a jurisdictional question between different agencies. Any solution needs to bring the agencies closer together.¹³

The Congress can provide the SEC and CFTC with the necessary authority by using a simple way of addressing what has otherwise seemed like a difficult problem: how does one define “non-security digital asset tokens” in order to create regulatory oversight of that market, without rewriting securities laws in ways that undermine traditional protections? The market structure law can mandate that these joint rules would apply to any trading platform or other intermediary transacting in bitcoin or Ether. (Other assets as to which there is a consensus that they are not securities could also be included in the legislation but is likely not necessary.) This is likely to ensure that any significant intermediary is covered. The rules would then apply to all digital asset tokens in which any such intermediary transacts, subject to certain carve outs. These carve outs could go both ways: any digital asset token that is deemed a security would not be included and would remain subject to the securities laws. In addition, tokens that are not securities and do not have sufficient financial characteristics to warrant financial market regulation could be excluded, though this could be coupled with some other arrangement to provide reasonable investor or user protection.

While the SEC and CFTC could create an SRO on their own, it is preferable for Congress to direct them to do so. Congress should spell out its jurisdiction, structure, governance and responsibilities. To this end, if an SRO path is chosen, the market structure law would, among other things:

¹³ There have been many proposals over the years calling for a merger of the two agencies or at least better coordination between them because of gaps in oversight, lack of coordination, inefficiencies or other problems arising from having two market regulators. See, for example, Report of the President Task Force on Market Mechanisms (under Treasury Secretary Nicholas Brady in 1988) recommending greater coordination; the U.S. Treasury, Blueprint for a Modernized Financial Regulatory Structure (under Treasury Secretary Henry Paulson in 2008) recommending a merger; The Group of Thirty Report: Financial Reform: A Framework for Financial Stability, (chaired by former Federal Reserve Board chairman Paul Volcker in 2009), recommending a merger; the U.S. Government Accountability Office, Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System (2009), recommending merger or better coordination; the Financial Crisis Inquiry Commission Report of 2011 (highlighting problems caused by having two regulators); and the U.S. Treasury, A Financial System That Creates Economic Opportunities: Capital Markets, (under Treasury Secretary Steve Mnuchin in 2017), calling for greater harmonization. This is a good time to take a simple step to institutionalize greater cooperation.

- set forth the basic structure and governance of the SRO, drawing on the precedents that exist in both the Securities Exchange Act and the Commodity Exchange Act, except that this would be jointly and closely governed by the SEC and CFTC. The board of governors would be diverse, and include not only representatives of digital asset market participants, but also traditional financial institutions, public interest organizations, and others. The SEC and CFTC would approve the SRO's rules and its budget (though funding can be imposed on the industry consistent with our traditional SRO practice). The Treasury Department could also be given some authority if deemed necessary to arbitrate any differences between the two agencies in the governance. While a new SRO would be mandated, the SEC and the CFTC can draw on the expertise and staffing of existing SROs such as the Financial Industry Regulatory Association (FINRA) and the National Futures Association (NFA) in forming the entity.
- mandate that any trading or lending platform that trades or otherwise deals in bitcoin or Ether would be subject to the rules of the SRO, as would any broker or dealer or certain other intermediaries, unless the platform or intermediary is registered with the SEC or CFTC as a securities or derivatives intermediary. (There could be de minimis exceptions for small actors.)
- mandate the core principles that would serve as the basis for SRO rules, which would be similar to the principles used in our securities and derivatives markets; and
- mandate that those rules would apply to all digital asset tokens traded or used on or by any such platform or intermediary that transacts in bitcoin or Ether, subject to certain limitations that pertain to the "boundaries" of the market regulated by the SRO.

Policing the Boundaries

There are two critical boundary questions in filling the gap in regulation. The first is whether a digital asset token is a security, but that is precisely why any solution must bring the SEC and CFTC together. With an SRO, the SEC could have the equivalent of a right of first refusal to determine that a digital asset token is a security and therefore must be traded on an SEC-registered platform or by an SEC-registered intermediary. An intermediary would not face the threat of being shut down, however, for having listed any such token.

While the SEC would rely on the Howey test and the other jurisprudence in this area, the mere fact that there would now be a regulatory framework for those non-security tokens should make the determinations easier. Although it is not expressly articulated as a fifth prong of the Howey test, Supreme Court cases have made clear that the existence of an alternative regulatory scheme can be an important factor in concluding that a financial instrument is not a security. For example, in *Marine Bank v. Weaver*, the Supreme court held that neither a federally insured certificate of deposit nor a related agreement constituted a security in part because the CD was subject to a robust, alternative regulatory regime, and therefore it lacked the risk typically associated with a security.¹⁴ Similarly, in *International Brotherhood of Teamsters v. Daniels*, the

¹⁴ *Marine Bank v. Weaver*, 455 U.S. 551 (1982)

court overturned a lower court ruling that held that participation in a non-contributory, compulsory pension plan was an investment contract and subject to the protections of the securities laws. The court said that the argument that securities regulation should apply was undercut by the fact that such plans are subject to extensive regulation under the Employee Retirement Income Security Act of 1974.¹⁵ The existence of an alternative regulatory scheme reduces the importance, from an investor protection standpoint, of concluding that something is a security.

The second boundary concerns digital asset tokens that are not securities *and* that are not financial in nature. That is, they should not be regarded as commodities, nor as instruments that are necessarily subject to financial market regulation. The agencies, or the SRO with the agencies' approval, could develop guidance by which to distinguish these tokens and the consequences of being in this third bucket. These determinations could also be formalized into a process involving the Treasury Department.

Ensuring Robust Oversight

If an SRO is used, it is vital that it not be captured by the industry. That is why an SRO must be tightly governed and supervised by the agencies. They would appoint its board, approve its budget and rules and have other measures of control. One could also incorporate lessons learned from the experience of the SEC's oversight of the Public Company Accounting Oversight Board (PCAOB), and its approval of budget and rules.

The Core Principles for Regulation

Congress would set forth the core principles for the rules that the agencies themselves, or an SRO, would develop. The principles would be familiar ones used in our securities and derivatives markets. They would also be similar to principles in the Clarity Act for the regulation of digital commodity exchanges and would include:

- governance standards (including fitness standards for directors and officers);
- protection of customer assets, including segregation and protection in bankruptcy;
- conflicts of interest (including prohibitions or limitations on the ability of trading platforms to engage in proprietary trading or having financial interests in listed assets);
- having adequate financial resources, including capital and margin;
- recordkeeping and periodic public disclosures;
- execution, clearing and settlement of transactions in a competitive, open, efficient and timely manner;
- pre- and post-trade transparency requirements including as to price, volume, and other trading data;
- prevention of fraud, manipulation and abusive practices (including prevention of wash trading, price distortion and disruption to delivery and settlement processes);
- listing standards and disclosure requirements for tokens;

¹⁵ *Teamsters v. Daniel*, 439 U.S. 551 (1979)

- disclosures to customers, including regarding fees, recourse, trading procedures, and dispute resolution;
- impartial access;
- risk management practices;
- operational resilience, cybersecurity standards and business continuity and disaster recovery policies;
- reporting to and sharing of information with regulators and other agencies including the Treasury and the Federal Reserve Board; and
- know your customer (KYC), anti-money laundering (AML) and combating financial terrorism (CFT) standards.¹⁶

These principles are further discussed in the paper I wrote with Professor Howell Jackson.

The approach outlined here is a pathway to achieving investor protection quickly and comprehensively.¹⁷ Most spot market trading occurs through centralized intermediaries. This approach would dramatically improve investor protection on those platforms by covering all tokens traded. Simply eliminating wash trading—where someone trades with themselves or an affiliate to inflate the price or trading volume of an asset, and which has been estimated to represent 50% or more of the trading on crypto platforms¹⁷—would be a huge improvement. I believe this approach would also take some of the speculative air out of the sector’s sails generally and help encourage investment and developer activity toward more useful applications of the technology.

Illicit Finance Risks and DeFi Protocols

I wish to highlight two other subjects that are critical in any market structure legislation:

Illicit Finance

It is surprising to me how little is said about the risks of illicit finance in the Clarity Act. When proposals have been recently made in connection with the stablecoin legislation to expand the authority of the Treasury Department to address illicit finance, particularly in decentralized finance activities, some proponents of the legislation responded that those subjects should be addressed in the market structure legislation. But that is not evident in the current draft.

¹⁶ See also Massad and Jackson (2022), *supra*, note 5.

¹⁷ See Lin William Cong et al., *Crypto Wash Trading* (July 2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3530220 (estimating that wash trades account for 70 percent of volume on unregulated cryptocurrency exchanges); see also Jialan Chen et al., *Do Cryptocurrency Exchanges Fake Trading Volume?* 586 *Physica A* 126405 (Jan. 15, 2022); Matthew Hougan, et al., *Economic and Non-Economic Trading In Bitcoin: Exploring the Real Spot Market For The World's First Digital Commodity*, Bitwise Asset Management (May 24, 2019), <https://www.sec.gov/comments/sr-nvsearca-2019-01/srnysearca201901-5574233-185408.pdf> (study demonstrating that “95% of reported trading volume in bitcoin is fake or non-economic in nature”); Javier Paz, *More Than Half of All Bitcoin Trades are Fake*, *Forbes* (Aug. 26, 2022), <https://www.forbes.com/sites/javierpaz/2022/08/26/more-than-half-of-all-bitcoin-trades-are-fake/?sh=11ea350b6681>; see also Steve Inskeep et al., *How “wash trading” is perpetuating crypto fraud*, NPR (Sept. 23, 2022), <https://www.npr.org/2022/09/23/1124662811/how-wash-trading-is-perpetuating-crypto-fraud>.

The legislation should give the Treasury Department and market regulators ample authority with respect to preventing the use of digital assets for illicit finance or evasion of sanctions. This should not be limited to requiring intermediaries to comply with the Bank Secrecy Act because digital assets can be transferred without the involvement of an intermediary on decentralized blockchains. The authority needs to be broad and flexible for that reason. In 2023, the Treasury Department proposed several ways in which its authority should be expanded, which could be included in this legislation. Among other things, it should include authority to address the role of mixers, tumblers and other devices used to disguise identity. That can be coupled with a recognition that rules must strike a balance between preventing illicit finance and respecting individuals' privacy. The authority needs to be broad and flexible also because we do not know exactly how the sector and technology will evolve.

DeFi Protocols

I noted earlier concerns about the specific term “decentralized finance trading protocol” in the Clarity Act. It is worth noting some general reasons why we should not exempt from regulation protocols or processes on the basis that they are “decentralized,” regardless of the particulars of the definition. DeFi protocols that engage in providing financial market services or transactions should meet, or have outcomes consistent with, the requirements we impose through regulation on similar “trad fi” services and transactions, even if the manner of meeting those requirements might vary.

The subject of “DeFi” is often discussed as if it were monolithic, when in fact the terms “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, and with respect to the degree to which firms or human actors exercise control or discretion. DeFi protocols and services may have various types of what have been 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.¹⁸ That is, they are not fully decentralized. It is also the case that there may be an automated protocol but a related “front-end” service provided by a firm or person in which discretion and control are being exercised. Therefore, the term “decentralization” is of little value.

Proponents of making wholesale exceptions for “DeFi” also seem to ignore the fact that the “trad fi” world has experienced waves of automation before. We developed regulatory responses to automation and can do so again, even if this is a somewhat different type of automation. Our securities and derivatives markets have gone from manual floor trading to highly automated processes in just a few decades. Our rules have generally kept pace with an increasing diversity of trading platforms, faster speed, and less human involvement.

As an example, internalizers in the securities markets could be thought of as having certain similarities to the automated market makers of the digital asset world: they are large broker-dealers who fill orders from their own inventory rather than routing them to public exchanges.

¹⁸ 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.

Internalizers have been made subject to order routing, best execution and payment for order flow requirements. Under Regulation SCI, an internalizer that operates a system critical to market infrastructure can be designated an SCI Entity which is then required to maintain robust cybersecurity, disaster recovery and reporting systems. While internalizers are centralized entities that provide a clear point of attachment for regulations, the regulatory response to them is an example of how we have responded to automation in the past and can do so again.

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 we must ensure that the regulatory goals of consumer and investor protection, market integrity and transparency, financial stability or prevention of financial crime are achieved, even if in a different manner. 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 the Treasury securities market. Even if such a platform truly was automated and not subject to the control of a human operator, and even if participants engaged in self-custody, we would still want to make sure various regulatory goals were achieved.

The extent of DeFi activity in the crypto world is still relatively small. (Although estimates and methods of calculation vary, Messari data finds that only 5% of crypto trading takes place on decentralized exchanges whereas 95% is on centralized exchanges.¹⁹) We need to develop more precise analysis of the various ways in which protocols might be decentralized and autonomous, as well as the control vectors that might still be present, and develop agreed-upon language for describing the extent or type of “decentralization”. The market structure legislation should call for appropriate studies and recommendations by regulators and Treasury; it should not be granting broad exemptions or exceptions at this time.

The President’s Crypto Business Ventures

As we consider legislation to regulate the crypto markets, we cannot ignore the actions by President Trump to personally profit from crypto. These actions deserve opprobrium in any context, but all the more so at a time when regulation of digital asset technology is such a prominent public issue.

The Trump meme coins were issued two days before inauguration and five days before the issuance of the Executive Order on Strengthening American Leadership in Digital Asset Technology.²⁰ It is hard to imagine an action that could have been more contrary to the spirit and opening words of that order, which is to “promote United States leadership in digital assets” and “responsible growth and use of digital assets.”²¹ The meme coins have been described as a “classic meme-coin pump and dump scheme.”²² They appear to serve no purpose other than the

¹⁹ Messari April 25, 2025, add cite. <https://messari.io/exchanges>

²⁰ 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”).

²¹ Executive Order 14178.

²² Khalili, Joel. “The Trump Memecoin’s ‘Money-Grab’ Economics.” *Wired*, 20 January 2025 (citing interview with Jacob Silverman).

personal enrichment of the president. In the words of Vitalik Buterin, they are vehicles for “unlimited political bribery,” because those seeking to curry favor with the Administration—whether they be individuals, companies or countries—may purchase the coins, knowing the President will profit from their actions, while they can still deny that seeking government favoritism was their purpose. Instead, they can claim they were merely speculating on a digital asset.²³ The reports concerning the dinner that the President held for the top 220 holders indicate he spent little time there and had little of substance to say. That seems to underscore that his crypto agenda is making a profit.

The Trump Organization’s acquisition of World Liberty Financial and its issuance of a stablecoin is equally inappropriate and shocking, particularly as Congress works to pass stablecoin legislation. The various other business ventures that have been discussed in the press—such as a transaction with Binance or the acquisition of bitcoin mining capacity—further suggest that the priority of the Administration is not promoting crypto innovation but promoting the President’s personal enrichment.

This activity creates a cloud over the crypto industry, and over the enterprise of developing market structure legislation. Only Congress can address this and I strongly encourage Congress to do so.

Conclusion

Thank you for the opportunity to testify. I would be happy to take your questions.

²³ Turner Wright, “Vitalik Buterin takes aim at “unlimited political bribery” using tokens,” Cointelegraph, January 23, 2025, at <https://cointelegraph.com/news/vitalik-buterin-unlimited-political-bribery-tokens>

Chairman HILL. Thank you very much. I appreciate our panel's participation. Let me turn to member questions. I recognize myself for 5 minutes.

For the past 4 years, digital asset markets have operated in regulatory limbo. It is critical that we finally enact digital asset legislation to provide a framework by which firms can operate in and protect consumers by establishing broad guardrails. I have to say, this was made quite clear in President Biden's executive order on the regulatory gaps that have been referenced by our panelists today, both on spot market for Bitcoin, for a dollar-backed stablecoin, and certainly for clarity for what is a security and what is a commodity for purposes of CFTC and SEC rulemaking and oversight. If we do not have legislation, at the end of the day, rules can be undone by subsequent administrations, and guidance can be rescinded with the stroke of a pen, which is why we are working so diligently on a bipartisan basis to craft legislation for both that dollar-backed payment stablecoin and market structure.

Mr. Roisman, let me start with you. If Congress were to only enact stablecoin legislation in this session, would we be leaving the door open for more regulation by enforcement for the digital asset ecosystem in just a few years down the road?

Mr. ROISMAN. Thank you for the question. I think it is imperative that Congress provide clarity in this space. It is not enough to sort of work on just stables. The market structure is sort of a critical component because it touches upon every facet of it, whether you are a market intermediary, a consumer, or an issuer. These are the questions that everyone is asking—am I scoped in or out—and the CLARITY Act is a significant step forward to it. It gives insight to people about whether they are going to be scoped into the securities laws or the commodities laws. As Mr. Raman spoke previously, this gives them comfort in continuing to keep America at the forefront of innovation.

Chairman HILL. Thank you. It has been determined, mostly by litigation over the last few years, that several digital assets, such as Bitcoin, Ethereum, and Litecoin are considered commodities today. Chairman Behnam, compared to the CFTC's current authorities over the spot market for these assets, how would the CLARITY Act strengthen the CFTC's ability to regulate those markets and protect investors?

Mr. BEHNAM. Thanks, Mr. Chairman. A core component of the CFTC's regulations, which are driven from core principles, is around registration of every entity within the trade cycle, right? This could be the intermediary that provides access to a customer, a custodian that holds the asset, the exchange, and then, ultimately, a clearing house and settlement agency. The act does take measures to provide a regulatory framework for digital commodity exchanges, brokers, custodians, and everyone else involved in that value chain to both register with the CFTC, and within that context and by proxy, registration with any regulator, SEC or CFTC, creates a pretty significant volume of requirements, both on who the individuals that are involved with that entity, capital requirements, surveillance, oversight, trade data that has to be submitted, and then, in many respects, random investigations and collection of data.

I do think it takes very important steps of providing clarity and transparency to these entities that are otherwise, and specifically with respect to the two tokens or three tokens you named, not registered or not within the regulatory landscape.

Chairman HILL. Thank you, and I would reiterate that the legislation also reasserts all the anti-fraud and anti-manipulation protections by both regulatory agencies over anything in their purview; so, I think that needs to be restated as well.

Asset classification has also been a long central challenge in digital asset markets and has fueled a jurisdictional debate that we are talking about between the CFTC and the SEC, and Congress has been working hard to bring clarity to this space since 2018. The CLARITY Act addresses this issue by establishing clear, positive definitions of what is a digital commodity. While some digital assets as tokenized stock are clearly securities, many others remain in gray areas, which is, again, why I believe this law brings more clarity than perhaps my friend Tim thinks. Mr. Roisman, can you explain how the CLARITY Act reduces uncertainty by clearly defining digital commodities and outlining regulatory jurisdiction, quickly?

Mr. ROISMAN. Quickly, it defines a digital commodity as a digital asset that is intrinsically linked to a blockchain system and its values based on its use. That is scoped out of the securities laws, so people understand that they are going to be under the purview of the CFTC.

Chairman HILL. Thank you. I appreciate the panel's engagement. Let me turn to the ranking member for her questions.

Ms. WATERS. Thank you very much, Mr. Chairman. I would like to address this to Mr. Massad. First of all, let me just say that I think the jurisdictional issue could be settled at some point. It has been talked about for a long time, but I do not know how we get past the corruption that has been created by this President to do any so-called clarity. The clarity must be whether or not the President of the United States and his family are going to own and control crypto.

President Trump has had several foreign actors get involved in his crypto ventures. For example, on May 1, one of Trump's companies, World Liberty Financial, announced that an Abu Dhabi-backed investment firm would make a \$2 billion investment using Trump's stablecoin, USD1, in the crypto exchange, Binance. This decision alone made Trump's coin one of the top 10 stablecoins in the world. Later that same month, World Liberty Financial signed a letter of intent with the Pakistan Crypto Council "to accelerate blockchain innovation, stablecoin adoption, and decentralized finance integration across Pakistan," shortly after Pakistan and India agreed to a cease-fire at President Trump's urging, which does not seem coincidental. Now, my understanding of the Complexity Act is that it does nothing to stop Trump from making these deals. Do you agree and what are the risks to our national security in that case?

Mr. MASSAD. Thank you, Congresswoman. It is a great question, and I agree with you on the risks. When I was the Chair of the CFTC, I could not even buy Bitcoin, and we did not have the authority over the spot market. Here we are with a President that is

engaging in all of these activities. It is clearly a taint on the industry. It clearly, I think, makes people think that, gee, is this crypto a game that is just rigged, and those who have influence or have connections win? In terms of the national security concern, yes, we cannot tell now to what extent is the President doing something because it is in America's best interest or because it is helping promote personal his enrichment, so I think we have to address this. I do not see how we can move forward and try to create a framework for this industry if we do not do that.

Ms. WATERS. We have this market structure bill before us that we are talking about. Is there anything in the market structure bill that would absolutely prohibit the President of the United States, the Cabinet members, Members of Congress, et cetera, from owning and controlling crypto?

Mr. MASSAD. I do not see anything in the bill. There are, obviously, ethics laws that apply to Members of Congress. I do not know whether they prohibit ownership. I would not be against people owning these assets in a limited amount. I think that helps you understand the market. I think it was unfortunate that we actually could not, but to invest in these activities and invest in businesses, especially at the level that the President is doing, is clearly a conflict and clearly a problem.

Ms. WATERS. We have laws against, for example, insider trading. This is worse. How is it we could be concerned about Members of Congress, et cetera, having insider information in trading and not being concerned about this ownership?

Mr. MASSAD. I agree and I think we may have seen that with the meme coins. The meme coins were released. Some people seemed to know that was coming, and they bought at a low price, and then the price shot up and then it fell back down. I think you have to address this. I do not see how we can say that we are promoting innovation, and this is going to transform the financial system unless we do that.

Ms. WATERS. What are we opening up by allowing foreign countries to be in the relationship that I just described with the President?

Mr. MASSAD. Perhaps the greatest spokesman for this industry is Vitalik Buterin, the creator of Ethereum, and he described the meme coins as the perfect vehicle for unlimited bribery because someone can buy the meme coins, which benefits the President personally, yet they can claim that they were just speculating on the asset. You do not have the transparency to know.

Chairman HILL. The gentlewoman's time has expired.

Mr. MASSAD. Thank you.

Ms. WATERS. Thank you very much. I appreciate your——

Chairman HILL. The chair recognizes the gentleman from Michigan, the vice chair of the full committee, Mr. Huizenga, for 5 minutes.

Mr. HUIZENGA. Thanks, Chairman Hill, and I got to tell you before I get to my questions, I want to say a couple of things. One, I have been proudly involved in this issue for a decade, having been former Chair of the Capital Markets Subcommittee, having been involved in Oversight and Investigations. This is the future, and we better get our act together. I am also proud to be a co-spon-

sor of both the Financial Innovation and Technology for the 21st Century Act (FIT21), the first version, and now the CLARITY Act, and I want to thank Chair Hill and Chair Steil for their work on that.

I do want to address one accusation that was sort of thrown out earlier that this bill will increase the amount of investor harm. Quite honestly, those claiming that this bill is going to lead to greater investor harm are not well versed in its details. The bill establishes a robust suite of requirements, including issuer disclosure requirements because transparency is the best form of investor protection, in my opinion, lock-up periods for insiders when they are not allowed to sell and then limited in their ability to sell to protect those retail investors, clear standards for custody and segregation of customer funds, and listing standards for digital commodity platforms.

Ms. Minarik, you are absolutely right, the status quo does not offer the protections, and as you had said, crypto should be non-partisan. You said legislate based on facts. That is clearly not what is happening here. This is about personalities and politics, and we cannot keep the status quo, and, in fact, I was struck by—I think it was Mr. Raman, right—your statistic about, in 2017, 42 percent of the innovators were housed here in the United States, and that has dwindled down, I think you said, to 19 percent now. People in tech are going to continue to move offshore. Is that not correct?

[Nonverbal response.]

Mr. HUIZENG. Let the record show vigorous head nodding happening over here.

Mr. Roisman, you said that legislators and regulators have not kept pace. Wholeheartedly agree. I have seen it firsthand, and this leads me to Mr. Behnam. You were the Chair of the CFTC under the Biden Administration, yet you were in conflict with the Biden Administration's Securities and Exchange Commission Chair. Legislators and regulators love to declare things fish or fowl, right, black or white, commodity or security. It turns out this is a bit of a platypus, as I describe it, if we are trying to figure out the fish and fowl, and, in fact, I think in the Ethereum case, Mr. Behnam, you had said it was a commodity. The Chair of the SEC had declared it a security. Interestingly enough, when he was Chair of the CFTC, everything was a commodity in his view, and then it shifted magically somehow into being a security, so I guess maybe it is about your perspective with what is going on.

I am going to stick with you, Mr. Behnam. There are currently two register types of derivatives exchanges, including the designated contract markets and the swap execution facilities. Could you describe the purpose and similarities between these two regulatory regimes and how the CLARITY Act extends these ideas to create a registration pathway for trading platforms that list and trade digital commodities, please?

Mr. BEHNAM. Thanks, Congressman. Like I said to the chairman in response to his question, the CLARITY Act uses, really, the core principles of the Commodity Exchange Act as the sort of vehicle to register a digital commodity exchange or any other intermediary within that trade cycle, as I said earlier; so, this would require registration. This would require books and records, surveillance, and

information about the individuals that are running the company—

Mr. HUIZENGA. How does that protect market participants?

Mr. BEHNAM. I think the challenge I face, and you said it yourself, is the status quo does not give the CFTC any authority over current exchanges.

Mr. HUIZENGA. Which is why we need to do this, correct?

Mr. BEHNAM. We need to do something, yes, absolutely.

Mr. HUIZENGA. I believe this is the something. This is a great piece of work that has been put together between the Ag Committee and the Financial Services Committee. I have a lot more and I will follow up with some writing, but maybe, Mr. Roisman, quickly, if you could discuss what it means for blockchain to be mature and explain why these features have become an end goal?

Mr. ROISMAN. I think there needs to be sort of an end state for people to feel like they are sufficiently mature enough or decentralized, and I think that is a critical thing that the legislation tackles.

Chairman HILL. The gentleman's time has expired.

Mr. HUIZENGA. I appreciate it.

Chairman HILL. Please answer that question in writing.

Chairman HILL. It is now my pleasure to call on the gentleman from California, Mr. Sherman, the Ranking Member of our Capital Market Subcommittee, for 5 minutes.

Mr. SHERMAN. There is no limit to how extreme nonsense can gain credibility in Washington if you put billions of dollars behind lobbying, billions behind public relations, and hundreds of millions behind campaign contributions. Once again, we show you an illustration of this where Mr. Raman tells us that crypto is the answer to payroll because payroll, you need payroll services. I am an old Certified Public Accountant (CPA). You need payroll services because you have to calculate the deductions for Social Security and income tax. Nobody on the internet is going to do that for free, and the current payment system is just fine if you do not have those deductions. Of course, many of those behind crypto want to destroy the Social Security system by making it impossible to collect the tax on it.

The other bit of, I guess, nonsense, Ms. Minarik tells us that there is nothing ideological about this. Wrong. Crypto is the embodiment of the most pernicious ideology I am aware of. I call it patriotic anarchism. It says that America should be powerful, and the U.S. Federal Government should be destroyed, and the way to do that is to make it impossible to enforce our sanctions laws, our bankruptcy laws, and our tax laws, and that is the ideology behind this.

Mr. Massad, I have not had a chance to read all 236 pages of the bill. Have you had a chance to review the bill, and is there anything in this bill that says no bailouts for crypto, never, ever, no matter what? Is there a provision like that in the bill?

Mr. MASSAD. I have not seen one, Congressman.

Mr. SHERMAN. I have tried to find one. You know why it is not there? Because they want the bailouts and the bailouts will be there unless you prohibit them because we have seen various Presidents—In 2008, they declare an emergency and there are giant bailouts. Provisions of law exist dealing with tariffs, they are being

stretched, so we have an audacious Fed and certainly an audacious executive branch ready to do that. You point out that this is the perfect mechanism for bribery. I will point out, of course, that it has already been used as the perfect mechanism when the President is in violation of the law for the benefit of the owners of TikTok. Its Chinese owners have put \$300 million into his Trump coin, so it is not just perfect in theory, it is perfect in practice. Not only is it a perfect way to pay the bribe but it is also a perfect way to get a President to violate the law.

Is there any provision in the bill, Mr. Massad, that says that U.S. tax dollars cannot be spent to buy crypto?

Mr. MASSAD. No, I am not aware of such a provision, Congressman.

Mr. SHERMAN. So, we could take all the income tax collected in the month of June and put it into Trump coin or Mongoose coin or Skibidi Toilet coin?

Mr. MASSAD. I am not an authority on appropriations, but I would think that it would need to be——

Mr. SHERMAN. It is not appropriations——

Mr. MASSAD. I would think there would need to be authority to do that, and if I may——

Mr. SHERMAN. The Treasury has authority to buy yen and gold and pounds, and if this is a currency, the advocates of having tax dollars invested in crypto have never claimed that they have just gone to the executive branch. It is pretty clear that U.S. law allows the executive branch to do this, and, in fact, they own over \$20 billion worth of crypto, but that was money that was seized, not taxpayer dollars yet. We have a bill here that opens the door to bailouts and to purchases of crypto, and there is no restriction that it be Ethereum or Bitcoin. It could be Trump coin, Mongoose coin, or Skibidi Toilet coin. I look forward to working with my colleagues to improve the bill, and I will yield back.

Mr. STEIL [presiding]. The gentleman yields back. The gentleman from Oklahoma, Mr. Lucas, who is also the Chair of the Task Force on Monetary Policy, is recognized for 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman, and I want to start by following up with Mr. Behnam on a few topics we discussed the last time you were before the House Agriculture Committee. You said during our last conversation that one of the benefits of cross-agency collaboration, like the CLARITY Act aims to promote, is that market participants are able to utilize portfolio margining and other netting mechanisms to manage their balance sheets if they have exposure to products that have similar risk. Can you expand on your testimony, why is it important for CFTC and SEC to collaborate even as we maintain bright lines of each Agency's authority and clearly defined jurisdictional boundaries?

Mr. BEHNAM. Thanks, Congressman. As I said before, and you and I have had this discussion, two different market regulators, a lot of assets in different buckets of jurisdiction, but a lot of participants that invest and get exposure in both markets, and with that exposure, you can have net gains, net losses. I think it is important to have those margining benefits, which will require both Agencies to work together to create a rule set that as a regulatory community, whether it is a capital requirement or a margin requirement,

to reduce some of the cost of investing if the net portfolio is either neutral or does not have as much exposure in one area as another. This, I think, is a product of long collaboration between the two agencies. I think it enables market participants to recognize what their balance sheet costs are, and ultimately, it is a way to synergize the two agencies despite having two different market jurisdictions.

Mr. LUCAS. Continuing with you, Mr. Behnam, on a related topic. The last time we spoke, you said that capital restraints were one of the biggest barriers to entry for participation in the Treasury market. As Chairman of the Task Force on Treasury Markets, I am particularly focused on ensuring that our debt is attractive to market makers. Would you say in the spirit of your last answer that allowing netting mechanisms for assets like Treasury cash, futures, and repos would reduce those capital disincentives?

Mr. BEHNAM. The short answer is yes, but I would emphasize, and I said this to you as well, Congressman, capital is a cornerstone of market regulation. Capital requirements were a cornerstone after the financial crisis. It is important that regulators have that capacity to charge and assess capital, but if done in an efficient way, it can create more flow of capital to markets, which I think, ultimately, improves liquidity, shortens spreads, and creates a better ecosystem for Treasury markets and in the case of the question you asked.

Mr. LUCAS. Mr. Roisman, would you like to comment on that topic also?

Mr. ROISMAN. I would disagree with Mr. Behnam. I think, first, capital is a cornerstone, but two, there is clearly room for improvement.

Mr. LUCAS. Okay. I just came from the Agriculture Committee, where we discussed the need for our laws and regulations to keep pace with the technological advancements we are seeing in the industry and that is true for both ag and energy, but it is also true for financial services. In my remaining time, Mr. Roisman, how would you characterize the importance of getting this framework done and done well?

Mr. ROISMAN. I think this is an important topic for Congress to step into. I think the fact that we have five people here, three of them have served in government dealing with these issues, shows that there is a lack of clarity. The fact that there are multiple cases in which lawyers spend countless hours looking at footnotes to understand whether something is security or not shows that there needs clarity. The fact that there are split decisions in each Agency about these things shows that Congress needs to help. I think this framework is really important because it will give clarity to the regulators, enable them to work together to set the framework, and allow this ecosystem to fully mature. I do not know where this will end up in terms of this ecosystem, but I do know one thing: it is going to surprise a lot of people, and it will continue to grow. If you look at sort of the history, no one was talking about this in earnest 10 years ago, and today, it is spurring new companies, new innovations every day. The sooner, I think, that Congress steps in and gives bright lines, that gives them clarity and certainty for them to continue to innovate and to keep America at the forefront.

Mr. LUCAS. I yield back, Mr. Chairman.

Mr. STEIL. The gentleman yields back. The gentleman from New York, the Ranking Member on the Foreign Affairs Committee, Mr. Meeks, is now recognized for 5 minutes for questions.

Mr. MEEKS. Thank you, and I have to return back to some of the questions that Ranking Member Waters asked because I am also reminded that, I believe it was 2016 or so, that Senator Rubio once called the President of the United States, before he was the President, a con man, and so that made me to rethink. Then I saw Donald Trump, Jr. appear on CNBC's "Squawk Box" yesterday, discussed his family's involvement in crypto ventures. Then I thought about, being a New Yorker, I knew what took place before with the Trump family and how they ran their business because what they would do is they would borrow money, go in debt, as he is doing to this Nation, and then file bankruptcy. I guess, maybe that was good business, but then he filed bankruptcy, not once, twice, 3, 4, 5 times, 6, 7 times. I mean, the average person would not have been able to do anything, but the banks always gave them money again. Some kind of way that he changed, and the banks got money.

Then as Donald Trump, Jr. said, they got involved in politics, and when he got involved in politics at that time, what it meant, extra scrutiny. So, you could do some unscrupulous things, generally, when you are not into politics, but once you get in there and the media is ever watching, then it meant they had scrutiny. Then he said that before they never had a problem getting money from major banks in New York, but because of the scrutiny that they were now under because they were in politics, the bank stopped taking their calls. In other words, they were de-banked. He went on to say that this experience gave him a new perspective, one that supposedly mirrored the plight. Now he is trying to be a regular guy because the regular guy could not have done what they have been doing all along, but now he is not a regular guy, shut out of the financial system, and what is their solution? Bingo: crypto.

Let us be clear. What Donald Trump, Jr. was saying was that traditional financial institutions deemed the Trump family now too risky to do business with, not because they were underprivileged, but because of a long history of questionable financial practices, litigation, and ethical red flags, and those red flags are back up again. Instead of reassessing the Trump family, instead of reassessing their behavior, they sought a workaround, a loosely regulated speculative market where they could once again profit, not in spite of the lack of oversight, but because of the lack of oversight. What he failed to mention was, while painting himself as a victim of the very system he once benefited from, is that the Trump family has used this pivot to run what amounts to be a classic pump-and-dump scheme, where their meme project was not about democratizing finance. It was about exploiting hype, fleecing retail investors, and enriching themselves under the guise of populism.

Mr. Massad, let us be clear. Does the CLARITY Act currently include provisions that would address or prevent political figures like Members of Congress or their families, President and his family, from exploiting digital asset markets for personal gain? Yes or no.

Mr. MASSAD. I do not believe it does, no.

Mr. MEEKS. Okay. Does it include language that would limit the substantial investment from foreign entities that the Trump's crypto ventures have enjoyed thus far?

Mr. MASSAD. No, I do not believe so.

Mr. MEEKS. Okay, and if not, how difficult would it be to incorporate these safeguards into the CLARITY Act? Is that very difficult? Would that be difficult to do?

Mr. MASSAD. No, I do not think it would be.

Mr. MEEKS. Now I am just puzzled because I am wondering whether my colleagues on the other side, if the person or the family that was doing it was called the Obama family or the Biden family, would they appreciate or just allow this type of behavior to continue. You do not have to answer that question. We know what that answer is. I think all of America knows what that answer is. They would be standing up here going crazy, and I apologize because frankly, I am frustrated. The President has put us in a position where his actions are so egregious that we have no other choice but to focus on him today, and it is a distraction. I wish I could be just talking about the bill responsibly so that we could try to make sure that we could push this thing forward, but the President does not allow us to do that.

Mr. STEIL. The gentleman's time has expired. The gentleman from Indiana, Mr. Stutzman, is now recognized for 5 minutes.

Mr. STUTZMAN. All right. Thank you, Mr. Chairman, and I want to just thank the committee and the panel for your work on this particular issue. Digital assets, cryptocurrency, and this entire space can be very complicated and hard to understand all the time. I know for myself, even though I have been talking about this issue for quite some time, it is still always something that I am learning, and I appreciate this committee's work to pass legislation that promotes innovation but also ensures that consumers are protected. So, it is really a remarkable time for us here in Congress to be working on the digital assets' guidelines, and we are really at the forefront of this discussion, even though this has been going on for quite some time, and President Trump, of course, is willing to help lead this discussion.

Several of my colleagues have been working on this for a while, and it is important. One of the concerns that have been addressed in the CLARITY Act is the differences in traditional capital raising efforts, and, Mr. Roisman, I would like to come to you with a question. This legislation addresses ongoing disclosure and transaction obligations to address distinct risk associated with a project before it reaches maturity. In the CLARITY Act, there is a maturity test for the blockchain network. Mr. Roisman, can you describe the role and purpose of this maturity test and explain, in your view, why it is important to have such a construct in this legislation?

Mr. ROISMAN. The maturity test, I think, is a critical component to allow both issuers who have a project that may want to take advantage of the exemption you sort of described earlier and give guidance to the regulators of at what point is the end state for them actually succeeding. I think the key part of this is there needs to be a conscious or a delineated sort of way for people to understand when their obligations cease, and I think it is unique in that it is not, I think, static. I think you can have the regulators,

as I think they are required to, to provide sort of their own rules on it, contemplate the future case of these projects.

To your earlier point, I think the exemption which falls under, I think, new 4(a) under the Securities Act—I think is a thoughtful way to enable projects to get access to capital and ordinary investors to participate with, I think, important customer protections and, as you mentioned, things that purchasers will need to be provided, and the SEC will provide rules on that, things like risk factors, information on the economics. Mr. Huizenga talked about this earlier. There are going to be requirements on insiders limitations. I think this is a thoughtful way for Congress to try to address this issue.

Mr. STUTZMAN. To follow up on that, this legislation also imposes higher standards on related persons and affiliates to a digital asset project as it relates to secondary market trading. Could you describe why these are higher standards and also explain what their purpose is?

Mr. ROISMAN. My reading of it is you do not want insiders to have ability to quickly sell out of positions when there are people who have less information than they do. I commend the committee for the legislation for laying out a lot of these requirements. I also commend them for thinking that the regulators will be able to iterate on these.

Mr. STUTZMAN. Do these follow up or do these correlate with requirements in existing securities law at all?

Mr. ROISMAN. A lot of them do. Yes, sir.

Mr. STUTZMAN. Yes, all right. Mr. Raman, would you like to comment at all on any of those remarks? I have about a minute left here.

Mr. RAMAN. Absolutely. I would love to say how thoughtful and detailed this proposed legislation is. Blockchains are not companies. Blockchains are technology, and blockchains like Ethereum are the next internet. Innovation is going to happen to them, whether it is here or abroad, and I think there has to be a standard for different kinds of blockchains. The maturity test is an excellent way to distinguish that maturity goes back to decentralization. This whole ecosystem is meant to upgrade the financial system and make it safer and more transparent, and more auditable and more able to regulate. That is what these conditions let you do, so I applaud the efforts there.

Mr. STUTZMAN. All right. Thank you both. I yield back.

Mr. STEIL. The gentleman yields back. The gentleman from Georgia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. Thank you very much. Let me start off by agreeing with Ranking Member Waters. This is terrible. This is a framework that we are being presented with today. It will not bring order to the crypto market, but it will open the door for dangerous regulatory arbitrage.

Now, let us be clear. This bill does not provide clarity. It creates confusion. It does not close loopholes. It codifies them. The way it divides regulatory authority between the CFTC and the SEC invites crypto firms to pick a favored regulator as if they were purchasing the most lenient umpire in a baseball game. This is not theoretical. The SEC enforces strict disclosure investor protection

and anti-fraud requirements, the very standards that our public markets have upheld for decades. Mr. Chairman Massad, I really respect you, and the Nation respects you, and we worked together over a number of years. How will the bill's different standards for two very similar digital financial products undermine this Nation's regulatory consistency?

Mr. MASSAD. Thank you for the question, Congressman. I agree with you that we do not want to have two different rule books here. We have to bring the Agencies together. Look, I am sympathetic to the fact that there are areas where there is not clarity. Some of those pertain to customizing rules, such as rules pertaining to custody, clearance, and settlement, and so forth, to make them technologically neutral. It is disappointing that the SEC did not do that before. Some of those go to when is a digital asset not a security, and we need the Agencies to work together on that with some maybe general principles from Congress. So, Congress needs to mandate that the Agencies work together, Congress needs to give them the authority to fill the gap, but you need to do that in a way that makes the message clear we do not want to undermine the existing securities and derivatives market framework.

Mr. SCOTT. Chairman, how likely is it that this bill will place firms at the risk of noncompliance or enforcement, depending on how they ask that is later classified?

Mr. MASSAD. I think the danger is, again, as you put it, is it going to create confusion? I think it is really going to cause a lot of lawyers to spend thousands of hours figuring out how they can structure transactions to get the minimal compliance burden, and that may mean using the mature blockchain test. Even Commissioner Hester Peirce has talked about how a safe harbor like that, not with specific reference to the CLARITY Act, but with something very similar, can be gamed, can be used by people who are not doing blockchain. That is the risk.

Mr. SCOTT. Yes, and given that the CFTC has not been formally reauthorized since 2005, the lack of dedicated funding for this new crypto mandate is very concerning. Keeping these dynamics in mind, what are the real-world consequences that we face in our financial system at risk from limited funding?

Mr. MASSAD. Excellent question, Congressman, and you know well from our past discussions how critical this is. The CFTC is an agency with huge responsibilities but a very small budget. We are talking about potentially giving it jurisdiction over these very large crypto markets, very complicated markets, at the same time that it has the responsibility to make sure our clearinghouses, which are of systemic importance, are safe. Is it going to be able to continue to do all those things unless you give it adequate resources? I am very, very concerned about that. I know former Chair Behnam is as well.

Mr. SCOTT. Thank you very much, and I am as well, too.

Mr. STEIL. The gentleman's time has expired. The gentleman from Texas, the Chair of the Small Business Committee, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS of Texas. Thank you, Mr. Chairman, and currently, the rules around digital assets are confusing and inconsistent. Under the Biden Administration, regulators took a heavy-

handed approach trying to regulate the industry through enforcement rather than through clear rules. Under existing law, developers, investors, and businesses do not know which agency is in charge or which rules apply, and that has caused some real problems. Some projects have left the United States entirely, and many consumers have been using risky platforms without basic protections. Mr. Raman, can you explain how having clear, stable rules would benefit consumers and give businesses of all sizes a fair chance to grow and succeed in this market?

Mr. RAMAN. Thanks for the question, and absolutely. To be clear, responsible use cases in innovation is already happening on blockchain rails. We are already seeing remittances and payments on a global scale that are making things faster and cheaper and more transparent. The problem has been, is the institutional players and retail players and small businesses that want to follow the rules of the road and have a clear way to build a business and use this technology, have not had that clarity. That is what a bill like this will achieve. That is why everyone wants rules, and everyone wants to follow them. CLARITY actually will spur innovation rather than skirting regulation. That is not the point of it.

If we come back to the payroll point, the payroll on a blockchain is not meant to not pay taxes or not go to social security. It is actually meant to make it more transparent and easier and faster and allow for more commerce; so, we are standing ready. I think there is a huge wave of innovation that will happen upon clear rules of the road where there is no confusion, like in previous years.

Mr. WILLIAMS of Texas. Thank you. Mr. Behnam, in your testimony, you noted that the regulatory gap for non-security digital assets has left American consumers exposed to fraud, market manipulation, and conflicts of interest, all risks that traditional financial markets are well equipped to prevent through existing regulatory frameworks. Now, legislation like the CLARITY Act is designed to close that gap by establishing a functional market culture or structure, tailored disclosure and CFTC oversight of digital commodity spot market. Mr. Behnam, can you walk us through this legislation directly and how it enhances consumer protections by curbing fraud, improving transparency, and bringing in unregulated platforms under the rule of law?

Mr. BEHNAM. Thanks, Congressman. As I have said before, the status quo is we have a pretty significant gap in regulation. I know SEC certainly has authority over security tokens, and I think those things are being figured out now to the extent there is authority with the Agency. As it relates to commodity tokens or non-security tokens, the CFTC does not have any authority. We are living in a regulatory vacuum where conduct is happening, and regulators are not overseeing it. The CLARITY Act intends to bring a lot of the core principles, which I had mentioned a few times before, into the digital asset market space. These core principles of regulation around registration, surveillance, data collection, settlement, making sure products are well regulated and not susceptible to fraud or manipulation, these were the types of things when I was chair, we saw in our enforcement cases.

I often say in my 4 years as chair, I think nearly 30 to 40 percent of the enforcement docket we had was crypto related, in sum. I can-

not emphasize enough to this committee how significant a number that is when you do not have jurisdiction or authority over a market and you are expending nearly 30 percent roughly of your enforcement personnel and allocation toward an area that is unregulated. I think the CLARITY Act takes a lot of steps toward bringing traditional market regulation from beginning to end into the digital asset space, and it uses a lot of the legacy experiences we have had around market structure. Granted, this is a new and different digital or asset that will require different ways of thinking. It uses those core principles as the model to bring digital assets into the regulatory fold and, ultimately, give regulators the transparency that we need in order to protect markets and, as you said, ultimately, customers.

Mr. WILLIAMS of Texas. Okay. I yield my time back. Thank you.

Mr. STEIL. The gentleman yields back. The gentleman from Massachusetts, Mr. Lynch, who is also the Ranking Member on the Subcommittee on Digital Assets, Financial Technology, and AI, is now recognized for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman, and the Ranking Member. Mr. Massad, there has been a pattern that exists in our most recent major financial crises in this country. We go back to the savings and loan crisis of the 1980s. We had an idea within a thrift banking system of riskier activity. Among those thrifts, we had a political will here in Congress and at the White House that was, I think, cooperative with that risk taking among some of our thrift institutions that some say it was regulatory capture, some say it was just cooperation, but at the end of the day, the American taxpayer had to bail out the banks to the tune of about \$100 billion, which was a lot of money back in the 1980s.

We fast forward to a time when I was here, 2008 financial crisis. We had speculative, volatile financial products, consolidated debt obligations. We had derivatives, and, again, we had a complacent regulatory scheme among the Treasury, the Federal Reserve System (Fed), the Office of the Comptroller of the Currency (OCC), and as a result, we ended up with an even bigger bailout, \$700 billion in top. I voted against it. I was here. Some members were here. Then more recently, we have had Silicon Valley Bank. That was a major problem, and it was involving some of these crypto firms, very poor risk management on the part of Silicon Bank, but at the end of the day, the Federal Deposit Insurance Corporation (FDIC) had to go in there and rescue that bank, and they did a forced sale to JPMorgan Chase. You know, that was a bailout of the insured banking sector for these uninsured deposits, and now we have crypto, which is the most volatile asset class that we have considered to date. Since Trump took office, there has been a complete reversal of the cautionary nature of banking with respect to crypto. The FDIC, the Fed, the OCC have all canceled their cautionary guidance on crypto, so now we are going to have a meshing of crypto and banking and even pension funds. Now you see a lot of these State pension funds, major pension funds investing in crypto.

What I think is going to happen, my prediction here is because of the asymmetry that is occurring in that regulatory framework, we have ineffectual regulatory capacity right now, and on top of all this, we have huge political influence being purchased by crypto,

coming up here, spending \$270 million in Congress, and then look what they are doing for the White House, right? Lock, stock, and barrel, the whole system has been purchased. We have no effective regulation on crypto. My prediction is we are going to have the mother of all financial crises in this country because of the involvement of crypto in banking and the traditional banking sector and in a lot of our pension funds as well.

This is why this whole scenario, this whole pattern, is why I offered several amendments during the FIT21 bill, and the Stablecoin Transparency and Accountability for a Better Ledger Economy (STABLE) Act bill, so called, for a no bailout for crypto bill just to protect the American people so we are not on the hook when this goes bad, and none of my colleagues on the other side of the aisle supported those amendments. That is just insurance so that what has happened repeatedly, over and over and over again, will not happen this time, which is the American people have to pick up the tab, and because of the amount of debt we are piling on us, we will not have the ability to step in. I guess what I am asking you is, tell me how I am wrong, that my fears are unfounded.

Mr. MASSAD. I would agree with your fears, but I think the way to address them is to try to put in a regulatory framework that minimizes the possibility of a financial crisis. It is very hard to predict where a financial crisis will come from, but we know from the past—

Mr. STEIL. You cannot rely on bankruptcy on this.

Mr. MASSAD. That is correct, but we know from the past that high leverage, having people invest in things they do not understand, and regulators who do not have sufficient insight and information about what is going on are three important factors, so we need to put in place a regulatory framework that provides us—

Mr. STEIL. The gentleman's time has expired. The gentleman can add additional comments for the record.

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

Mr. STEIL. The gentleman from Georgia, Mr. Loudermilk, is now recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman, and I appreciate everybody being on this panel. I am really happy to see this engagement going because I spent 30 years in the technology industry, and quite often, government is so far behind the industry and technology, that we become suppressive of innovation. I appreciate something that Mr. Raman said is, if I got this correct, that a good regulatory framework that is flexible enough can encourage innovation. Is that kind of what you were getting at when you said something about the CLARITY Act earlier?

Mr. RAMAN. Thanks for your question, and that is exactly right. I think that this is a technology along with, in this decade, we have been privileged to have two game-changing technologies—one is AI, and one is blockchains—that are all mature and ready for adoption. These are technologies that are meant to improve innovation, create jobs, be economic drivers for the next decade, and reduce counterparty risk, reduce the things that cause previous financial crises by having things like transparent, open blockchains, where you have minimized counterparty risk. I think that for real institu-

tional adoption, we have seen the tip of the iceberg of adoption. Even within a bit of a regulatory fog on Ethereum, you have \$140 billion in the United States that are backed by Treasuries that are helping be a buyer of U.S. Treasuries that are proliferated. All of this will 10x or 100x with clear rules of the road.

Mr. LOUDERMILK. All right. Thank you. Like I said, we need to encourage innovation because innovation helps everyone and gives access to markets and financial institutions and investments that may be otherwise kept out of certain areas of our economy. Mr. Roisman, Bitcoin is the most popular digital asset in the ecosystem. It is also one of the only digital assets that both the SEC and CFTC have agreed that is a commodity. Under our current securities law, would it be possible for exchanges and other trading systems to list Bitcoin and a security alongside each other?

Mr. ROISMAN. I think it would have to be both registered at the SEC or the CFTC, so dual. I think one of the things that the bill is trying to address is how can you have, what I think the current Chairman of the SEC has had, a super app, something where people can go and trade digital commodities and securities, and I think that is the way consumers think about it. I do not know if we really need to prevent that from happening, so I think it is a meaningful step. I also just want to add one point. Something that I think sometimes gets overlooked in the bill is the addition of innovation to the SEC's mission. I actually think that is a very valuable addition. It will require the regulator to take that into account when it is promulgating rules, and innovation is, as you mentioned, sort of a critical piece. It will allow sort of regulatory adaptability when there are new developments and if regulators have to take into account, you are going to have sort of future proof rules, which I think will benefit everyone.

Mr. LOUDERMILK. Thank you for that. Following up on my question, though, what would it mean for digital assets trading platforms if bitcoin and other digital assets that are viewed as commodities could not be listed alongside digital asset securities?

Mr. ROISMAN. I think the point I was saying earlier. It would create potentially unnecessary bifurcation.

Mr. LOUDERMILK. Okay. Do traditional security exchanges want to offer non-security digital assets?

Mr. ROISMAN. My understanding is yes.

Mr. LOUDERMILK. Okay. Could the SEC allow this without action from Congress?

Mr. ROISMAN. I think they could. It would just be pretty tortured, to be honest.

Mr. LOUDERMILK. Okay. Does the proposed legislation allow alternative trading systems to offer both digital commodities like Bitcoin and securities, and if so, how?

Mr. ROISMAN. Yes, it does. There is a provision directly addressing this issue.

Mr. LOUDERMILK. Okay.

Mr. ROISMAN. Sorry, yes, and I think they would be required to do rulemaking to effectuate it.

Mr. LOUDERMILK. Okay, and last question: stablecoins are critical components of the digital asset ecosystem. While this committee has separate legislation for the issuance of dollar-backed payment

stablecoins, the CLARITY Act also contemplates that the role of stablecoins in a broader digital asset market structure. How does the CLARITY Act treat payment stablecoins, and why is it necessary for platforms to have the ability to trade payment stablecoins alongside digital commodities?

Mr. ROISMAN. I am going to try to be brief. Permitted stablecoins are carved out of the securities laws and digital commodities, I think it is a good way to deal with the market structure, and then you have the STABLE Act which deals with it separately.

Mr. LOUDERMILK. Okay. Thank you. I yield back.

Mr. STEIL. The gentleman yields back. The gentleman from Missouri, Mr. Cleaver, who is also the Ranking Member on the Subcommittee on Housing and Insurance, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman. I kind of had some editorial comments and then my questions. Two weeks ago, I found myself on the floor during special orders in agreement with, perhaps even total agreement with Representative Chip Roy, with whom we do not have a lot in common politically. We both saw and still see some problems that we are having as it relates to Members of Congress, and Members of the Cabinet, and the President, Vice President, we believe, that it is wrong for any of us to participate in getting rich by trading stocks and, in some cases, trading with information that the public does not have. I am strongly of the belief that corruption is the enemy of democracy. Our ship of state should probably be powered by truth and ethical standards. Our Nation will not be destroyed by corrupt politicians but by those of us who know better but refuse to legislate better. If there is malfeasance at the top, it is up to Congress to make it stop, and this Congress is silent. Now, I think this is absolutely necessary what we are doing, but we need to be serious, and we do not need to be partisan.

To all of you, based on testimony presented this morning, it is my understanding that the legislation under consideration today would help the United States unleash "American innovation," which I take to include drastic increases in activity in the digital asset space, as well as possibly hundreds or thousands of new entrants among other benefits. Is that correct? I will just start for moving from left to right. Is that correct?

Mr. ROISMAN. I apologize. Is the question that this would spur innovation, sir? I missed the prelude.

Mr. CLEAVER. You missed—

Mr. ROISMAN. Yes. Then, as I just said, yes, that is correct.

Mr. CLEAVER. Okay.

Mr. RAMAN. Yes, I do believe the rules of the road will spur innovation.

Mr. BEHNAM. Congressman, I am going to just caution that most of my testimony is related around customer protections and this gap in regulation. I am going to caution against opining about innovation because I have not worked in an area, but I would trust those sitting around me to form an opinion about that.

Ms. MINARIK. Yes, more good innovation is possible with better rules of the road.

Mr. MASSAD. Congressman, I would say two things. It is great to promote innovation, but we should not pick winners and losers,

and blockchain is a technology. It may get superseded by other technologies. We do not know, so we do not want to lock in a framework that supports one particular technology. Even decentralized blockchains are a subset of that technology. There is an argument that maybe centralized blockchains are going to be better.

The second thing I would say is what kind of innovation? If we do not do a complete framework what we have seen to date is the innovation is going to things that a lot of them do not have a lot of social utility, like meme coins. Now, I am not saying the government should decide what is of merit. That should be the market, but we need a framework that prevents the level of fraud, manipulation, and the lack of investor protection that we have seen to date.

Mr. CLEAVER. If I can continue along those lines, does anything in the legislation that we are discussing right now provide the necessary support and financing for the CFTC to readily respond to the admitted market impact of this legislation, including monitoring a vast ecosystem of new technology and entrants for compliance with critical national security laws?

Mr. MASSAD. I do not think it is enough, Congressman. There is a provision for a fee, but when we really think about the scale of these markets——

Mr. CLEAVER. What should Congress do?

Mr. MASSAD. You should increase the budget authority, I mean, significantly, if you are going to give the CFTC the responsibility to police this market on all those fronts.

Mr. CLEAVER. Absolutely. Thank you.

Mr. ROSE [presiding]. The gentleman's time has expired. The gentleman from Kentucky, Mr. Barr, who is also Chair of the Subcommittee on Financial Institution, is now recognized for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman. Before I get into the merits of the CLARITY Act in our market structural legislation, I just have to first address this red herring that my Democratic colleagues continue to push, this carelessly thrown-out accusation and this baseless, politically motivated attack against President Trump, that his support somehow for a regulatory framework for digital asset market structure is somehow corrupt, that he is personally profiting from our agenda to bring clarity to the stablecoin and market structure of digital assets. This is absurd, and they know it. They know that the President's assets are in a blind trust managed by his children who are not members of the administration. They are not in the government. They are in the private sector.

When they throw these things out carelessly, these personal partisan attacks against the President, it is not just Trump derangement syndrome. It is about them opposing American leadership in crypto. It is about them opposing making the United States the world's crypto capital. It is about them so obsessed with their political hatred for the President, that they are willing to sacrifice American leadership in the innovative technologies of the future. They do not like that under President Trump, Bitcoin is at an all-time high. They do not like it. They do not like that he is an innovative, successful capitalist who understands that if America is to lead, we need this agenda. They do not like that, and they do not

want him to succeed, and that is why they oppose this bill. Now, fortunately, we have some bipartisan support for this bill, and it should be because it should not be about politics. It should be about what is right to bring clarity to the marketplace here and to embrace this kind of efficiency and friction-reducing disintermediation through DeFi. That is what we should be focused on.

Let me just move on to the merits of the bill. Highly regulated institutions, like banks, have an important role to play in the digital asset market, providing scale for wider market adoption, and bringing their risk management and financial resilience to bear as the market evolves, but under the U.S. capital framework, banks are not able to recognize risk-reducing benefits of positions that naturally offset each other. This drives up the cost of hedging and risk management and creates a competitive disadvantage for U.S. banks. Mr. Behnam, do you agree that we should review our approach in U.S. capital rules to make sure we are not disincentivizing risk-reducing behavior and the use of bank intermediaries?

Mr. BEHNAM. Yes, Congressman. Thanks for the question. I do think, and obviously it depends on the asset, the underlying asset, right, and Mr. Lucas mentioned this earlier. If you are talking about Treasury cash markets and Treasury futures markets, there is a clear symmetry between those two assets. I do think it is important for regulators to create incentives in terms of cost of capital so that you can have more participants, more liquidity in the market. A lot of that review is based on history of the volatility of the asset, so generally speaking, I support it but caution against making sure that we are doing the right analysis from a regulatory perspective to ensure that the history dictates what the future may hold.

Mr. BARR. I think banks do bring risk management and financial resilience to bear, and they need to be allowed to participate in this evolving innovation. Mr. Roisman, a question for you on custody. Whether through Staff Accounting Bulletin (SAB) 121 or joint statements, the previous administration effectively prevented banks from engaging in the digital asset ecosystem. While the regulators have taken several positive steps to remedy this approach under the Trump Administration, the CLARITY Act, I think, is very important because there are provisions in the bill that will cement banks' ability to responsibly engage with the technology in statute. Can you outline some of these provisions and describe the practical effect that they will have?

Mr. ROISMAN. Thank you for the question. I would say I would have to look back at the legislation and get back to you. I think it is important for Congress to weigh in on this because, to your point earlier, they are a critical part of any sort of infrastructure, and the rules should not be set in place to prevent people from participating in this marketplace.

Mr. BARR. I applaud the chairman for his extraordinary leadership on this. Also, I want to thank our colleagues in the Agriculture Committee for contributing to the commodity definition piece, and I fully support this legislation to bring much-needed clarity. Do not be distracted by the politics on the other side. This is important and thank goodness we do have a President who

wants to bring leadership to the United States on crypto. Thank you. I yield back.

Mr. ROSE. The gentleman yields back. The gentleman from California, Mr. Vargas, who is also the Ranking Member of the Task Force for Monetary Policy, is now recognized for 5 minutes. Mr. Vargas?

Mr. VARGAS. Thank you very much, Mr. Chairman and Ranking Member, for holding this hearing. Especially, I want to thank the witnesses here today. Thank you very much.

One of my colleagues earlier said people who think this bill does not protect the public do not know the details of this bill. Well, here is the bill. It is 236 pages, the "big, beautiful crypto bill." I doubt that any of my colleagues read all of it. A couple of them probably did, but most of them did not. It is like the "big, beautiful bill" that we just passed I voted against. All the Democrats did, and all the Republicans said, "I did not know that was in it. I did not know that was in it. I did not know that was in it. If I had known, I would have voted against it." Anyway, I think the same thing is happening here, unfortunately. I think someone is going to say later on that was a disgusting abomination. Just like we saw about that big, beautiful bill, I think they are going to say the same thing about this big, beautiful crypto bill.

Mr. Chairman Massad, I want to ask you a personal question, if you do not mind. Where were you employed in 1990?

Mr. MASSAD. I was employed at Cravath, Swaine & Moore.

Mr. VARGAS. So was I. I was a summer intern, and I was working with Max Shulman and Robert Joffe, who I am sure you are familiar with.

Mr. MASSAD. Absolutely.

Mr. VARGAS. I do not believe you were a partner at the time, were you?

Mr. MASSAD. Not quite.

Mr. VARGAS. I think you were a senior associate.

Mr. MASSAD. I was.

Mr. VARGAS. You are very scary, and that is why I am going to be prejudiced in this question and not ask you because we are all afraid of you because you were very brilliant at the time. I am sure you still are, but I see that there is another Cravath partner here. I actually chose not to go there. I did get an offer. I went to San Diego, to my hometown, and practiced law there for a while. The fine firm, little legal firms that were eaten up by bigger ones, but that is what happens in the legal field. I am going to ask the rest of you, are any of you familiar with the Legal Tender Act of 1862? You just go ahead and answer. Anybody that knows? There is a Cravath partner, for God's sakes. Come on, you ought to know that one.

Mr. ROISMAN. I am afraid I do not.

Mr. VARGAS. What is that?

Mr. ROISMAN. I do not.

Mr. VARGAS. You do not. Anybody else? Okay. Professor, do you happen to know what that is?

Mr. MASSAD. I believe that was the law that created greenbacks, that created American dollars and tried to put an end to wildcat banking notes.

Mr. VARGAS. I knew you would know. That is why I did not want you to answer. That is exactly right, right? That was the time that we authorized the issue, Congress did, of greenbacks, really demand notes that were redeemable for gold. Prior to that, what happened to paper money?

Mr. MASSAD. We had individual banks essentially issuing notes, and people would take those and use them to purchase, and, of course, then they would have to decide, were those notes really worth what they paid and they were——

Mr. VARGAS. What happened after the Legal Tender Act of 1860 with the value of that paper money?

Mr. MASSAD. The bank notes?

Mr. VARGAS. Yes.

Mr. MASSAD. They basically then started to go out of existence.

Mr. VARGAS. That is right.

Mr. MASSAD. It took a while.

Mr. VARGAS. The reason I ask this is, I think there is a very similar situation that could happen here very easily. What would have happened if we had a central bank digital dollar? What would happen to all this crypto money? I think that is the big question here. I think probably they would go to zero.

Mr. MASSAD. I guess I would say two things, Congressman. One, I do not think a lot of the crypto assets that are out there today will ever become a currency like Bitcoin. They are far too volatile in price. They are not backed by a government.

Mr. VARGAS. That is what the promise of it is. In other words, when you listen to the technologists, they say exactly. That is why it is going to be beneficial. It, in fact, is going to be more efficient than cash. We heard that here with payroll and everything else. They do not talk about it as an asset class. They talk about it as a coin, as a value like money, and I think that is the problem. I do not think it is going to act that way. In fact, I think it is going to be just the opposite. That is why I think, on the other side, there is a fierce battle. We never have a central bank digital coin because I do think that all of these coins will go to zero.

Mr. MASSAD. There are issues with the central bank digital currency (CBDC), of course, as you know, in terms of should that really be the role of the Fed.

Mr. VARGAS. Right.

Mr. MASSAD. I think you have to distinguish stablecoins from a lot of the other crypto stablecoins that are actually pegged to the dollar. It cannot be.

Mr. VARGAS. I only have 24 seconds left, so I do want to say this. I know there was a spirited defense of the President, but I have to tell you, this is the most obviously corrupt thing that I have ever seen: a few days before he gets inaugurated, and he comes out with this Trump meme coin. It is outrageous. With that, I yield back.

Mr. ROSE. The gentleman yields back. I now recognize myself for 5 minutes.

I want to thank Chairman Hill and Ranking Member Waters for holding the hearing today, and I want to thank our witnesses for taking time to be with us. Mr. Behnam, for several years, derivatives exchanges registered with the CFTC have listed derivatives contracts on Bitcoin and Ether for trading. Do you believe that the

experience from CFTC's oversight of the digital commodity derivatives market will be helpful to the CFTC in exercising jurisdiction over the spot digital market as provided under the proposed legislation?

Mr. BEHNAM. Thanks, Congressman. The short answer is yes, and I think just quick elaboration is, and this goes across any commodity class, whether it is agriculture, energy, metals. The CFTC is tasked with, obviously, overseeing the markets and those specific products, but the agency must have a good understanding of the underlying commodity itself. Over the years, going back to when Chair Massad was in control and a few of the first enforcement cases were arising, the CFTC has learned a pretty sharp expertise in the space and has a pretty good understanding of the underlying market itself across different digital tokens.

Mr. ROSE. Thank you, and, Chair Behnam, regarding Section 109 of the CLARITY Act, which pertains to international cooperations, I would like to explore the safeguards the CFTC would likely implement when entering into information sharing arrangements with foreign regulatory authorities. Specifically, what measures would the CFTC take to ensure that sharing sensitive information with foreign regulators does not compromise U.S. national security or the proprietary business interest of digital asset companies?

Mr. BEHNAM. With any Memorandum of Understanding (MOU) or any engagement the Agency has with a foreign regulator, it is very surgical and prescriptive in terms of who we are dealing with, who the Agency is dealing with, what the existing relationship is between the CFTC and the non-U.S. agency, and ensuring that they have the appropriate systems, system safeguards, cyber protections, data collection, hardware, and software that if not matches the CFTC's, exceeds it as well. There is quite a bit of due diligence done, and this is not unique to crypto at all. Both the CFTC and SEC have been doing this for years, are very diligent about making sure the regulator across the ocean is doing what it needs to do to give the Agency confidence that it can share information with another regulator.

Mr. ROSE. Thank you. The CLARITY Act requires four joint rulemakings between the SEC and the CFTC in order to set up efficient and functioning digital commodity markets. Importantly, these joint rulemakings clearly delineate their respective responsibilities. Opponents of this bill have criticized these joint rulemakings, citing the practical challenges for the SEC and CFTC in coordination. Chair Behnam, can you highlight some of these joint rulemakings and explain why, in your view, it is essential for the CFTC and SEC to coordinate on these issues?

Mr. BEHNAM. Thanks for the question, Congressman. Joint rulemakings are not unique to the two Agencies. They proliferated in many respects after the financial crisis and Dodd-Frank was passed in 2010. You have jurisdictional lines between commodity swaps and security-based swaps, so the two Agencies did have to coordinate and draft joint rules. It is difficult. It brings two different institutions together, and you have to go through a lot of exercises that you do not necessarily go through when you draft a rule uniquely to one agency. It is very possible, and I think what really brings the two Agencies together.

Within the context of crypto, the larger issues around defining the tokens, larger issues around having duly registered entities, whether an exchange or a broker-dealer or a custodian itself, these are the types of areas where the Agency, I think, will need to have joint rulemaking to ensure that there is a coordination across the field so that the participants, to the extent necessary, have a single set of rules to comply with.

Mr. ROSE. Chair Behnam, can you highlight some prior joint rulemakings between CFTC and SEC and explain some of the hurdles that were encountered?

Mr. BEHNAM. As I pointed out, the financial crisis is probably the best example in the swap-dealer definition in making sure that the two Agencies are delineating which or what types of swaps are commodity swaps and what are security-based swaps. Ultimately, it was done. I would say the challenge is, again, you are dealing with 10 commissioners, not five, two chairs, not one, and you are dealing with two different divisions, if not more, trying to promulgate a rule off of a statute. When there is sometimes scant legal precedent, sometimes there is better, and you are trying to navigate, much like this space, a previously unregulated financial asset class. Those are the types of things that I think the Agency has a history of and does quite well, but it is certainly, as you pointed out, not easy.

Mr. ROSE. Thank you. My time has expired, and the gentleman from Connecticut, the Ranking Member of the Select Committee on Intel, Mr. Himes, is now recognized for 5 minutes.

Mr. HIMES. Thank you, Mr. Chairman. We are spending a lot of time on this side of the aisle talking about the corruption associated with the President's activities here, and Mr. Barr's ill-advised and cheap shot that we are engaging in politics, notwithstanding we did not bring this upon this effort. Politics, I have spent the last couple of weeks wading through 263 pages of dense text, which is about number 90 on my top 10 list of things to do. Those of us who might be inclined to support this thing so that it can be bipartisan are not going to add our names to something that is associated with the rank corruption that we see out of the White House. Now, to me, the way to deal with the Trump stuff is to make sure that this bill has, literally, platinum consumer protections—anti-money laundering (AML), anti-fraud, and, yes, conflicts of interest language—and I will not vote yes on this thing unless it does. We have now had a demonstration from the highest office of the land about why that is important, so I just say that for my Republican colleagues. Without that, I am not a yes vote, and I am going to encourage every Democrat to be a no vote. I think we can probably get there on that.

By the way, in my opinion, what is happening in the White House is not a reason to just say no to the whole bill. If we were to say we are not going to legislate on anything that the President is either corrupt or inept about, we would not legislate on anything, so I think we can get there on that. What I do want to spend a little time on, though, is something that for me is a non-starter, which is, and, Mr. Massad, you have made this point, we must not screw up existing securities, regulation, or standards, and there are a bunch of things that we need to explore there.

Mr. Massad, I have read your stuff very closely. I think that we can probably deal with some of the uncertainty around things like self-certification and what precisely a mature blockchain is. Regulators deal with that kind of complexity all the time. What I do want to spend my remaining 3 minutes on is something that has troubled me for a long time, which is Section 202–203, which seems to set up an alternative issuance, primary issuance mechanism, that sort of wants to look like Reg A or Reg D. It appears to allow for the general solicitation of retail investors for a complicated thing, so complicated that we all agree this is a pretty tough bill to understand.

In my remaining 2 minutes and 30 seconds, Mr. Massad, I would like you to take a minute of that because I just do not see the logic for 202, and I see how Cravath partners will go to town on this thing. I would like a minute from you, Mr. Massad, on why this is a scary proposition, 202 and 203, and the exemption. I think it creates an exemption, basically, the Securities Issuance Act. I do want to leave a minute for the rest of the panel to tell me why this new, weird Reg A-/Reg D-like exclusion is a good idea, given my concerns here. Mr. Massad?

Mr. MASSAD. Sure. Thank you, Congressman. Yes, this is an exemption for capital-raising transactions related to a mature blockchain system, and the question is, why is this needed? We want people to raise money for this, but the question is, can we just address that through perhaps looking at disclosure requirements? Maybe those need to be customized a bit because you are raising money for something that would not necessarily meet all the requirements that we would expect of other types of businesses, but to create this entirely new exception with all the definitions, I think, is very problematic, and, again, Commissioner Hester Peirce herself has said that. She has pointed out in the context, because this really came from her safe harbor idea, and she said 2 weeks ago at SEC Speaks, she talked about the fact that this type of an exception, she was not referring specifically to the CLARITY Act, but she was saying this type of exception can be abused. Companies that are not really trying to develop mature blockchains could use it for that.

Mr. HIMES. When you say, and I listened to you carefully, when you say that the danger here, which I think is true, this is complex enough that Cravath and Sullivan & Cromwell and all these other very, very smart, highly paid lawyers, this is sort of the tunnel through which they will drive through to create an arbitrage.

Mr. MASSAD. This is what they get paid for.

Mr. HIMES. Right. In my last 30 seconds, I am going to ask the panel, why in the world here would we create a weird Reg A-/Reg D-/144A-like thing? Why do we not just strike that? Is there a good reason to have that in there, panel?

Mr. BEHNAM. Congressman, I will just add in my written statement, I said we need to preserve existing laws. I do agree with you as you comb through this bill, although I do believe status quo is not sustainable and something needs to be done, whatever efforts are made needs to preserve existing law.

Mr. HIMES. Agree. I have 4 seconds, thank you. I totally agree. Does anybody on the panel have an objection to the removal of Section 202?

Chairman HILL [presiding]. We would invite you to answer that question in writing for the Ranking Member of the Intelligence Committee. The time has expired.

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

Chairman HILL. The gentleman from Ohio is recognized, Mr. Davidson, who is the Chair of our Subcommittee on National Security. You are recognized for 5 minutes.

Mr. DAVIDSON. Thank you, chairman, and I want to thank my colleagues and staff for the work that, really, years of effort to bring this bill to where it is today. I will not say it is a perfect bill. I do think it is essential that the section Mr. Himes referenced to stays in the bill because when you launch something and you know it is not a security and you know it is not a commodity, you need to have some clear path; that it is what it is. We are trying to define it, and a bright-line test has been the core thing. We somehow imagine that the Howey test is even adequate for the securities market, but it is not even a law. It is from a court case back in the 1950s, so we have not really applied that to digital assets, and it has led to interpretive art. It is like looking at modern art, splatters on a painting and drawing conclusions about it.

Of course people are going to have different conclusions. That is why one of the core things we do here. We tried to do back in 2018 with the Token Taxonomy Act. It still has not been done to define very clearly, is something a security, is it a commodity, or is it something else, and this bill makes great progress toward doing that. When it is not a security or a commodity, it needs to be clear that you have a path to launch, so otherwise, it is not going to attract any capital formation. You are just going to keep seeing capital stacks wiped out because there is no clarity that some Gary Gensler-type figure is going to come along and just wreck the whole capital stack, so you have to have that. The other thing you have to have is self-custody because if you look at the Bitcoin white paper, even in the abstract, part of the core premise is that you have a permissionless system, so you do need things that can be conveyed. You do not get disintermediation. You cannot have DeFi without the decentralized part.

Some people who say they want to support the bill, their only reason to support it, in some cases, is to try to keep this account based, and honestly, the entire industry is not even that interesting if it just becomes account based. I just wonder if Ms. Minarik, if you could address the essential nature of disintermediation and self-custody.

Ms. MINARIK. Thank you so much for the question, Congressman. I completely agree that self-custody is a critical piece to protect in any market structure, legislation or, frankly, any legislation at all. There are an enormous number of Americans who are shut out or underserved by the traditional financial system, and self-custody technology is a safe, digital way that checks those deficiencies of that system. If you are shut out of the banking system, we now have self-custody technology so you can safely and digitally store

your own assets without having a bank approve of you. We should allow that technology to exist for every American.

Mr. DAVIDSON. Yes. I mean, it is essentially the FTX people that were most protected were the ones that used the platform but had self-custody. They had control of their property, right?

Ms. MINARIK. Yes.

Mr. DAVIDSON. So, it is a true consumer protection in that sense, too. Mr. Roisman, for years now, I have been advocating for this bright-line test, and I was wondering if you could pick up on how important the bright-line test that we have tried to set out in this CLARITY Act is for the market.

Mr. ROISMAN. Yes. Thank you, Congressman, and for your leadership in this area. I think Commissioner Peirce talked about this most recently, which is a fundamental question which people continually grapple with is, how do you separate the token that is subject to an investment contract from being an investment contract, right: investment contract security, tokens often, not securities. What I think is very well intentioned and thoughtful in the bill is the concept that a digital asset cannot be a security because, for example, it has a use case on the blockchain or access rights or a tool, so it tackles this issue head on, I think. It seems clear to me that this is the product of a lot of input from members and staff and also from the SEC and the CFTC. I think that as the bill progresses, you should continue to consult with them to make sure that it captures adequately what you are entailing it to mean.

Mr. DAVIDSON. Yes. Thank you for that, and I think one area that we do not talk to because a lot of the public sees anything digital asset related, and they fear central bank digital currency. I think they are right to be cautious and say, hey, let us make sure this does not turn into a gateway truck or some Trojan horse to be able to deliver something people clearly do not want, and I do not think there is a bigger opponent of central bank digital currency anywhere than me. I do not think it would hurt to put a reference to nothing in this bill, which will enable or permit or otherwise facilitate the adoption of a central bank digital currency. I hope we do all that and more in the future, and I just thank everyone for their work on it.

Chairman HILL. The gentleman's time has expired. The gentleman from Ohio, Mrs. Beatty, the Ranking Member of our National Security Subcommittee, is recognized for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman and Ranking Member, and to our witnesses, thank you for being here today. As you can probably tell from the range of questions that you have been getting from our members, it is important that we have the chance to engage with industry experts as yourself before advancing legislation that will establish a whole regulatory framework for a category of financial assets that will impact millions of Americans, and certainly, this is a learning experience with us today.

I reflect back on my colleague, Mr. Himes' questions to Mr. Davidson's questions. Mr. Massad, I am a strong believer in responsible innovation, whereby we support the growth and evolution of innovative technologies while we are also maintaining strong guardrails that will protect investors and the integrity of our financial system, so I believe we can do both. I think we can do both

at the same time with carefully crafted legislation that incorporates feedback from all of our stakeholders, including the digital asset firms and investor protection groups. My question to you is, what would you say are the key commonsense investor protection provisions that are missing from the current bill text that would still allow for responsible innovation?

Mr. MASSAD. There are quite a few things I think that are missing in terms of investor protection. I will just give you a few.

Mrs. BEATTY. Okay.

Mr. MASSAD. The bill does try to establish jurisdiction over this spot market in non-security tokens that we have talked about. It gives that responsibility to the CFTC but let us just look at a couple of aspects of that. The digital commodity definition, which is what they would have jurisdiction over, is actually quite narrow, and these platforms today like Coinbase and Gemini and so forth, they trade anywhere from 70 to 400 tokens. Very few of those would be included, so you are left with the question of well, what about all the rest? Now, the rest may be meme coins. Some might be reward points. There may be things that we say maybe should not be subject to financial regulation, but, therefore, can they be listed on these same exchanges? Are they subject to the same rules? That is unclear.

Another very basic thing that is unclear is when you have an institution like Coinbase where people go to trade, if you have a Coinbase account and you buy Bitcoin, it says you have one Bitcoin or three Bitcoin, does Coinbase have those Bitcoin? The law does not require that. The law simply requires that they have, essentially, values equal to that Bitcoin, so they could have the money invested in something else. Those kinds of things seem pretty basic. I could give you more.

Mrs. BEATTY. Let me say thank you. As I am trying to go through this, it was not that I did not miss it. It was that it was not in there, or it was not in there—

Mr. MASSAD. It is a very complicated bill, Congresswoman, and, therefore, it is very hard to see what is missing and what is not missing, and also how these provisions interrelate. Congressman Himes asked the question about this special exemption. On the one hand, we are trying to protect people investing in crypto, but on the other hand, we are doing things that may undermine protections in our traditional securities markets.

Mrs. BEATTY. I see that as our role, to provide those protections. I also am the Ranking on Illicit Financing, and so I will not have enough time probably to get to the other members on that. I think as important as this is, when you have a document like this, I do not know—we were discussing it up here with Mr. Foster and Mr. Vargas—how many of my folks on the other side have actually read this and analyzed this. I am just getting this. While, Mr. Chairman, this is something very important, I think as our Ranking Member and Chairwoman Waters, in our meetings, we like to dissect things, and she walks us through all the provisions. I am just saying, I do not know how many folks have had the chance to be able to do that.

Let me just say, we also saw last week that the SEC formally dropped its lawsuit against the crypto exchange, Binance, which

admitted to violating U.S. anti-money laundering and sanction laws. In your view, what kind of safeguards against foreign corruption and money laundering must be included in all market structure legislation, and does the CLARITY Act sufficiently incorporate these safeguards?

Mr. MASSAD. Thank you for the question. The CLARITY Act does make crypto firms that are subject to U.S. jurisdiction subject to the Bank Secrecy Act. That is a good thing, but I think we do need to go further because crypto assets are transferred on decentralized blockchains because we have foreign firms involved in this, and the Treasury Department, 2 years ago, put out a number of suggestions that they said they needed in terms of additional support.

Chairman HILL. The gentlewoman's time is up.

Mrs. BEATTY. My time is up but thank you. Thank you, Mr. Chairman.

Chairman HILL. Yes, thanks to the gentlewoman. The chair recognizes the Majority Whip of the House. The gentleman from Minnesota, Mr. Emmer, is recognized for 5 minutes.

Mr. EMMER. I thank you, Chairman Hill, for holding this important hearing today, and thank you to this committee for its consistent nonpartisan leadership on digital asset policy across multiple Congresses. The United States had a real opportunity to lead globally in building the next iteration of the internet, a peer-to-peer digital economy, and that is thanks in large part to this committee's work.

The CLARITY Act is a thoughtful bill that creates regulatory guardrails tailored to the unique attributes of blockchain technology, while giving users and developers the confidence to engage and innovate in this ecosystem. I am proud to be an original cosponsor, and I especially want to thank the committee for incorporating the Securities Clarity Act, my bill, into this legislation. The Securities Clarity Act establishes the principle that a token is distinct from an investment contract, and it is gratifying to see that principle serve as a cornerstone of this market-structure framework. The CLARITY Act focuses on legal certainty for custodial entities, but its current draft raises an important question about those who are and are not.

Ms. Minarik, assuming Congress passes a market structure bill that resolves the legal uncertainties for custodial entities, do non-custodial developers, those who never touch user funds, still face potential questions of liability? If so, what kind of chilling effect could that have on developers of protocols and wallets who might otherwise want to build in the United States?

Ms. MINARIK. Congressman, thank you so much for this question. Companies for decades and decades, but now, much more recently, software developers who never take custody or control of user assets, have always been outside of the money transmitter regime, and that is for a good reason. That regime originally came from the States decades and decades ago to address the risks of a customer handing their own money to a third party, who may then take days to deliver that money to the recipient. Those risks obviously do not exist if that money owner never is handing off custody or control of their money to someone else. FinCEN issued guidance in 2019 that confirmed these principles for DeFi specifically, but recently,

even though the law has been well established for so long, and despite FinCEN's 2019 guidance, we have seen some attempts to stretch existing money transmission laws to capture software developers of noncustodial technology. So, there is still a risk, and it is a profound threat and has a deep chilling effect on software development today.

Mr. EMMER. Thank you. In your written testimony, you highlighted the Blockchain Regulatory Certainty Act, a bill I introduced with Mr. Torres recently. You said that the Blockchain Regulatory Certainty Act is essential to codifying the noncustodial actors. That noncustodial actor should not be treated as financial intermediaries. For the benefit of my colleagues and the public, can you explain in plain terms what kinds of legal and operational risks Uniswap or its users face today without that certainty, and what would change if the Blockchain Regulatory Certainty Act were included in the CLARITY Act?

Ms. MINARIK. Yes. I think the risk today is the uncertainty that comes from a regulator deciding to advance in an enforcement action an argument that the money transmission regime applies to software developers who are noncustodial. We see that as an active risk today, which means that all software developers are under threat.

Mr. EMMER. Thank you again. As you have outlined, today's noncustodial blockchain developers face legal risk for how others might misuse their open source permissionless tools. That is a dangerous precedent for innovation and one that I am thankful Chairman Hill, and this committee is working with us to address. Your testimony makes clear why resolving State-level ambiguity and preventing prosecutorial overreach is critical for American leadership in the digital economy. Again, I would like to thank the chairman and my colleagues for their consistent, unwavering commitment to nonpartisan digital asset policymaking. I yield back the balance of my time.

Chairman HILL. The gentleman yields back. The chair recognizes the gentleman from Illinois, the vice ranking member of the full committee, Mr. Casten, for 5 minutes.

Mr. CASTEN. I thought the other gentleman from Illinois was up. Thank you. We have been talking about crypto for darn near all of my 6 years in Congress, and I want to just share with you what scares the bejesus out of me, and I wish it scared the bejesus out of everybody here. The next time an executive at a crypto exchange or a crypto advocate, or somebody who is throwing money into campaigns for the crypto industry shows up in my office and says, I would be personally ashamed if a tool I created or a regulation I was advocating for, or a company I ran was facilitating illegal criminal activity through money laundering, through illegal transfers, and I do not want to be a part of that, and I want to make sure that we as Americans do not let that happen. The next time that conversation happens will be the first time, and it is really freaking hard to take this industry seriously when no one in the industry comes out and says I do not want to be a part of money laundering. I hope that today is going to be the first time.

With that, I want to talk about DeFi with you, Ms. Minarik. My understanding of decentralization as a definition, and tell me if I

have this roughly right, is that it means that no one person or group has outsized control over a service, the decision-making over how the service is run, is democratized among users who purchase the company's native currency or governance token. Would you generally agree with that as a definition?

Ms. MINARIK. Absolutely.

Mr. CASTEN. Okay. In light of that, Uniswap has come under some criticism recently over the Uniswap Foundation having disproportionate power over other stakeholders, including by pursuing changes such as launching a blockchain without consulting your governance token holders. If you agree that decentralization involves distributing voting power among your Uni token holders, does not the fact that the Uniswap Foundation can unilaterally make decisions, does not that weaken any claim of it being decentralized?

Ms. MINARIK. Thank you for the question. To be completely explicit, I am the Chief Legal Officer of Uniswap Labs, which is a distinct legal entity from the Uniswap Foundation, but I am fairly certain that the Uniswap Foundation cannot make any unilateral governance changes at all.

Mr. CASTEN. The criticism is out there. I mean, that exists. I mean, let me put this another way then. As I read the CLARITY Act, it would exempt essentially all DeFi services from SEC and CFTC regulation as well as all of the requirements of the bill, so just yes or no: under the bill as you read it, would Uniswap be required to screen and verify customer identities?

Ms. MINARIK. No.

Mr. CASTEN. Would Uniswap be required to disclose information related to your company's ownership, management, conflicts of interest, risks management, procedures, policies, procedures for complying with anti-money laundering laws?

Ms. MINARIK. Under this specific act, no, but we do have other obligations.

Mr. CASTEN. Okay. So no legal obligation to do that, and, Mr. Massad, if it does not apply to Uniswap, Trump's DeFi token that Mr. Barr thinks, we are just talking about this because it is politics and we just hate crypto. Now, if I am following it right, World Liberty has signed agreements with a state-owned investment firm in Abu Dhabi, cryptocurrency regulator in Pakistan. Additional data says that the company's investors are based in places like Singapore, South Korea, Hong Kong, UAE. They do not have any obligation to disclose anything under this bill either, do they?

Mr. MASSAD. I do not believe so. It is a complicated bill, I am still understanding it, but I think you are right, and I would love to comment also on your DeFi question, if I might.

Mr. CASTEN. I know in your testimony; you had suggested that it is a little hard to come up with a specific definition of DeFi.

Mr. MASSAD. It is hard to come up with a specific definition, and with all due respect to my colleague, even in the case of Uniswap, the Uniswap protocol, right, sure, that is autonomous software, but there is the Uniswap interface. There is the Uniswap trading application programming interface (API). Those are run by Uniswap Labs, which is a company.

Mr. CASTEN. I mean, this was my point about my sadness at the start because if we have this huge barn door that we are just going to define this generic thing as DeFi and you can launder all your money through there, my God, why is not the industry saying, I do not want to be a part of that? Come on, folks.

Ms. MINARIK. I do not want to be a part of that.

Mr. CASTEN. Okay. Then advocate for the changes to fix this because, Mr. Massad, like, under these rules, if I am a sanctioned Russian official or I am a the Chinese Communist Party (CCP)-linked person, is there anything that prevents me from investing in these protocols and using that to launder money through the system?

Mr. MASSAD. Yes. I mean, if you are sanctioned, no U.S. person is supposed to be transacting with you.

Mr. CASTEN. How would you track it if you do not have the AML rules, you do not have the Know Your Customer rules?

Mr. MASSAD. Yes. If we do not have a regulatory framework over these entities where we are getting information, it is very hard.

Mr. CASTEN. I mean, it is like shoot the sheriff, and, like, the law still exists, but it does not matter because there is no cop on the beat, right? I mean, I really think my Republican colleagues love defunding the police as long as they are white collar police.

Chairman HILL. The gentleman's time has expired.

Ms. WATERS. I give additional time.

Chairman HILL. You bet. The gentleman from Pennsylvania, Mr. Meuser, the Chair of our Oversight Investigation Subcommittee, is now recognized for 5 minutes.

Mr. MEUSER. Thank you, Mr. Chairman. Thank you all very much. Under the Gensler SEC, the Biden Administration tried to police crypto through aggressive lawsuits. Trump Administration and Chair Paul Atkins of the SEC are taking the opposite tack: set clear rules first, let innovators build, and keep capital here at home. The CLARITY Act, introduced by Chairman Hill, helps codify that cultural change, expands the SEC's reach over tokens sold in investment contracts, green lights SEC-registered firms to list and trade digital commodities, ensures the SEC has the tools it needs to shut down fraud fast. That is how we can deliver on President Trump's pledge of making the United States the world's crypto capital. Those comments run somewhat counter to what my colleague was just stating.

Mr. Roisman, do you want to comment on money laundering, not caring about money laundering, and no disclosure, as has been the accusation made to this bill, not to you, but to this bill?

Mr. ROISMAN. I leave sort of the Know Your Customer (KYC)/AML to folks who are more specialized in this. What I think the point you are making, sir, which I agree with, is this bill adds protections. It creates clear guidelines for market participants, customers, and regulators what their remit is, and I think we are all in favor of that. I think there are differences of opinion across the spectrum here of whether there are robust enough investor protections or that it covers everything under the sun. I think, universally, everyone agrees that there is a need for better delineation between the two Agencies.

Mr. MEUSER. Agreed. That is why we are doing it, right? Ms. Minarik, do you agree with that, or what are your thoughts on that?

Ms. MINARIK. Yes. I will add that in the DeFi space, as Mr. Massad mentioned, there is a sanction screening requirement for all U.S. companies. There should be. Money laundering is still illegal, fraud is still illegal, but in terms of sanction screening in the DeFi space, Uniswap Labs is a pioneer of compliance in DeFi, including blockchain analytics to use blockchain information, which is the future of understanding how to identify bad actors, but to use that information to screen wallets and make sure that companies like Uniswap Labs are not allowing the use of our products by sanctioned actors.

Mr. MEUSER. Okay, and in many ways, it expands the role the SEC plays with respect to digital assets. Mr. Roisman, your comment on that?

Mr. ROISMAN. What I think it helpfully does, as I mentioned earlier, is it tells them what their lane is and works in conjunction with the CFTC to ensure that there is adequate anti-manipulation, antifraud, consumer protections, and investor protections. There are, throughout the bill, places for them to do joint rulemaking, as well as sort of build upon, I think, things that the Commission, and I will let my colleagues speak to the CFTC, have long sought in terms of mandatory information for people to make informed investment decisions.

Mr. MEUSER. All right, thank you. Mr. Raman, what do you see as promising about this bill for traditional financial system if the CLARITY Act were enacted?

Mr. RAMAN. Thanks for the question. The first global comment is that institutions, traditional finance, will not do business on public blockchains without protections in AML and KYC and regulations and rules, and that is what you are providing. The largest users, the new users that are going to come on and innovate and create responsible products and actually use decentralized technology to improve the capital markets and improve the financial system, that is not going to happen without rules of the road. This is all very symbiotic, and having clarity and having rules is going to bring them all to responsibly use this technology that is decentralized and available to the world. Without it, it is just going to happen overseas.

Mr. MEUSER. All right. Thank you. I am going to yield the remainder of my time to Chairman Hill.

Chairman HILL. I thank the gentleman from Pennsylvania. Mr. Roisman, there have been several assertions made here today that I do not think are, in fact, based on the draft legislation that we have before us, and I want to clarify one of those questions from my colleagues on the other side of the aisle. Does the exemption in CLARITY provide more information and more protections to investors than current exemptions that they are eligible to be used today? Just yes or no.

Mr. ROISMAN. It is not, unfortunately, a "yes" or "no." It depends on the exemptions, but I do think that this provides meaningful information that they are not necessarily getting today, especially since they are tailored to digital assets.

Chairman HILL. Right. That is the fit-for-purpose nature of all of this work, and I would say in FIT21, we also had broad disclosure requirements, protections, and an exemption in that bill, too, that we had 71 Democrats support. We believe this bill is more robust on AML/Bank Secrecy Act (BSA) disclosure requirements and how the exemption would work. I thank the gentleman from Pennsylvania.

Ms. WATERS. Will the gentleman yield? Will the gentleman yield?

Chairman HILL. The gentleman's time has expired. The gentleman from Illinois, Mr. Foster, the Ranking Member of the Subcommittee on Financial Institution, is recognized for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chair, and to our witnesses. Mr. Massad, thank you specifically for joining us today, and for your testimony, which is rare that I see testimony where I agree with every single element of it, and I think I felt like that when I read it early this morning. Also, for the reference that you gave to a gentleman whose name I am afraid I have forgotten right now, who wrote an excellent two-page summary of why decentralization is inappropriate as an organizing principle for distinguishing these. If you only have time, members, that cannot read the 300-page, 200-and-some-page bill, they can at least read your 10 pages of testimony and that two-page statement, I think we can understand how we are going off the tracks today.

Now, you had mentioned that the bill does not provide any regulation for spot markets and digital commodities. The definition of digital commodities would only cover a handful of tokens, a small fraction of the hundreds of thousands that are spun up every year. Now, I also noticed the draft of this bill includes a new exemption for digital collectibles. The reason this caught my eye is that in February, the SEC Division of Corporation Finance put out a statement saying that the SEC does not consider meme coins to be securities, but, rather, they are akin to collectibles. Okay? We have this bill saying that collectibles are not regulated, and then the SEC saying meme coins are collectibles, so it seems like the chain of logic here would deregulate meme coins completely. Am I missing something there?

Mr. MASSAD. No, I think you are correct. The digital commodity definition, which is defining the things that would be subject to the CFTC's oversight, excludes those collectibles, which would mean meme coins, and I think it excludes a number of other things. When you look at the number of tokens traded on these big platforms, like Coinbase, it really is in the hundreds, and, of course, there are 600,000 tokens being created all the time, so the question is, what about those others? Now, you could say that, well, they are not really financial instruments, but people are getting defrauded. There are pump-and-dump schemes. We need to do something about it, even if it is not going to be under the CFTC.

Mr. FOSTER. Yes. These are not small things. I mean, Dogecoin has a market cap of, like, \$30 billion—

Mr. MASSAD. Correct.

Mr. FOSTER [continuing]. depending on what time of day you look at it, and President Trump's meme coin has generated more than \$350 million of fees from unknown investors, and I take it they really are unknown, yes. Ms. Minarik—I did that right, yes—can

you give me a name, or can anyone give me a name of all the early investors who appeared to front run Trump's meme coin things?

Ms. MINARIK. No, Congressman.

Mr. FOSTER. No? Okay. That is what I wanted to know. You cannot trace really important names here, and that would be essential for any regulator to understand if something unfair, some fraud on the market was being perpetrated here. I guess, that is one.

Mr. Raman, in your testimony, you argued that Congress should provide comprehensive authority for anti-money laundering, Know Your Customer, and also a customer identification program to make markets for digital assets safer and less vulnerable for terrorist organizations and other illicit activity. This is something I have long advocated for, and it breaks my heart that we have not done something on that earlier when you consider that North Korea now has nuclear missiles that can threaten every one of us with dying from a nuclear blast and funded almost entirely with crypto. This is something that did not have to happen, but it is a choice that we unfortunately have made. Now, anonymous parties are very difficult to hold accountable for this. What you had advocated in your testimony, these real Know Your Customer rules and so on, is that compatible in any way with anonymous self-hosted wallets, or are these really just separate visions for how we could let things proceed?

Mr. BEHNAM. Congressman, thanks for the question. In my experience, the CFTC had pretty limited authority around AML, not so much KYC, and then critical infrastructure protection (CIP), I think, I would put on par with AML, and we often had to work with Treasury when we were bringing an enforcement case. In terms of the non-hosted wallets, there are different functions to non-hosted wallets. There are certain benefits for it. I do think, as was stated earlier, if you think about the FTX example, that is an example where someone who had a non-hosted wallet was able to preserve some capital but given my former role in thinking about the risks associated with anonymity in this space, it is absolutely important that we have as much transparency as possible.

Chairman HILL. The gentleman's time has expired. The gentleman from Wisconsin, Mr. Steil, the Chair of the Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence, is recognized for 5 minutes.

Mr. STEIL. Thank you very much, Mr. Chairman. Thanks for bringing us together today to discuss the CLARITY Act, absolutely essential legislation. I hear some of the arguments from the left, but, in particular, I think the fallacy of one of the arguments that we are hearing is that we have put our heads in the sand and maintain the current state of affairs, that is somehow a good thing. I would argue that if we actually want to protect consumers, we want to avoid an FTX, if we want to address the meme coins that were brought onto us by Gary Gensler and the Biden Administration, now is the time to come with thoughtful ideas, and I think the CLARITY Act addresses a lot of the concerns. I also hear a lot of arguments by those on the left with the Trump derangement syndrome that we see, but I do not hear any critiques of Hunter Biden's arts or the devaluation of that we have seen since President Biden has left office.

Let us dig into the bill because the bill, the context of this bill is a really good bill to move us forward in a period of time where we can unleash digital assets here in the United States. Mr. Massad referenced joint rulemaking. The bill does that, in particular for key definitions in transactions that involve trading digital commodities as a security, capital-raising frameworks consistent with U.S. securities laws. It requires robust disclosures and rigorous obligations, in particular, for insiders. It is noted that the United States has two capital market regulators. It is a little bit of a unique system compared to our global peers, and the bill clarifies the jurisdiction of those regulators, the SEC addressing capital raising, the CFTC addressing the regulation of intermediaries in trading in the digital asset spot markets. What we are trying to get away from is regulation by enforcement and, rather, have a structured rule of law. One of the primary goals of the CLARITY Act is to create clear and delineated jurisdiction for the SEC and the CFTC.

Mr. Roisman, in the scenario where a transaction would constitute an investment contract, it would fall under the SEC, right?

Mr. ROISMAN. Yes.

Mr. STEIL. Mr. Behnam, under the CLARITY Act, which market regulator would oversee trading of the digital asset commodities?

Mr. BEHNAM. CFTC.

Mr. STEIL. Exactly. The United States, as noted, has this unique dual structure, but the CLARITY Act actually gives clarity as to who is regulating in this space. I think that is a really helpful and important point. I want to continue with you, if I can, Mr. Raman, decentralization. The ultimate goal of the digital asset project is to achieve decentralization, where no single person or group of people controls the underlying network. It is my hope that this legislation will encourage projects to reach that goal. Mr. Raman, as you know, a key component of achieving decentralization is cultivating a broad community of adopters who contribute to the ecosystem and use the digital assets that power these networks. In your view, how important is it for projects to make end-user distributions and allow retail participants to take part in capital raises?

Mr. RAMAN. Thank you for the question, and I think this is one of the core opportunities of blockchains like Ethereum, which is giving open access to the whole world to participate. This is about retail and consumers sharing the upside, not just having tightly controlled distributions, the current way of, for example, using VCs.

Mr. STEIL. It is important for the entire ecosystem, right?

Mr. RAMAN. Entire ecosystem.

Mr. STEIL. In your opinion, does the CLARITY Act protect retail investors who participate in digital asset capital raises, which you just referenced is so important?

Mr. RAMAN. I think it gives much-needed clarity for that, yes.

Mr. STEIL. Thank you. Let me jump to the DeFi side, if I can. The CLARITY Act continues or creates new registration categories at the CFTC for centralized intermediaries, such as exchanges, brokers, and dealers. The risks these entities pose are well understood, and our regulators have decades of experience addressing those risks and protecting consumers. Ms. Minarik, if I can, would

you agree that no single person or group of people control Uniswap protocol because there is a little bit of the dialog that was going on moments ago with my colleague.

Ms. MINARIK. Yes, Congressman.

Mr. STEIL. Given that, would it make sense to subject the protocol itself to a regulatory framework designed for centralized intermediaries?

Ms. MINARIK. Absolutely not.

Mr. STEIL. Let us now look at what the EU did, their framework, and other international regimes. Let us look at the EU framework that carved out decentralized finance, DeFi, from the regulatory regimes intended for centralized entities. Is that what the European Union did?

Ms. MINARIK. Yes, that is exactly what they did.

Mr. STEIL. I think it is important to know that is essential to make sure that DeFi is operating and working in the United States. I think the CLARITY Act provides significant clarification and is a huge step forward. I thank you for your leadership, Mr. Chairman. I yield back.

Chairman HILL. The gentleman yields back. The gentlewoman from Texas, Ms. Garcia, is recognized for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman, and thank you for convening this hearing. This is not the first time that we are sitting here talking about cryptocurrency. It is the new shiny product, and it could expand financial inclusion and bring digital assets to historically underbanked communities, like my district. As we debate how to best regulate cryptocurrencies, we have completely left all those people behind. They are not part of the conversation. Folks in my district are worried about where to find their next meal, especially as my Republican colleagues slashed the Supplemental Nutrition Assistance Program (SN program, Medicaid, and other necessary programs in the one big ugly bill they rammed through the House 2 weeks ago. Now apparently, they want to ram a one big ugly crypto bill this week. Meanwhile, investors are getting scammed out of their hard-earned money with meme coins and unstable markets.

I think we should just rename this, instead of the CLARITY bill, the Calamity bill because just last week, we saw that the millionaire holders of Trump's meme coin went to a dinner where, even though they paid millions, "The food sucked." They are buying favors with two-bit scams. This dinner makes it clear that regulators are not able to regulate cryptocurrency. As Mr. Himes noted, the crypto bills are recklessly being pushed through Congress only to serve to legitimize these crypto scams and lack critical investor protections. It makes it easier to defraud hardworking Americans saving for retirement, a home, or college. In fact, since Trump took office, regulators have rescinded regulations and dropped critical enforcements. Most recently, the SEC officially dropped its lawsuit against Binance, a major crypto exchange that admitted—admitted—to voluntarily—to violating U.S. anti-money laundering and sanction laws.

Mr. Massad, in your opinion, does this bill address that anti-money laundering?

Mr. MASSAD. Thank you, Congresswoman, for the question. I do not think it does sufficiently. It does provide that certain crypto firms would be subject to the Bank Secrecy Act, which is a good thing, but one of the challenges with crypto is that these assets can be transferred without going through an intermediary.

Ms. GARCIA. Right, we have discussed that, but do you think it adequately addresses it?

Mr. MASSAD. No, I do not. I think the Treasury Department, 2 years ago, requested more authority to address that sort of thing, and I do not see that in this bill.

Ms. GARCIA. This Calamity bill also includes a section that requires a study that identifies digital commodity registrants owned by foreign adversaries. This is extremely concerning. Is this not almost admitting that foreign adversaries are already using crypto?

Mr. MASSAD. Foreign adversaries are certainly using crypto. We have seen North Korea hack various crypto protocols, various exchanges. We have seen Russian smugglers use stablecoins to buy weapons.

Ms. GARCIA. Do you think this legislation addresses any of these national security threats?

Mr. MASSAD. Again, not sufficiently. I think, again, what we need to do is really give the Treasury Department more authority with respect to crypto, generally. A number of proposals were made a couple of years ago. I think those could be included in here. The BSA framework applies to centralized intermediaries, and that is not enough. Again, I recognize the complaint that the traditional framework is not perfect, and sure, blockchain provides information.

Ms. GARCIA. But we do not need to make it uglier.

Mr. MASSAD. We need to make it better.

Ms. GARCIA. Better. Mr. Behnam, you testified in your testimony that you encourage this committee to ensure that State and local law enforcements remain a key partner in fraud prevention. Can you explain that in simple terms because I need to go to my last question very quickly?

Mr. BEHNAM. Sure, Congresswoman. Very quickly, State law enforcement, they have boots on the ground. There is only so much a Federal law—

Ms. GARCIA. It is a critical piece.

Mr. BEHNAM. Yes.

Ms. GARCIA. Yes.

Mr. BEHNAM. There is only so much a Federal law enforcement agency can do.

Ms. GARCIA. Do you think, in your opinion, that this bill is ready for us to sit down and mark up and send to the floor?

Mr. BEHNAM. I think there probably could be some improvements around making sure that—

Ms. GARCIA. So your answer is, no, it is not ready?

Mr. BEHNAM. Can you repeat the question?

Ms. GARCIA. I said do you believe that this bill is ready for us to mark up, literally go through it and send it to the floor?

Mr. BEHNAM. There are imperfections—

Ms. GARCIA. Sure. I just need a “yes” or “no” because my time is running out, and I want to ask the whole panel that same question.

Mr. BEHNAM. I do think it is ready for a markup out of committee.

Ms. GARCIA. You do think it is ready for markup, Ms. Minarik? Yes or no please because—

Ms. MINARIK. Ready for markup.

Ms. GARCIA. Okay. Mr. Massad?

Mr. MASSAD. Absolutely not.

Ms. GARCIA. No? Raman?

Mr. RAMAN. I think it is ready.

Ms. GARCIA. Is it Roisman?

Mr. ROISMAN. Roisman. Yes, ma’am.

Ms. GARCIA. Yes ma’am, what?

Mr. ROISMAN. Congresswoman, I do think it is ready for markup.

Ms. GARCIA. All right. Thank you. I yield back.

Mr. STEIL [presiding]. The gentleman yields back. The gentleman from Florida, Mr. Donalds, is recognized for 5 minutes.

Mr. DONALDS. Thank you, Chairman. Witnesses, thanks for being here. We have been going through this conversation around digital assets and, really, the regulatory environment for quite some time on Capitol Hill, and one thing is clear, that this industry is growing, that more people, not just Americans, but more people around the globe are choosing to engage in it, and what is stopping the flourishing of that industry in the United States in a sound marketplace is Capitol Hill.

The CLARITY Act seeks to do what needed to be done for quite some time, is to, as its namesake, bring clarity to the regulatory structure here in the United States so you can have fledgling entrepreneurs, you have people who are trying to seek value, those who are seeking investment, those who are major players, all understand the basic rules to the road when it comes to engaging with the regulatory agencies. In short, it is time for Congress to bring clarity. Ongoing collaboration between the SEC and the CFTC is essential for effective oversight of these markets. The CLARITY Act includes several provisions that require coordination between the two Agencies, particularly in areas such as definitions, to ensure they are aligned and operate from a consistent framework.

Mr. Roisman, given the challenges with joint rules and cumbersome administrative processes, how does the CLARITY Act strike the balance between collaboration and efficiency?

Mr. ROISMAN. Thank you for the question, and thank you for your introduction, which I think is apt. I think it is never perfect to leave to regulators to help define things. As Chair Behnam talked about earlier, you are just doubling the workforce in some cases where you have 10 commissioners rather than five. That said, on the guidance that is in this bill, I think it is important for the SEC and the CFTC to work together on things that will be sort of critically important to further Congress’ sort of intention of defining what is a digital commodity, how they will sort of regulate and oversee these markets. I think it does a good job of that.

Mr. DONALDS. As a follow up to that, how does a memorandum of understanding differ from other joint efforts, including rule-

making that agencies are often required to do as a result of legislation?

Mr. ROISMAN. A memorandum of understanding really depends on, obviously, what is in it, but a joint rulemaking will require them to work together, put forward a rulemaking for the public to comment on. Both Agencies will do it, and they will work together to find a place they can all meet in the middle.

Mr. DONALDS. Ms. Minarik, I have a question for you. In addition to clearly defining jurisdictional boundaries, what other guardrails should be imposed to prevent agencies from engaging in another Choke Point Operation against digital assets?

Ms. MINARIK. I think clear definitions of the technology itself are important because what we saw over the last several years was a stretching of the law to reach technology that it simply did not reach, but we could clarify that through legislation.

Mr. DONALDS. Okay. I appreciate that. Development in the blockchain space is accelerating rapidly, yet existing regulations make it difficult for everyday investors to participate in initial offerings. The CLARITY Act attempts to ease this difficulty with a new digital asset specific exemption that permits retail participation. Mr. Raman, did I pronounce that correctly?

Mr. RAMAN.

[Inaudible].

Mr. DONALDS. Okay, good. Thank you. Mr. Raman, how will this access benefit retail investors and incentivize projects to reach maturity?

Mr. RAMAN. I think blockchains are grassroots technology, and by having retail and consumers able to participate in the upside, it levels the playing field. It creates a new opportunity that everyone can participate in, invest in, and have governance over. It is a truly decentralized system, and the framework you have set up is the step to get there.

Mr. DONALDS. I agree with you. I think in short, when it comes to retail investors, we have to find ways to, for lack of a better phrase, democratize finance and I would hope that our colleagues on the other side of the aisle join us in that effort. If you are truly concerned about the big guys getting advantages on every investment vehicle before it actually hits the street, how about freeing up the regulatory environment so the little guy can actually get in on the ground floor? Let us be very clear, investments in their nature carry risk. We all know this. To stop the small person, the little guy from being able to engage because Big Brother has decided for them that they are either, A, not intelligent enough, or B, do not have the ability to risk their own capital, defeats the very purpose of helping them achieve wealth and achieve the American Dream here in the United States. This is a great bill. I look forward to the markup. I yield back.

Mr. STEIL. The gentleman yields back. The gentleman from California, Mr. Liccardo, is recognized for 5 minutes.

Mr. LICCARDI. Thank you, Mr. Chair, and thanks to all our witnesses. Chair Behnam, I want to ask if you could complete the answer that I think you were trying to provide to Ms. Garcia. I would just like to understand how you believe we could make this bill better in markup.

Mr. BEHNAM. Across the board?

Mr. LICCARDO. Yes.

Mr. BEHNAM. Yes. Thanks, Congressman. I mean I say this in my statement, one, and I will always start with this, funding for the Agencies is key.

Mr. LICCARDO. Right.

Mr. BEHNAM. I do think the DeFi area, this was a really challenging area when I was Chair of the CFTC, where you have to balance between a centralized exchange that has clear sort of direct regulatory oversight versus DeFi. We had a number of enforcement cases around DeFi, where there were serious legal questions about what authority an agency has where there is a decentralized sort of group of participants and no central unit, and I do think there is room for improvement in the AML/KYC part. That is so critical to this particular area, and I do think the mature blockchain, these are the areas that are very difficult, right, because you have very unique issues in this particular space that are not representative or not present in any other space. With respect to the SEC and the CFTC, the two Agencies have struggled at times to define certain assets, whether it is swaps, futures 50 years ago, and then even some index-based products currently. It will take time for jurisprudence to develop around the digital asset space.

With respect to an asset starting as a security where folks are raising capital and then it becoming mature and sort of flipping over to a commodity. As much as I do think the committee did a good job in framing that issue and figuring out how to make that transition, it is extremely difficult and it will take time. Those are the areas with respect to a committee markup that I would focus on over the next couple days or weeks to ensure that this bill is strengthened and improved.

Mr. LICCARDO. This may relate to the DeFi issue you raised, but I just want to go a little further into scope because I think both you and Mr. Massad have identified the fundamental core challenge we are trying to solve with this legislation, which is an enormous regulatory gap. As I think about all the pump-and-dump schemes and the rug pulls that happen routinely in this space with regard to meme coins, with regard to non-fungible tokens (NFTs) not going to be regulated by the CFTC under this proposed statute, it is not clear in my mind who does regulate in that space. If it does not rise to the level of FinCEN and some kind of large criminal enterprise, who regulates there, then should we not be doing something in this bill to address that enormous gap?

Mr. BEHNAM. It is an extremely important question. I even recall, I think, going back to when I was a commissioner in 2019 and 2020 thinking about the distinctions between a centralized exchange, where you have a more currency or financial asset like product, Bitcoin, Ether, trading in a very traditional way, where you have buyers and sellers and a typical order book. These collectibles are, in fact, that in many respects and I think Chairman Massad pointed out, it is a little bit of a gray line. I am paraphrasing a bit because, in some respects, I think about it in the context of contract law and maybe perhaps like the Federal Trade Commission about what relationships we are having between people committing fraud around the value of an asset. It is more of

a bilateral counterparty relationship as opposed to what we view collectively as what a market looks like and having bids and offers and a continuous order book.

I cannot give you a perfect answer, but it is not unlike, and I will go here, the event contract space, where I have been very vocal about where the line should be for the CFTC in terms of what it regulates. There are certain products that are historically very much accustomed to an order book and a marketplace, but because of technology and because of investor demand, we are seeing a whole new set of product-type assets that people can trade in ways that are somewhat similar to an exchange but distinct as well, and this is where I think it is going to be very difficult. As much as I do think the commodity definition captures the largest tokens, it is going to capture well over 70 to 80 percent of the market, the largest tokens, which end up being about five or so but I do think Chairman Massad is right. If you look at a Coinbase or some of the other large exchanges, they are listing dozens and dozens of tokens which do not have a lot of value. The vast majority of them do not trade very often and do not have too much liquidity or volume, and I think those are the areas where it could slip through cracks.

Mr. LICCARDO. Thank you.

Mr. STEIL. The gentleman's time has expired. The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman, and thank you to the witnesses for joining us. Near the end of this critical endeavor, I often remind industry representatives, whether they are major players or niche blockchain innovators, that we must get this right the first time. Once this car is on the road, there might not be an exit for quite a few miles. I firmly believe that Chairman Hill and Chairman Thompson have crafted a bill that not only addresses regulatory uncertainty but also positions the United States to be a global leader in crypto for decades to come.

Ms. Minarik, first, thank you for being here today just days after recovering from a health scare. If that does not show Congress how important this legislation is for you, I do not know what will. I had a great visit to Uniswap HQ a few weeks back where we discussed the importance of the CLARITY Act, and the excitement surrounding Congress getting this across the finish line. For companies like yours, what does passing this legislation mean for attracting talent to the United States?

Ms. MINARIK. Thank you for the question, Congressman, and for the kindness. I appreciate that. Having been a part of this industry for several years now, I can say that all of us are extremely excited about the opportunity to bring more talent back to the United States to do more building back in the United States. In the last few years, we have lost a lot of products or projects to overseas development, or that development just did not happen at all. If we have rules of the road, then we have an opportunity to bring back economic activity, innovation, and jobs to America in this space.

Mr. TIMMONS. Thank you for that. In light of recent SEC rulemakings and the rollback of specific enforcement actions, how do the definitions and regulatory clarifications introduced in this legislation create a sustainable compliance framework that enables

digital asset firms like yours to scale operations and innovate securely over the next 4 years and beyond?

Ms. MINARIK. I think a couple of critical pieces of this bill that are so important are, number one, that it confirms certain aspects of existing law that have long been true, but yet, we as an industry have had to fight over at the cost of hundreds of millions of dollars in court for years, including the secondary market trading of most digital assets that is not securities transactions, but now we know that there will be ways for new projects to launch, to fundraise. There was no clear path for that before, so it opens up more activity where that was chilled under the prior administration.

Mr. TIMMONS. The status quo has clearly changed, and the future is only brighter. Mr. Roisman, from your time at the SEC, can you detail specific examples of how overlapping domestic Agency jurisdictions have impacted market participants' ability to innovate or operate efficiently?

Mr. ROISMAN. I think some of my fellow witnesses talked about this. In certain cases, there has been delayed innovation because of uncertainty about whether things are a swap or a security-based swap, and so what I think this bill hopefully does is sort of tell the regulators what is in their lane and what is not in their lane. As a result, I think they can work together to sort of ensure that there are adequate protections and regulation.

Mr. TIMMONS. Thank you for that. I also want to ask about foreign regulatory inconsistencies, especially given your experience with international frameworks. How do these inconsistencies impact cross-border digital asset activity, and, in your view, what are the most effective ways to reconcile them?

Mr. ROISMAN. Chairman Mr. Behnam talked about this as well. I think it is important for the United States to get its sort of songbook right and then work with other regulators. A big part of this is obviously mutual recognition and comity, so I am hopeful that whatever happens, there is consistency and ability for people to work across the globe.

Mr. TIMMONS. I appreciate that. I am going to finish up with just a few simple really yes/no questions. Does the status quo of crypto regulation or lack thereof provide certainty to entrepreneurs or clear protections to consumers, Mr. Roisman?

Mr. ROISMAN. I am happy to say there is great uncertainty, but I think Mr. Raman will—

Mr. TIMMONS. Mr. Raman?

Mr. RAMAN. There is great uncertainty without rules of the road.

Mr. TIMMONS. Thank you. Are the status quo and the threat of regulation by enforcement sustainable, Mr. Roisman and Mr. Raman?

Mr. RAMAN. No, regulation by enforcement has kept a lot of innovation at bay that is all ready to be enacted.

Mr. TIMMONS. Thank you. Would Congress passing digital asset market structure legislation solve both of these problems?

Mr. RAMAN. It would definitely give the clarity to move us in the right direction.

Mr. TIMMONS. I guess my last question is, what are the consequences if we fail to pass digital asset market structure legislation?

Mr. RAMAN. Blockchain innovation is going to happen anyway. We want to build in the United States. It will not happen in the United States.

Mr. TIMMONS. It just will not happen here. We got to get this right. We got to do it now. Thank you, Mr. Chairman. I yield back.

Mr. STEIL. The gentleman yields back. The gentleman from Texas, Mr. Green, who is also the Ranking Member on the Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman. I thank the ranking member and the witnesses for appearing as well. Mr. Massad, this may be a little bit afield of where we are today, but it is of concern to me. By the way, I thank you very much for your candor and being forthright. It means a lot to me to hear such testimony, but I am concerned about how cryptocurrency can impact the dollar as the currency of choice, and here is why. Currently, the dollar is the reserve currency of choice, and as such, we use the dollar when we want to sanction other countries. Other countries want to do business with us, so they keep the dollar in their reserve. If we move to this cryptocurrency with a decentralized cryptography and a peer-to-peer relationship, that can take the central bank out of the picture. So, you do not have a central bank. You have a peer-to-peer relationship. That allows money to be moved freely among peers.

My concern is when we are trying to sanction a country that country now has the ability to move the money, just as we talk about the corruption. They can move this money among themselves, and we will not be able to sanction as well as we can now. Is that a possibility? Does it impact on our ability to maintain the sanction regimes that we put in place?

Mr. MASSAD. I believe that it does, but in a different way, Congressman. I do not worry about Bitcoin or Eth becoming a replacement for the dollar. I just do not see that happening despite some claims of Bitcoin enthusiasts. They are just too volatile. They are not backed by a government. Stablecoins can actually help solidify the role of the dollar as a currency of international transaction. This is where I agree with you because stablecoins and other crypto assets can be transferred without going through an intermediary like a bank. That is where you create the risk that we cannot impose sanction programs as effectively. We saw that with Russian smugglers using Tether to buy weapons. There were concerns about Hamas using crypto to fund itself.

Look, I think this technology is very important. I want to support it, but we have to give the Treasury Department and other regulators adequate tools to deal with those risks, and I do not think we have done that yet.

Mr. GREEN. Thank you and I agree, and my concern has a lot to do with how we will lose this ability to bring some of these countries that are outliers who are doing dastardly things, and we want to make sure that we can curtail their activities. I do not know that we will have an efficacious methodology through which it can be done.

Mr. MASSAD. Yes, I share the concern again. Again, I recognize that blockchains provide permanent information on transactions.

Law enforcement likes that to the extent they can identify who someone is, but it is still after the fact, right? The money could have been moved. Again, I just think we need to think a little bit more broadly about what are the tools that we need. We need to impose obligations on stablecoin issuers to monitor their chains for suspicious wallets. We need to give the Treasury authority over stablecoin transactions the same way it has over dollar transactions generally. We need to give the Treasury more authority with respect to foreign intermediaries like crypto trading platforms. There are a number of things we could do that we have not done yet.

Mr. GREEN. Thank you. You answered the second part of my question, and you have given me some degree of comfort, but I am still concerned about this war for currency supremacy, and in this war for currency supremacy, Russia and China are both at odds with us. They would rather the dollar not be the preeminent currency of choice for reserves, and I do not know how ultimately it will end, but I do know that there is a real effort made now to take the dollar down. Thank you.

Mr. STEIL. The gentleman yields. The gentlewoman from California, Mrs. Kim, is now recognized for 5 minutes.

Mrs. KIM. Thank you, chairman and ranking member of the committee, for hosting this hearing, and I want to thank all the witnesses for joining us today.

The State that I represent, California, has been a leader in cryptocurrency adoption with over 1,000 Bitcoin ATMs throughout the State and more than 8.2 million residents owning a digital asset. My alma mater, University of Southern California (USC), hosts an annual Southern California Blockchain Conference so they can highlight the future of digital assets and blockchain technology. Californians are really excited about the potential and future of digital assets, but unfortunately, by not passing FIT21 last year, a legal cloud continues to hang over blockchain usage in America.

This CLARITY Act, which is led by our Chairman, French Hill, will finally provide regulatory certainty so that America can drive the next generation of financial innovation and protect consumers like my constituents who want to participate in the digital asset market. The opponents of digital assets often criticize the technology because of its ties to illicit finance. Let me ask the first question to you, Mr. Behnam. How are platforms engaging in the offer and sale of digital commodities to eliminate illicit finance?

Mr. BEHNAM. Thank you, Congresswoman, for the question. As much as the market regulation is missing, something I have long advocated for, many of the centralized exchanges that operate in the United States and offer products to the United States, customers do have to comply with both State money transmission requirements and also Treasury requirements within FinCEN. So, there are mechanisms in place already around AML and KYC and, to an extent CIP, which we would—

Mrs. KIM. You want to borrow my mic? Yes.

Mr. BEHNAM [continuing]. and not just the States and the Treasury Department itself.

Mrs. KIM. Great. I am not sure if everybody heard, but can you—

Mr. STEIL. We may need to have you borrow another mic if your mic is not working.

Mrs. KIM. Yes.

Mr. BEHNAM. I think they are all back now.

Mrs. KIM. Yes, sure.

Mr. BEHNAM. They all went out.

Mr. STEIL. Are they back on now?

Mrs. KIM. Let me just ask a follow up question. Is that regulation equivalent to how platforms in traditional finance are regulated?

Mr. BEHNAM. Yes. Typically, in the traditional financial space, you will have regulation around the exchanges, the broker-dealers, the custodians, and with that regulation, comes very exhaustive requirements around AML and KYC, again, in conjunction with both States and the Treasury Department, which has a unique authority because of the cross-border nature of money. I do think without those protections and without that regulation in the crypto space, as much as the crypto exchanges are complying with State-level regulations and the Treasury Department regulations, there are components missing, which I pointed out earlier—

Mrs. KIM. Yes.

Mr. BEHNAM [continuing]. which can certainly strengthen AML and KYC.

Mrs. KIM. Thank you. It is really important to note that the CLARITY Act creates strong anti-money laundering, counterterrorist financing protections and I believe that this, coupled with the financial literacy provisions of the bill, will provide high levels of consumer protection. Section 5 of the CLARITY Act requires a study on expanding financial literacy among digital commodity holders. I have heard firsthand about how the digital asset ecosystem grapples with high rates of fraud and scams. Ms. Minarik, can you talk about how a study like this one in the bill could help combat that issue?

Ms. MINARIK. Yes, I do think because DeFi is such a new and different technology from centralized platforms, that it is important to study the risks and benefits. With DeFi, yes, there is not a traditional KYC/AML regime, but there is robust and often real-time blockchain analytic review to identify bad actor wallets and stop transactions. This is new technology and so studying it will help us identify tools that will serve these broader interests. The BSA itself is a broken and, in many ways, a dying tool because AI can defeat it and because it is creating honeypot after honeypot of giant troves of information within companies, so we should be looking for better tools.

Mrs. KIM. Thank you. As we heard here today, the United States has been behind in providing regulatory clarity to the digital asset industry. The European Union's market in crypto asset regulation was enacted over 2 years ago, and since then, we have seen a drop in blockchain and digital asset developers and companies under the Biden-Harris Administration. Mr. Raman, how could the CLARITY Act help the U.S. incentivize digital asset developers and projects to come back?

Mr. RAMAN. Thank you for the question. With rules of the road, institutions, companies will hire. Your State had Silicon Valley,

and it created the next wave of innovative companies in the United States——

Mr. STEIL. The gentleman can further answer the question in writing.

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

Mr. STEIL. The gentlewoman's time has expired. The gentlewoman from Michigan, Ms. Tlaib, is now recognized for 5 minutes.

Ms. TLAIB. Thank you so much, Mr. Chair. I am going to start with a yes or no question. I hope that is okay. Is corruption possible when a company or a foreign actor seeking to influence government policy can pour millions or even billions of dollars into a venture benefiting the President of the United States, Mr. Roisman?

Mr. ROISMAN. I am afraid I am not going to talk about any individual.

Ms. TLAIB. It is Okay. It is Okay. I understand. Go ahead. It means yes, by the way, but go ahead. Could there be corruption?

Mr. ROISMAN. I am here talking about a blockchain network, Ethereum——

Ms. TLAIB. Of course you do not want to answer. How about you, Russ? Just be honest, you guys. Yes.

Mr. BEHNAM. Yes.

Ms. TLAIB. Of course. How about you, Ms. Minarik?

Ms. MINARIK. Misconduct is always possible.

Ms. TLAIB. Yes. Mr. Massad?

Mr. MASSAD. I am sorry. Was the question whether there could be corruption?

Ms. TLAIB. Corruption is possible when a company and a foreign actor invest——

Mr. MASSAD. Yes.

Ms. TLAIB [continuing]. into a——

Mr. MASSAD. Yes.

Ms. TLAIB [continuing]. venture financially benefiting the President of the United States?

Mr. MASSAD. Absolutely. Of course.

Ms. TLAIB. Absolutely. The answer is obviously yes. Unfortunately, the President of the United States has crypto projects—I want the American people to know this—provide exactly such opportunities for corruption. I want to talk a little bit about this because I think it is important if we are going to talk about legislation. Freight Technologies, Inc. facilitates international trade, right? Freight Technologies recently announced it was spending about, what, \$20 million dollars to purchase Trump's meme coin, right? The company's press release explicitly stated that doing so "is an effective way to advocate for its preferred trade policies." Companies are flat-out saying that they are trying to buy influence and access via crypto corruption, but it gets worse. Just one company, Binance—yes, we are going to talk about Binance—can easily put twice the amount in the President's pocket each year. The Emirati, what is it, State fund, GILCHRIST:—fancy little names

—is investing about \$2 billion in Binance via the USD1, right, the stablecoin owned by Trump. USD1 is owned by Trump's family's company, World Liberty Financial. If Binance keeps the money

in the USD1, the Trump family can earn interest on that. Is that correct? Right?

Mr. MASSAD. Yes. Indirectly, yes.

Ms. TLAIB. That is because the stablecoin issuers are like a bank, right? They are functioning like a bank.

Mr. MASSAD. Effectively, yes.

Ms. TLAIB. Mr. Massad, can you briefly explain how the World Liberty Financial acts like a bank by acquiring these funds, which it can then later invest?

Mr. MASSAD. Any stablecoin issuer takes in dollars, issues stablecoins, and then it invests those dollars in Treasury bills or other things, and there is a yield on that which benefits the stablecoin issuer.

Ms. TLAIB. Let me talk about the yield. Two billion dollars invested at 3 percent annual return—

Mr. MASSAD. It is a lot of money.

Ms. TLAIB [continuing]. will yield \$60 million a year, and with World Liberty Financial, the Trump family pockets 75 percent of the returns. That is \$45 million in annual profits for the Trump family. Here comes the corruption, the one you guys did not want to answer, and would you not know it, in just weeks after the Binance-World Liberty Financial deal, Trump's SEC dropped the lawsuit against Binance—is not that correct—like that. Now, World Liberty Financial claims to be decentralized, but reporting indicates it is primarily owned and controlled by the Trump family, a suspected fraud artist, Justin Sun. You all know the investment firm, DWF Labs. Mr. Massad, what are your thoughts on a crypto platform that claims to be decentralized, but demonstrates its clear centralized ownership and control?

Mr. MASSAD. Again, the term “decentralized” is thrown around so much.

Ms. TLAIB. Yes.

Mr. MASSAD. With all of these platforms, you really have to look at, well, are not there vectors of control? Are there not either people who own administrative tokens that give them certain rights, or other arrangements? So, you cannot just assume.

Ms. TLAIB. My colleagues here are talking about the CLARITY Act. How will World Liberty Financial, owned by the Trump family, be regulated under the CLARITY Act?

Mr. MASSAD. I am not sure.

Ms. TLAIB. They are not going to be regulated.

Mr. MASSAD. I mean—

Ms. TLAIB. I mean, it does nothing—

Mr. MASSAD. It depends on what their activities are.

Ms. TLAIB. It does nothing to stop the companies from using decentralized as a smokescreen as predatory schemes. Does it stop them with the CLARITY Act?

Mr. MASSAD. No. One of my big concerns about the act is the breadth of that DeFi exception.

Ms. TLAIB. That is right.

Mr. MASSAD. Yes.

Ms. TLAIB. That is right.

Mr. MASSAD. Time has expired, I think.

Ms. TLAIB. No, it is okay. It is fine. Let us be honest about this because he will not be the last President that does this. Maybe pretend it is not him and it is a future President that will use these schemes——

Mr. STEIL. The gentlewoman's time has expired. The gentleman from New York, Mr. Garbarino, is recognized for 5 minutes.

Mr. GARBARINO. Thank you, Mr. Chairman. Blockchain technology and digital assets offer America the chance to lead another generation of critical innovation that unlocks new economic opportunities for all. Unfortunately, as we heard from many of my colleagues today, the current regulatory framework leaves much to be desired. We must ensure that the United States remains a global leader in financial and technological innovation, and I believe that the CLARITY Act is a step in the right direction. I am having trouble reading here. I commend Chairman Hill's leadership along with the Ag Committee's colleagues on this issue. I look forward to providing some much-needed clarity to rather opaque regulatory landscape surrounding digital assets. As part of this push, it is important to understand the current landscape in which digital asset projects are raising capital. Today, investors can make investments in digital asset projects through a series of exemptions, each with their own advantages and limitations.

Mr. Roisman, what are the different exemptions that digital asset projects are currently using to raise money with investors and any obstacles that they pose?

Mr. ROISMAN. There is a myriad, and thank you for the question. It goes to a point that Mr. Raman was talking about earlier, which is, there have been sort of limitations for projects to get access to capital and for ordinary investors to participate in some of this. Traditionally, I think people look to Regulation D, some look to Regulation A, and maybe even to crowdfunding. The new sort of exemption offered here would be one that could be specific to projects that are trying to reach maturity.

Mr. GARBARINO. Again, how does the CLARITY Act approach the existing exempt offerings at the SEC?

Mr. ROISMAN. I want to be clear. At least from my reading, and I apologize if I am misreading it, this is only one particular offering. The capital-raising transactions for digital assets still will be under the SEC's framework. All this is doing is saying there is a particular exemption for ones that are projects that are trying to be mature blockchains. With them, they get certain requirements from the SEC and from Congress about what they need to provide to the SEC and to investors. I think Chairman Hill talked about this earlier, there is still anti-manipulation, anti-fraud authority for the regulators.

Mr. GARBARINO. This exemption, how does it solve some of the limitations with the current exemptions, these new exemptions?

Mr. ROISMAN. I think Mr. Raman talked about this earlier, which is, I think it incentivizes people to build products that are mature and have access to capital, as well as allowing sort of everyday, nonaccredited investors to participate. I just want to comment on something my colleague has said. I certainly firmly believe, and I think everyone here does, there needs to be adequate investor protections for people. Otherwise, this does not work. No one wants to

create an exemption that could be abused, and I think the idea is the SEC has authority to sort of further tailor this, and that is the idea.

Mr. GARBARINO. You briefly mentioned that there were still some protections for investors. Can you walk through those?

Mr. ROISMAN. I do not think we have enough time, just because I do not remember all that.

Mr. GARBARINO. Very important. We want to make sure we get this on the record.

Mr. ROISMAN. Look, I think there are things like ensuring that sort of affiliated persons and related persons are not able to sell out immediately after sort of like an insider trading faction. There are requirements for the offering documents that must be published with the SEC. There are requirements relating to what is provided to the purchaser, things like risk factors. My understanding is these things would be traded on broker-dealers and subject to sort of the traditional regulation vested interest in other parts of it. I commend the chairman for his work on this, and if there is anything missing, people should let him know, and I think the regulators can provide additional technical assistance if it is necessary.

Mr. GARBARINO. Thank you. Finally, a common way for a project to distribute digital assets to its users is through broad distributions in order to support the development of its network. Mr. Raman, how does the proposed legislation treat digital assets distributed in this manner, and why does this treatment more accurately correspond to how the digital asset market operates?

Mr. RAMAN. Thank you for the question, and I think under the previous SEC, everything was a security, and that is not the actual case for a new technology and a new wave of assets. A lot of the tokens powering blockchains, like Eth powering the Ethereum blockchain and securing the Ethereum blockchain, are commodities. This gives clarity that network tokens that are distributed fairly from launch via airdrops or via other community ways of distributing tokens are actually commodities and would be regulated differently.

Mr. GARBARINO. My time has expired. I yield back.

Mr. STEIL. The gentleman yields back. The gentlewoman from Colorado, Ms. Pettersen, is now recognized for 5 minutes.

Ms. PETERSEN. Thank you, Mr. Chair. I want to thank the witnesses for being with us today, and especially Ms. Minarik, as I understand you are recovering from pneumonia and still are here in person. We appreciate you.

I am also deeply concerned about the President's profiting off of the presidency, and especially how he is using digital assets to do so. While I know that is been covered extensively, I just want to make sure that I express my deep concerns here. Outside of the President and his actions, I know that this is really important that we come together to provide clarity, to make sure that we are not seeing businesses move from the United States offshores. That we are actually providing this framework in order to make sure that we continue to thrive here in the United States, and that we bring protections for consumers. I was one of the Democrats that supported FIT21 in the past. While, of course, there were still out-

standing issues, like any bill, I thought that it provided a path for the regulation necessary, and that clarity.

I know that many of us want to be there in providing additional amendments so that we can make sure that we are doing this in the right way, and this has a real path to becoming law this year, as you know, and it is important that we get this right. When we look back in 25 years, it is not going to be did we get it done before August recess and did we get it done alongside the stablecoin bill or in front of the Senate version. It is going to be, did we do this right and protect our financial system, protect consumers and provide a durable legislation that can withstand the pendulum of the political dynamics here at the Capitol? I urge all of us to be able to take a little bit more time to get this right.

I know that you all, especially the chairman, has been working around the clock to take our feedback, but I do not see how we are going to get everything incorporated by next week. First, I want to get that out there.

To my questions, Ms. Minarik, in your written testimony, you mentioned that the underlying CLARITY Act is not ideological, and that while we have disagreements in the details of legislation, that the core of the issue is everyone on this committee wants a framework that supports innovation and keeps out bad actors and protects consumers. To go further on this point, can you comment on what principles of the digital asset ecosystem should appeal to members on both sides of the aisle?

Ms. MINARIK. Thank you. Thank you, Congresswoman. Crypto itself is neutral technology that can be deployed for all kinds of valuable uses: the safe and secure exchange of value, the secure and immutable storage of data, and even digital ways to create and share art. There are worthwhile uses of crypto for everyone, which is what makes this a bipartisan, nonpartisan path to market structure legislation here so possible. In addition, the United States as a whole will benefit from leading in this new technology, and now is the moment to take back that leadership that we have ceded to other countries.

Ms. PETERSEN. Thank you. Ms. Minarik, to that point, just you warned about every other major economy actually providing this framework, that businesses are moving offshore, and America should lead the world in the industries of the future and not cede our leadership. How urgent is the need for the United States to establish clear regulations before other major economies gain an insurmountable advantage in this space?

Ms. MINARIK. Congresswoman, I take your caution that you noted earlier very seriously. I do equally believe that time is of the essence, so we have competing priorities there. I think that the longer we take to do good market structure legislation, the more we are ceding U.S. leadership, not just in this innovation, but to overseas regulators who will set the standards for Americans' use of this technology. We should be setting those standards ourselves.

Ms. PETERSEN. Great. I never usually have extra time. Is there anything that the witnesses feel like you have not had the opportunity to speak on? Mr. Massad, do you have anything that you would like to add?

Mr. MASSAD. I would maybe add two things. We have, obviously, talked a lot about the President's activities. I would just point out that a lot of people I speak to in the crypto sector also do not like what he is doing but do not feel they can speak out, and even publications at the Wall Street Journal have criticized——

Mr. STEIL. The gentlewoman's time has expired. The gentleman can add additional comments into the record.

Mr. MASSAD. Thank you.

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

Mr. STEIL. The gentlewoman from the great State of Wisconsin.

Ms. WATERS. Mr. Chairman I seek recognition.

Mr. STEIL. For what purpose does the ranking member seek recognition?

Ms. WATERS. Pursuant to Clause 2(j)(1) of Rule XI of the Rules of the House and Clause (d)(5) of Rule 3 of the Rules of the Committee on Financial Services, I and every single Democratic member of the committee unanimously request to call additional witnesses selected by committee Democrats to testify in continuation of today's hearing, also known as Minority Day Hearing.

Continuing this hearing with the second panel will provide members of the committee and the American public, the opportunity to consider and discuss additional perspectives on President Trump's crypto conflicts of interest and corruption, including measures like my bill, H.R. 3573, The Stop TRUMP in Crypto Act, the effects of H.R. 3633, The CLARITY Act of 2025 on consumer and investor protection, national security, and existing securities and commodity futures regulation, and the CLARITY Act's potential effects on the digital asset industry and broader financial system.

I also request unanimous consent to enter my Minority Day Hearing request letter into the record.

Mr. STEIL. It will be entered into the record without objection.

[The information referred to can be found in the appendix.]

Mr. STEIL. I thank the ranking member. Generally, House Rule XI is reserved for when the minority is denied a witness. Today, the minority requested Hon. Timothy Massad as their witness, who we invited. However, we will commit to you to adhere to House Rule XI. We previously held a subcommittee hearing on the matter that the ranking member objected to, and then we held a roundtable on the topic, another opportunity to have engaged substantively on a hearing.

The gentleman from the great State of Wisconsin is recognized. Mr. Fitzgerald is recognized for 5 minutes.

Mr. FITZGERALD. Thank you, Chairman. I have heard some of the discussion earlier today, and some of this goes, I know, back to 2008 when the original foundation of Bitcoin kind of came about. There were a couple of meetings about 4 years ago that were still looking at a determination on whether or not we were talking about a commodity itself, or if this could take some other form. While only some of the digital assets projects have kind of stood the test of time, there are others that are emerging. I was just wondering, and this is for Ms. Minarik. Do you think the bill today deals with the nuances of what has been in place now for some time and what is emerging as we speak.

Ms. MINARIK. Thank you, Congressman, for the question. I do think it is very important for any legislation to meet technology where it is at, and that is what the CLARITY Act draft tries to do. We have talked a bit today about the maturity test, that is one piece of it, and that helps ensure that there are standards in place that new projects that do not yet exist know they can follow, that are not overly onerous, that prevent a new project from starting at all. At the same time, there are broader requirements throughout the act for established players as well, so I do think we see that balance in the act.

Mr. FITZGERALD. Mr. Roisman, I know you guys have been here a long time. Thank you for being patient. The digital asset could be treated as a security at the time of the initial sale or can be part of that investment contract, but the same asset must be later offered or sold outside of that investment contract. I am just wondering, does this bill clear that up at all on what the initial offering was compared to where we end up, again, as of today? I am really concerned about kind of where we were and are we going to end up in a different place on this whole thing.

Mr. ROISMAN. I think the bill tackles that head on, Congressman, by having, I think, an exception for a digital commodity asset, saying it can be sold as part of an investment contract, but it is not inherently an investment contract, meaning it is outside of the securities laws. I think it is a valiant effort and should continue. I encourage people to continue to talk to the regulators to make sure that it captures adequately that concept.

Mr. FITZGERALD. Very good. Mr. Rostin, many founders and developers find themselves navigating outdated disclosure requirements that do not reflect the realities of what is decentralized, and I am wondering because of the protocol of the token-based funding models, how you see this or how this could play out.

Mr. BEHNAM. Thank you for the question, and this is an excellent step in clarifying that. I think a lot of the innovators that wanted to make decentralized networks, whether they are networks or applications, did not have any rules whatsoever and had to guess—

Mr. FITZGERALD. Right.

Mr. BEHNAM [continuing]. or had to go abroad and just try and avoid the whole jurisdiction. This brings clarity for that, and that is why I am so optimistic that we are going to see so much innovation in the United States as a result.

Mr. FITZGERALD. Do you still think there is a period of time in which some of these things could morph out of what is considered a commodity into some other type of entity in the future?

Mr. BEHNAM. I think that over time, as things become more decentralized, which is starting to be enumerated in this bill—

Mr. FITZGERALD. Right.

Mr. BEHNAM [continuing]. you can have a globally distributed network and a protocol that has tokens that are globally distributed. I think it is possible.

Mr. FITZGERALD. Very good. Thank you. I yield back to the gentleman.

Mr. STEIL. The gentleman yields back. The gentlewoman from Massachusetts, Ms. Pressley is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you. Now, in normal times, a U.S. President trafficking in corruption would be condemned by both Republicans and Democrats. In normal times, the appearance of bribery, even the hint of it, would be universally denounced, but these are not normal times. In fact, in this season of reverse Robin Hood culture, these are the worst of times. The Trump family is engaging in mind-boggling levels of corruption, so blatant, so numerous that we are overwhelmed and cannot keep up, which is, in fact, the strategy. Today I want to shed light on, specifically, the crypto bribery scheme happening in plain sight.

Now, Trump launched World Liberty Financial, a crypto platform where 75 percent of revenues go straight to the Trump family's pockets. This has become a pay-to-play corruption game. Occupant Trump has zero interest in lowering costs for working families but remains vigilant in his efforts to enrich himself. Now, as further evidence of this pay-to-play corruption game, player one is Justin Sun. In 2023, the SEC sued him and his companies for defrauding investors, manipulating token prices, and secretly paying celebrities to promote tokens without disclosing payments. All of that is illegal, but after Sun purchased \$75 million worth of Trump's tokens, he was appointed as an advisor to World Liberty Financial, and magically, Trump's SEC dropped their case against him, and maybe that is just a coincidence, but it sure does look like crypto bribery.

Then there is Binance. The company's founder, Changpeng Zhao, or CZ, was convicted for failing to prevent terrorists, child abusers, and cyber criminals from using his crypto exchange. Binance paid a \$4 billion fine, and the SEC also sued Binance for running an unlicensed exchange. Now that would have been a slam dunk case. One Binance executive literally messaged another, "We are operating as an effing unlicensed securities exchange in the USA, bro." I must say, the constituency of bros are certainly living their best life in Donald Trump's America, but I digress. Yet again, that case magically disappeared after a \$2 billion investment in Binance using Trump's stablecoin, and we are supposed to think that this is just a coincidence.

Let me ask a very simple question, and I promise you; this is not a "gotcha" question. This is straightforward, so I am looking for a straightforward answer. Should companies be able to bribe the President of the United States to make SEC lawsuits go away? Yes or no, and we will begin with Mr. Massad and work back.

Mr. MASSAD. Absolutely not.

Ms. MINARIK. No. Bribery is a crime.

Mr. BEHNAM. No.

Mr. RAMAN. No.

Mr. ROISMAN. I am not here to talk about—

Ms. PRESSLEY. Let me let me say the question again, sir.

Mr. ROISMAN. Sure.

Ms. PRESSLEY. Again, there is no "gotcha" here. This is very straightforward.

Mr. ROISMAN. Okay.

Ms. PRESSLEY. Should companies be able to bribe the President of the United States to make SEC lawsuits go away? Yes or no.

Mr. ROISMAN. I do not think anyone should bribe anyone to make lawsuits go away.

Ms. PRESSLEY. Yes or no.

Mr. ROISMAN. That is my answer, ma'am.

Ms. PRESSLEY. Yes or no.

Mr. ROISMAN. I think I just answered it.

Ms. PRESSLEY. Under Trump, the SEC is not protecting anyone. It is not regulating. Cases are being dictated by whoever is paying the President tens of millions of dollars' worth of crypto bribes, and who pays the price? It is not the billionaires or the foreign actors cutting deals behind closed doors. It is the average Americans who use crypto for legitimate reasons, like remittances, who are left unprotected in a rigged system. To be clear, these crypto scams are not simply about Trump and his billionaire friends making money. It is even worse than that. It is about them stealing money from everyone else. If this is not the definition of corruption, then what is? I yield back.

Chairman HILL. The gentlewoman yields back. The chair plans to have one more questioner prior to a brief recess while votes are being conducted. We have time on the clock. The gentleman from Nebraska, Mr. Flood, who is also the Chair of the Subcommittee on Housing and Insurance, is recognized for 5 minutes.

Mr. FLOOD. Thank you, Mr. Chairman. While I know that some of my friends on the other side of the aisle like to talk about President Trump, it is important to remember that any current activity in digital assets is taking place under the regime set forth by the previous administration and the previous SEC. During the last administration, there was an opportunity for Chairman Gensler and the SEC to engage with Chairman Behnam at the CFTC and put together joint rulemaking that could have provided meaningful regulatory clarity in digital assets. Sadly, the former chairman chose not to collaborate on a solution and, instead, deepened the problem by engaging in a series of enforcement actions that led to a thorough and repeated rebuke of the Commission. The judge in the DEBT Box summarized it best when he indicated the SEC committed a "gross abuse of power," in their handling of that case. Congress also had the opportunity in 2021 and 2022 under a democratic trifecta to put forth a digital asset market structure proposal to better regulate the industry. Part of the reason we are still talking about the digital asset market structure today is that both the SEC and Congress did not rise to the occasion in the Biden years to provide clarity and, most importantly, to protect investors.

Mr. Roisman, since the Crypto Task Force and the SEC was formed, the Commission has done five roundtable events on topics like tokenization and custody. Given your experience as a commissioner during Chairman Gensler leadership, can you speak to how significant a sea change we are seeing right now at the SEC is regarding their approach to digital asset regulation relative to the approach followed by the Commission when it was led by Gensler?

Mr. ROISMAN. I think, first and foremost, I share what I imagine is your viewpoint, which I commend the current SEC for their roundtables and work in this space. There is, I think, excitement from every facet of the industry, whether it is the programmer, to the investors, to the businesses where they are able to provide

input about how the markets actually work, so I do think that this is a new day, as SEC Chair Atkins has called it.

Mr. FLOOD. Thank you, Mr. Roisman. Mr. Raman, given your experience with Ethereumize, can you speak about your view of how The CLARITY Act treats DeFi?

Mr. RAMAN. Thank you for your question, first off, and the CLARITY Act not only encourages but also creates guardrails and rules of the road. DeFi, which I also like to call programmatic finance, can be symbiotic to the U.S. economy. I think that it creates opportunity for a lot of innovation.

Mr. FLOOD. Mr. Benham, during your time as Chairman of the CFTC, you repeatedly called on Congress to provide the CFTC with spot market authority to better regulate digital asset commodities. If the CLARITY Act were passed into law when you were Chairman of the CFTC, how would you act on the responsibilities the bill provides to the CFTC over digital asset markets?

Mr. BEHNAM. Congressman, thanks for the question. It takes many steps toward giving the CFTC the comprehensive authority it needs to regulate non-security digital tokens.

Mr. FLOOD. Thank you very much. With that, I yield back the balance of my time.

Chairman HILL. The gentleman yields back. Pursuant to the previous order, the chair declares the committee in recess, subject to the call of the chair. We will reconvene immediately following votes. The committee stands in recess.

[Recess.]

Mr. DOWNING [presiding]. The committee will reconvene and come to order.

The gentleman North Carolina, Mr. Moore, is now recognized for 5 minutes.

Mr. MOORE. Thank you. Thank you, Mr. Chairman, and I want to thank the testimony of the witnesses, some which I sat in here and watched, some which I watched on TV. A couple of things that have come to mind for me is that during the Biden Administration, America's innovators operated, I guess, what I would say in a cloud of legal uncertainty. The patchwork of regulation, which was driven largely by enforcement, forced developers to choose between navigating outdated frameworks or simply moving their innovation overseas, as was referenced as well. This just is not bad for business, it is bad for consumers, it is bad for competitiveness and, frankly, bad for our national security. While the Trump Administration has, fortunately, taken a more constructive approach to digital assets, it is ultimately up to this body, it is up to Congress, to establish a clear and tailored framework that fosters innovation and that ensures strong consumer protections. The CLARITY Act strikes that right balance by encouraging innovation while ensuring robust safeguards. It draws clear jurisdictional lines between the SEC and the CFTC, allowing for capital formation in a way that fits this unique technology.

With that being said, it did spark a couple of questions, and I would start first with Ms. Minarik, and we have heard from innovators who spent more on SEC compliance than they had raised in capital. How does the new exemption pathway in the CLARITY Act help level the playing field for U.S.-based projects?

Ms. MINARIK. Thank you, Congressman, for the question. I will say, speaking for Unisoft Labs, as a project like that, we as a company spent millions of dollars a year, 4 years, on an SEC investigation when the SEC never told us the basis of the investigation and, ultimately, 3 years later, did not sue us. This was all before we were a profitable company. That could have killed a lot of businesses, and that approach, we know, did kill a lot of businesses in the United States. Having this type of clarity to take that cost on innovation, that tax on innovation off the table, is very important.

Mr. MOORE. Thank you. Mr. Roisman, can you explain why this framework is more suitable than trying to, I guess you would say, to force fit these projects into a Reg D or a Reg A+?

Mr. ROISMAN. I think there are still opportunities for people to use whatever exemption they want to use based on it, but I think, as Mr. Raman and Ms. Minarik have sort of talked about, this is sort of more aligned, I think, for projects with this sort of framework and with this technology.

Mr. MOORE. This bill also recognizes the difference between centralized and decentralized models, so, Mr. Raman, I will just ask you this question. Why is it so important that the legislation protects DeFi innovation while focusing regulatory efforts where risk is concentrated, say, on custodial intermediaries?

Mr. RAMAN. Thank you for the question. The key point is centralization is what is caused collapses. Centralization has caused crises. Decentralization means security and reliability and uptime, and I applaud the bill for recognizing that and for highlighting that decentralization is an ideal that all projects should strive toward improving the security of the crypto ecosystem.

Mr. MOORE. Thank you. I will tell you one other thing. We really have to acknowledge that innovation in digital asset policy really has not just come from Washington. States like my home State of North Carolina have led the way in really trying to create a, I would say, a forward-thinking regulatory environment that really balances protecting consumers and encouraging responsible innovation. Over a decade ago, North Carolina expanded the North Carolina Money Transmitters Act to include virtual currencies. Shameless plug for my State. If you want to locate North Carolina, go ahead and come on. It is a good location. In 2019, the North Carolina Blockchain Initiative was established. Two years later, the North Carolina Regulatory Sandbox Act was enacted, allowing for the real-world testing of innovative financial technology and insurance. Our State has also explored utilizing blockchain technology to boost both security and efficiency.

Mr. Roisman, what I would say is, what benefits are there of a regulatory sandbox to emerging technologies like digital assets, and is there any overlap between policy goals of the CLARITY Act and North Carolina's Regulatory Sandbox Act?

Mr. ROISMAN. I am not familiar with the North Carolina Sandbox Act, but it sounds wonderful.

Mr. MOORE. It was the first big, beautiful bill.

Mr. ROISMAN. I think that the purpose of both is to provide clarity and to promote innovation. With those goals in mind, having not read the other one, I think they probably are aligned.

Mr. MOORE. Let me ask, and I am almost out of time, but do you know of any other regulatory best practices that you have seen that the States have initiated, that Congress should consider implementing at the Federal level to promote financial innovation?

Mr. ROISMAN. I would have to think about that, sir.

Mr. MOORE. Thank you. With that, I yield back, Mr. Chairman.

Mr. DOWNING. Thank you. The gentleman may answer the question in writing.

Mr. DOWNING. The gentleman from Florida, Mr. Haridopolos, is now recognized for 5 minutes.

Mr. HARIDOPOLOS. Thank you, Mr. Chairman, and I would think it would be smarter to come to Florida, but we can discuss that another time. Mr. Roisman, I wanted to ask that question if I could. We have learned in the prior hearings that because of the challenges with the previous SEC, digital asset users rely heavily on private capital to finance bringing in new digital assets to the market. From an innovation standpoint, how critical is it that digital asset issuers have a variety of avenues to raise that capital, including from the public?

Mr. ROISMAN. I think this is just a general point, which I think we are all in favor, which is promoting additional access to capital for programmers or for innovative businesses, and two, allowing ordinary investors to participate. Whatever they use, or companies or issuers use, I think as long as there are adequate investor protections and considerations that are tailored for those particular exemptions, that benefit everybody.

Mr. HARIDOPOLOS. Just to follow up, getting into another area, how should Congress tailor SEC registration requirements to fit for purpose when regulating digital asset issuers that issue digital commodities, and why cannot existing SEC requirements for issuers accommodate the digital commodity issuers?

Mr. ROISMAN. I caution reading the definition up of a relatively new bill, but I do think that the SEC is trying to do this. That they have had the SEC task force. They have had hundreds of meetings. They have pushed the ball forward a lot over the last several months. I do think what you are seeing, though, is it is complicated, and it is difficult, and it is time consuming, and it would be a lot better if Congress stepped in and helpfully sort of clarified what is in their role and what is not.

Mr. HARIDOPOLOS. In your opinion, the new act, the CLARITY Act, literally, as it is called, I mean, it has been so frustrating, I know, for a new member from North Carolina and I, Mr. Moore, you come here and you think that the government is kind of here to help, and it sounds like the last 4 years have been really challenging in that regard. There is no clarity. Every time you went and visited, you thought you were getting there, and they eventually just threw a Wells notice at you or something else. That said, do you think the bill as written today—obviously, I am sure you read this fully—are we meeting that standard that you all wanted to see in the industry to give you that clarity so your investors can make it with confidence?

Mr. ROISMAN. I actually think that my colleagues may be better suited for this because they are actually literally in the industry. I do think it is important for you to continue to hear from stake-

holders and, again, technical assistance from the regulators to make sure that it meets that, but I hope everyone here realizes or recognizes that, as you said, the point of this is to provide clarity.

Mr. HARIDOPOLOS. Mr. Raman, that same question. You have read through the bill. Obviously, you understand this industry better than most. Do you think we are moving in the right direction, one, and two, the second part of that is, is there still something that we are missing as you are seeing this industry develop every day?

Mr. RAMAN. Thanks for that question. It is the most inspiring time that I have ever seen in the crypto space because we have this bill that gives us guidelines and rules and regulations to actually innovate responsibly and sustainably over the course of the decade, so I think it is absolutely a step in the right direction. I think there is still going to be work to do. Like the things the bills are addressing, things like decentralization, the values that are going to make blockchains resilient and part of infrastructure are there, and we are excited to work with you on that.

Mr. HARIDOPOLOS. Thank you, and, Mr. Behnam, obviously, given your role, you understand this bill very well. There has been a lot of discussion about will the capital go elsewhere. There are places, whether it be Singapore, UAE, et cetera. I am really intrigued by the China question. A lot of people are talking about, potentially, that being another area where people might go if we do not offer that clarity. As you see this industry, do you think that there is any real confidence that people could trust China if we fail to step forward, or do you think that it is just a matter of time, we will kind of get our act together and move forward?

Mr. BEHNAM. Thanks, Congressman. I have always thought, because this question is posed to me, for many years, going back to when I was first nominated to be chair, we have the benefit in the United States of having the deepest, most liquid capital markets, and we also have the benefit of having a very reliable rule of law around financial markets, and that inevitably is going to attract capital, investors, and entrepreneurs. As much as we have, in fact, from a domestic standpoint, been a bit behind other regulators across the globe, we always had the benefit of leaning on that sort of precedent of rule of law and deep capital markets to sort of keep capital here. Obviously, with the two folks around me, it is an important narrative to hear and listen to, but I was always very cautious about not jumping onto that bandwagon too quickly that things were going to just leave the country. I think what we do really well—

Mr. DOWNING. The gentleman's time has expired.

Mr. BEHNAM [continuing]. here is we do things deliberately, and I would encourage, as this committee considers a markup to a—

Mr. DOWNING. The gentleman's time has expired. Finish—

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

Mr. DOWING. Thank you. The gentleman from Louisiana, Mr. Fields, is now recognized for 5 minutes.

Mr. FIELDS. Thank you, Mr. Chairman, and let me thank the witnesses. I really appreciate you all being here all day. I just have a few questions for you, Mr. Massad. One, the bill allows entities

to self-certify their intent to become a mature blockchain system within 4 years, with only 60 days for the CFTC to review it. From your regulatory experience, what are the dangers of the self-certification process in your opinion?

Mr. MASSAD. Thank you for the question, Congressman. I think that is a big problem, particularly for this exemption. I do not see why we have a structure that they should self-certify. The idea is we want to facilitate capital raising for these projects. We can do that without this type of exemption. I think the real issue is just making sure disclosure requirements work and perhaps addressing secondary sales. With this structure, someone could say they have the intent to be a mature blockchain and then never reach it. I am not the only one saying this. Commissioner Hester Peirce has said this, and it is really her idea of a safe harbor, which is where this provision comes from. She has pointed out in a recent speech that this could be gamed and abused.

Mr. FIELDS. The other question, Chairman, is you led the CFTC during a time when maintaining Agency independence was paramount. The CLARITY Act gives the President significant influence over new crypto regulations, while the President simultaneously owns and actively promotes his own cryptocurrencies and meme coins. In your experience, what are the risks when a President has direct financial interest in an industry that he is regulating?

Mr. MASSAD. They are huge. I think it creates a dark cloud over what we are doing here today, quite frankly. Look, most Americans do not follow all this, they do not even care that much about crypto, but to the extent that they are going to hear something, I think, they are going to have the impression that, wait, is this crypto thing just a game for those who have influence, for those who can curry favor with the government? They see these reports of the dinner that he had that was for people who bought the coins. Again, as I noted earlier, Vitalik Buterin, who is the creator of Ethereum, said the meme coins were a vehicle for bribery, basically, so I think it is a real problem. It is something, frankly, it should not be partisan. I know it has become partisan today, but look, The Wall Street Journal has denounced this. The Economist has criticized this. It is not just Democrats.

Mr. FIELDS. Then my final question is, this bill would drastically, dramatically expand CFTF's jurisdiction over digital assets, yet provide no authorization for additional examiners or resources. Based on your experience running the Agency, is the CFTC equipped to handle the likely flood of registrations while maintaining an adequate oversight?

Mr. MASSAD. Not under its current budget. I know the law does have a provision for some fees, but their resources are going to have to be increased dramatically. These are huge markets. The crypto market is a huge market. It is very complicated. It is new. There are going to be a lot of things of first impression, and the CFTC is already stretched in terms of what it has to do, and it has got some very important responsibilities, like overseeing our systemically important clearinghouses. We do need to expand its resources significantly if it is going to be given this responsibility.

Mr. FIELDS. Mr. Chairman, on that note, I want to thank all of the witnesses for being here, and I yield back the balance of my time.

Mr. DOWNING. The gentleman yields back. I now recognize myself for 5 minutes.

Now, I appreciate Chairman Hill for holding this hearing today as we discuss legislation to ensure that the United States leads the world in innovation. The United States cannot cede leadership in the digital assets space. The Financial Services Committee took the first step in passing a payment stablecoin regulatory framework, but we also need clear rules of the road for the market structure of digital assets. The United States is unique in having two separate market regulators, the SEC and the CFTC, each with different missions. One of the criticisms of previous market structure legislation was that it created two separate markets for the same asset. The CLARITY Act solves this problem by distinguishing capital-raising transactions from digital commodities sold in such a transaction. The framework leverages the unique strengths of both the SEC and the CFTC.

I am going to start with Mr. Roisman. In the securities context, does the SEC tell investors which stocks to buy, or do we ensure that they have adequate information?

Mr. ROISMAN. They do not tell investors what stocks to buy, but they require issuers to provide enough information for them to make an informed investment decision.

Mr. DOWNING. Thank you. Under the CLARITY Act, the SEC retains jurisdiction over issuer disclosures and obligations, such as lockup requirements on insiders. The CFTC gains regulatory authority over digital commodity spot markets and intermediaries dealing in the digital commodities. I am going to go to Mr. Behnam. How does this play into the strengths of both Agencies without creating an unnecessary complex maze of overlapping authorities?

Mr. BEHNAM. Congressman, thanks for the question. Ultimately, as I have argued, you have two different assets who have two very different characteristics, and as Commissioner Roisman pointed out, securities and the securities laws were built for bridging information gaps between issuers and investors. The commodity derivatives laws were built for very different purposes of providing transparent, fair, and orderly markets. You do not have that disclosure requirement like you do on the security side as much as you have market integrity as the primary focus.

Mr. DOWNING. How do you respond to skeptics that say legislation is not needed and that the SEC and CFTC have the authority already to issue regulations on digital assets that will promote innovation?

Mr. BEHNAM. As I have said many times, given the size of the market, given the particular size of a few tokens which are commodities, the vast majority of the digital asset market remains unregulated given current law.

Mr. DOWNING. Thank you. Moving on to Ms. Minarik. Fostering innovation in the United States means protecting the right to self-custody. Why is it important for the CLARITY Act to enshrine the right to self-custody in digital assets?

Ms. MINARIK. Thank you for the question, Congressman. I have mentioned in other contexts that my family was personally debanked in 2021 for no legitimate reason. Even worse than that, the bank held onto our money and would not tell us for a period of 2 months if or when we would ever get it back. That is something that happens to everyday Americans all the time. They are shut out of our traditional finance system, but now we have technology so that any American can safely, securely, and digitally hold their own assets in their own control, in their own custody. Centralized services serve great purposes, but having this option, it should be available to all Americans.

Mr. DOWNING. Thank you. Thank you to the witnesses. I yield the remainder of my time.

The gentleman from New York, Mr. Lawler, is now recognized for 5 minutes.

Mr. LAWLER. Thank you, Mr. Chairman. I want to thank our witnesses for being here today, and both Chairmen Hill and Thompson for leading us in this important effort.

As our economy is evolving; we need to be making sure that we are establishing a system that allows for our businesses to thrive and Americans to prosper. Mr. Roisman, are exempt offerings a standard feature of America's robust securities laws and capital markets?

Mr. ROISMAN. Yes.

Mr. LAWLER. Are disclosures and insider obligations features of such exemptions?

Mr. ROISMAN. Not always to the extent that they are in the current sort of CLARITY Act.

Mr. LAWLER. Does the SEC's authority over disclosures apply under the CLARITY Act?

Mr. ROISMAN. With respect to that exemption, there are tailored ones for them, as well as rulemaking authority to make sure that they are accurate and complete it.

Mr. LAWLER. Is it appropriate to have tailored disclosures for capital raises involving digital commodities?

Mr. ROISMAN. I think it is helpful if you are trying to incentivize issuances in this area. I think the Commission can be thoughtful in this. I think that the outline of what an investor would want to know is different, or the requirements provide information that may not be captured under sort of traditional exemptions, so I applaud the committee for looking at that.

Mr. LAWLER. In your opinion, would American consumers be better off without tailored disclosures?

Mr. ROISMAN. I am all for appropriate disclosures. I do not know what tailored or not. It is enough information for an investor to make informed decisions and overlaid with the requisite consumer or investor protections, which, again, I think the SEC will be able to help finalize.

Mr. LAWLER. Would American entrepreneurs be better off without a clear pathway to engage in a capital raise involving digital commodities?

Mr. ROISMAN. I can answer that, but I think Mr. Raman is probably the better one who actually has a business who is trying to

do this but I think everyone would be better off if we are able to enable businesses to tap into our capital markets.

Mr. LAWLER. Mr. Raman?

Mr. RAMAN. Thanks for the question. I am happy to jump in. I think the more ways to raise capital in America with clear rules of the road, the better. What we do not want is to force projects that we want to build here have to raise capital elsewhere. When all the capital is here, the innovation is here, the talent is here, and the desire is here, so rules of the road will definitely help.

Mr. LAWLER. Ms. Minarik, some members have brought up the Trump coin and meme coins, I think rather extensively throughout today's hearing. Is it not true, in fact, that as a result of their concern, they should support a framework like the one we are working on that includes robust disclosure and other consumer protection requirements that help the markets decide what is and is not worth their money? Furthermore, how would a comprehensive framework assuage concerns of my friends on the other side of the aisle? At the end of the day, we should not let these concerns hamper innovation and the potential of digital assets.

Ms. MINARIK. Congressman, thank you for the question. I certainly believe that passing legislation like the CLARITY Act would be better for the public as a whole than the status quo. It does not mean that there may not be more questions to answer, but we would be moving forward in terms of protecting the public. I would note that the CLARITY Act does reinforce the CFTC's anti-fraud authority over all commodities, which does include meme coins, so that is a protection, even though meme coins are not subject to the broader aspects of the bill like digital asset commodities.

Mr. LAWLER. Chairman Behnam, would you please talk about the consumer protection measures within the CLARITY Act?

Mr. BEHNAM. Thanks, Congressman. As I said, the CLARITY Act provides a lot of the core principles that the CFTC currently uses for its traditional markets. As applied, or at least applying those core principles to digital commodity exchanges, and brokers, and other components of the digital asset ecosystem would certainly provide transparency through registration, surveillance, oversight, books and records examinations. As I said, the bill takes great lengths and is very successful in accomplishing a lot of the goals that I have articulated, but I certainly think there is more work to be done, and it will benefit certainly from a markup and having more robust conversations.

Mr. LAWLER. Thank you. I yield back.

Mr. HARIDOPOLOS [presiding]. Thank you. I would like to thank each of the witnesses for their testimony today.

Without objection, all Members will have 5 legislative days to submit additional questions for the witnesses to the chair. The questions will be forwarded to the witnesses for the response, and please respond no later than July 9, 2025.

[The information referred to can be found in the appendix.]

Mr. DOWNING. With that, this hearing is adjourned.

[Whereupon, at 2:56 p.m., the committee was adjourned.]

**AMERICAN INNOVATION AND THE FUTURE
OF DIGITAL ASSETS:
FROM BLUEPRINT TO A FUNCTIONAL
FRAMEWORK—DAY 2**

Friday, June 6, 2025

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
Washington, DC.

The committee met, pursuant to notice, at 9:06 a.m., in room 2128, Rayburn House Office Building, Hon. French Hill [chairman of the committee] presiding.

Present: Representatives Hill, Lucas, Huizenga, Barr, Williams of Texas, Emmer, Loudermilk, Davidson, Rose, Steil, Timmons, Stutzman, Norman, Meuser, Kim, Donalds, Garbarino, Fitzgerald, Flood, Lawler, De La Cruz, Ogles, Nunn, McClain, Salazar, Downing, Haridopolos, Moore, Waters, Sherman, Meeks, Scott, Lynch, Green, Cleaver, Himes, Foster, Beatty, Vargas, Gonzalez, Casten, Pressley, Tlaib, Garcia, Pettersen, Fields, Bynum, and Liccardo.

Chairman HILL. The Committee on Financial Services will come to order.

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

Pursuant to Clause 2(j)(1) of House Rule XI, today's hearing is a continuation of Wednesday's hearing titled, "American Innovation: The Future of Digital Assets From Blueprint to Functional Network."

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 for an opening statement.

**OPENING STATEMENT OF HON. FRENCH HILL, CHAIRMAN OF
THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REP-
RESENTATIVE FROM ARKANSAS**

For years, this committee has worked in a bipartisan manner to move forward meaningful market structure legislation. Just last year, FIT21 passed the House with 71 Democrats supporting the bill, the precursor of our work in this Congress. The CLARITY Act builds on that work. My colleagues across the aisle have always had a seat at the table to engage in productive discussions about digital asset market structure legislation. These conversations, often tough, but always thoughtful, helped shape the framework that we have been crafting during this Congress.

Over the past 5 months, our committee has held four hearings and a roundtable on digital assets to examine the need for a dollar-backed payment stablecoin and market structure framework legislation. The minority has had an opportunity to ask questions of witnesses, share concerns, and raise issues at what was supposed to be a joint hearing with the House Agriculture Committee in

early May. Instead, the ranking member chose to object, walk out, and host her own roundtable discussion on the exact same topic that we are talking about here today. Despite last month's theatrics, members from both parties have had ample opportunity to share their views, voice their concerns, and engage in thoughtful discussion. Our consumers, our digital asset developers, and our financial markets all deserve clarity, and it is past time that the industry deserves it. We must move forward with our important work to provide the rules of the road for digital assets.

Currently, there is no Federal framework for non-security digital assets. We are here today because of the failures of the past. Any activity taking place in digital assets today is taking place under that regime, or lack thereof, as set forth by the Biden Administration. We have had real opportunities to deliver this much-needed framework in the past, but under the Biden Administration, and particularly former SEC Chair Gary Gensler, that progress was stalled. Frustratingly, this is despite the Biden Administration's executive order urging Congress to take action on stablecoins, regulating spot Bitcoin, and crafting a legislated market structure framework. The administration ended up, though, preferred ruling by enforcement rather than providing the clarity through a regulatory framework that would protect investors and consumers and maintain America as the leader in this innovative technology.

Now is the time to step up, rise to the occasion. Under the CLARITY Act, all digital asset companies will be subject to the rules and regulations within this bill, rules and regulations that do not currently exist for these assets and all digital assets and participants engaging with digital assets are subject to vigorous AML, BSA, anti-fraud, anti-manipulation rules on the books. Digital assets have historically been a bipartisan issue in Congress, and we should continue that tradition. Together we can bring clarity to this industry and keep America at the forefront of innovation. To my friends across the aisle, let us continue our work together. Let us engage in this important effort so that we can move forward toward meaningful legislation and deliver results deserved for our financial markets, our innovators, and our consumers.

With that, I yield back, and I recognize the ranking member of the full committee, Ms. Waters, for 4 minutes for an opening statement.

OPENING 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, Chairman Hill. I would like to take a moment to give a little bit of an explanation about what is known as Minority Day. This is Minority Day, and I did not expect the chairman to be here, but that is his right to be here. He is the chair of this committee. He knows the rules, and I am so pleased that he joined us on Minority Day.

Minority Day is organized by the opposite party in order to get more information out, in order to straighten the record, in order to make sure that the path that we are on is well understood, why it is necessary to have more information. Despite the fact that I did not know that the chairman was going to take over today, I am

very pleased about it because he will have a chance to hear even some of the information that has not been explored during the regular committee hearing.

Let me start by saying the unfortunate reality is that Republicans on this committee refuse to openly admit that Donald Trump is abusing his position as President to enrich himself off crypto. This is an unusual time in the history of this country, and while we disagree on many issues, sometimes we are able to compromise. We are able to work together. There are other times it is more difficult, but this is highly unusual that we have the President of the United States that is enriching himself off of this cryptocurrency, a President of the United States who is enriching his family, a President of the United States in the middle of our negotiations, is creating more opportunities for himself, whether it is on crypto as you know it, a stablecoin, et cetera, et cetera.

The Republicans have ignored \$TRUMP meme coin that has collectively lost his investors \$2 billion while he pocketed \$350 million. They have ignored the meme coin dinner where guests—this is outrageous—spent \$140 million to curry favor from the White House but were instead served cheap food and ditched by Trump after 20 minutes. It was not about a dinner. It was about connecting with the President and gaining favor, and so you show up, you spend all of this money, you get to know him, and you want to ride the train of increasing your wealth on crypto.

They have ignored the ways Melania and her son, Eric and Donald Trump, Jr., have used crypto to multiply their family's wealth. They have ignored World Liberty Financial, and the various crypto deals Trump has brokered in the Middle East that have exploded his wealth, even as Americans are getting poor and being squeezed by Trump's tariffs. They have ignored what is undoubtedly the biggest scam and abuse of power in history so they can jam through a dangerous crypto market structure that I call the Complexity Act. Not a single provision in this bill addresses the crimes I have laid out. In fact, this bill only legitimizes it. So, committee Democrats have been left with no choice but to force Republicans to convene a hearing with our own witnesses where we will discuss what Republicans are so afraid to do: openly and honestly address Trump's crypto crimes.

Let me be clear. Next Tuesday, committee Republicans are rushing to pass what I call the Complexity Act without addressing these concerns that not just Democrats, but also the American public, the crypto industry—

Chairman HILL. The gentlewoman's time has expired.

Ms. WATERS [continuing]. and even some in their own administration have raised regarding this bill.

Chairman HILL. The gentlewoman's time has expired.

Ms. WATERS. While the lack of provision to stop Trump's crypto—

Chairman HILL. I now recognize the Chair of the Digital Assets Financial—

Mr. WATERS. Mr. Chairman?

Chairman HILL. You are over time, Madam Ranking Member, so—

Mr. WATERS. Mr. Chairman?

Chairman HILL. Gentlewoman?

Mr. WATERS. Point of privilege. How long did you take with your opening statement?

Chairman HILL. Four minutes.

Mr. WATERS. It looked longer.

[Laughter.]

Chairman HILL. Well, that is because it was the truth.

Mr. WATERS. Oh, my goodness. Well, we are going to see who is telling the truth today.

[Laughter.]

Chairman HILL. I now recognize the Chair of the Digital Assets, Financial Technology, and Artificial Intelligence Subcommittee, Mr. Steil, for 1 minute for an opening statement.

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. Thank you very much, Mr. Chairman, another great opportunity to discuss the bill, and I hope that is what we actually do today. We have had many opportunities to do just that. We are building on a lot of great work that was done in a bipartisan way last Congress. We saw when FIT21 came to the floor, over 70 Democrats came to the table to try to solve a complex problem, a problem that, really, Gary Gensler and the Biden Administration in many ways put us in, delivering us meme coins, lack of clarity, pushing businesses offshore, and I hope this does not devolve into discussions of Trump derangement syndrome. I hope we use this opportunity to truly focus on the legislative text before us because the legislative text before us is very good, solving a real-world problem.

I know the ranking member of the full committee objected to a joint hearing that we held between us and Ag and walked out. I think that was a missed opportunity to dive into the details of the bill, and I think if we focus on the bill, we can be productive. I yield back.

Chairman HILL. The gentleman yields back. The chair recognizes the Ranking Member of the Digital Assets, Financial Technology, and Artificial Intelligence, Mr. Lynch of Massachusetts, for 1 minute for an opening statement.

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. Thank you, Mr. Chairman, and thank you, Ranking Member Waters, for requesting this Minority Day hearing. My Republican colleagues are rushing to pass a crypto market structure bill that not only fails to crack down on Trump's crypto corruption, but also endangers our traditional banking system, weakens investor protections, national security, and lets crypto criminals off the hook. I predict that the next financial crisis will certainly be driven by reckless crypto activities that this Congress would have allowed

if this bill passes. We must act to ensure our robust financial and security laws are not threatened.

Republicans repeatedly rejected my amendments to protect American taxpayers by prohibiting a taxpayer bailout. My Republican colleagues refused to even acknowledge President Trump's crypto corruption, which undermines their efforts to pass this bill, I assume out of fear and backlash from the President. My Democratic colleagues and I have no fear of this President, which is why we will continue to fight this legislation and any actions that threaten our democracy. Thank you, Mr. Chairman, and I yield back.

Chairman HILL. The gentleman yields back. Today we welcome the testimony of Ms. Carole House, who is a Senior Fellow at the Atlantic Council Geoeconomic Center; Professor Hilary Allen, who is a Professor of Law at the American University Washington College of Law; Mr. Bartlett Collins Naylor, a Financial Policy Advocate and Economist at Public Citizen; Ms. Amanda Fischer, who is the Policy Director and Chief Operations Officer at Better Markets; and Hon. Timothy Massad, Research Fellow and Director of the Digital Assets Policy Project at Harvard Kennedy School of Government and former Chair of the CFTC.

We thank each of you for taking time to be with us today. You will be recognized for 5 minutes to give an oral presentation of your testimony. Without objection, your written statement will be made part of the record, and we will start with you, Ms. House. You are now recognized for 5 minutes.

**STATEMENT OF CAROLE HOUSE, SENIOR FELLOW,
GEOECONOMICS CENTER, ATLANTIC COUNCIL, WASHINGTON, DC**

Ms. HOUSE. Thank you, Chairman Hill, Ranking Member Waters, and distinguished members of the committee for holding this hearing continuation and the honor of the invitation to testify. I applaud your leadership in continuing the year-long effort of building legislation around cryptocurrency regulation.

I have spent much of my career leading cryptocurrency efforts at the National Security Council, at FinCEN, and at an industry advising three different regulatory bodies. In this time I have observed massive changes in the digital asset ecosystem, including enormous growth and collapses, experimentation in underlying technologies, business models and use cases, seen rampant fraud and exploitation of consumers as well as use for money laundering, meeting with victims that had thought about killing themselves after losing their life savings and being defrauded in pig butchering scams, and finally, witnessing innovations by licit actors to explore avenues like programmable compliance and RegTech solutions, but also innovations by illicit actors who are continuously optimizing and obscuring their laundering and scamming techniques.

The current alignment and implementation of protections in digital assets is not working. Just as one example, the largest heist in history just occurred earlier this year targeting this sector, perpetrated by North Korean actors stealing \$1.5 billion in one hack as part of revenue generation for a regime guilty of human rights violations and proliferation activities, though you would not know

that with attending most cryptocurrency conferences. Unfortunately, this incident also was not in a vacuum, but instead, is part of another cyber theft after part of a years-long building trend in this industry exploiting both pervasive cybersecurity and money laundering vulnerabilities. This also underscores how we need to strengthen implementation of a prudential regulatory framework for crypto. I applaud Congress for pursuing digital asset legislation to ensure appropriate regulation in the United States. Regulation ensures that we demand legitimate and responsible activity within the industry and provide legitimate authority and levers to supervisors and enforcement agencies to hold accountable illicit actors.

The stated goals of the CLARITY Act to help address regulatory gaps and provide clarity are laudable. Unfortunately, I do not believe that the current text achieves these goals. Key tenets of the proposed legislation as drafted appear to be overly complex as they try to rewrite existing market regulations into a bespoke regime, forging notable gaps for coverage under consumer and market protections rather than closing them. It leaves insufficiently or unaddressed key areas like meaningful implementation and enforcement measures for countering illicit finance and cybersecurity, and it departs from long bipartisan stated principles of tech neutrality that would enable regulations to persist in the face of continuous technological innovation.

I am concerned about departing from longstanding precedents of protections that we expect in markets that appear present here with less rigorous disclosure and capital requirements, unclear authorities for non-security spots markets, weaker restrictions on functions and conflicts of interest across custody, market making, and trading, and confusing definitions that appear optimized to expand gaps of coverage for arbitrage opportunities around concepts like decentralization. At least in my view, the mark of maturation should not be centered around there being an absence of entities taking responsibility and accountability for governance.

I also want to underscore that there seems to be a major gap in areas of affecting national security in this bill. As some have said in Wednesday's hearing that legislation should be based on facts, this bill needs to clearly address the factual reality of exploitation of crypto by nation-states, corrupt regimes, and transnational organized crime due to weak protections. This bill should explicitly outline not just application of the BSA, but high AML standards that we have for other covered institutions, like customer identification programs, as well as cybersecurity requirements around access management, key protections, and third-party risk management that have been culprits in a lot of the major incidents. No one likes getting robbed. It should address the current dismantling of the enforcement apparatus as well that is happening across agencies and, instead, ensuring appropriate resourcing, expanded authorities, capabilities, and prioritization for timely enforcement against the worst actors in this industry.

I will close with recommending that policymakers consider an alternative approach, setting out a legislative framework for joint regulatory action by the SEC and CFTC, which has precedent in Dodd-Frank. I encourage Congress to consider a more streamlined approach that sets out clear authorities and a mandate for joint

SEC and CFTC action, creating clear pathways for registration, outlines clear principles for protecting markets and consumers, and establishes explicit mandates and appropriations for AML and cybersecurity protections and enforcement. Finally, it should initiate work by the SEC and CFTC together to take the steps that were already advised by the CFTC's Technology Advisory Committee in the DeFi report to evaluate and address DeFi's unique features and challenges.

Thank you. I look forward to your questions.

[The prepared statement of Ms. House follows:]

TESTIMONY OF
Carole House¹
BEFORE THE
United States House Financial Services Committee
**Hearing on American Innovation and the Future of Digital Assets: From Blueprint
to a Functional Framework (Continuation)**
June 6, 2025

Thank you Chairman Hill, Ranking Member Waters, and distinguished members of the Committee for holding this hearing continuation and the honor of the invitation to testify on the future of digital assets. I applaud your leadership in convening the Committee on this important issue and continuing the years-long efforts of this Committee across several Congresses to evaluate and build legislation around a clear, comprehensive, and competitive cryptocurrency regulatory framework. I hope my testimony will be helpful in considering some of the most important aspects of frameworks needed to drive innovation in a secure, competitive, safe, and sound digital finance ecosystem that reinforces national security interests, defends consumers, and preserves personal liberty.

I have spent my career working at the intersection of national, economic, and technological security. I have spent two tours at the National Security Council (NSC) leading cryptocurrency initiatives; led crypto and cybersecurity policy at the U.S. Financial Crimes Enforcement Network (FinCEN), the U.S. anti-money laundering and countering financing of terrorism (AML/CFT) regulator; and served on advisory boards for the U.S. Commodity Futures Trading Commission (CFTC), the Idaho Department of Finance, and the New York Department of Financial Services (NYDFS). Over recent years, I have observed massive growth, collapses², experimentation³, exploitation⁴, and innovation

¹ Nonresident Senior Fellow, Atlantic Council GeoEconomics Center. *Previous Advisory Roles:* Chair, Commodity Futures Trading Commission (CFTC) Technology Advisory Committee; Member of the Emerging Technology Advisory Committee (ETAC) to the Idaho Department of Finance (IDOF); Member of the Virtual Currency Advisory Board (VCAB) to the New York Department of Financial Services (NYDFS); Advisory Board Member, Third Way U.S.-China Digital World Order Initiative; Advisory Board Member, Digital Dollar Project. *Previous Government Roles:* Special Advisor for Cyber and Critical Infrastructure & Director of Cybersecurity and Secure Digital Innovation, White House National Security Council; Senior Strategic Policy Officer for Cyber and Emerging Technology, U.S. Financial Crimes Enforcement Network; Presidential Management Fellow (PMF) and Policy Advisor, White House Office of Management and Budget and U.S. Senate Homeland Security and Governmental Affairs Committee; Captain, U.S. Army. The views I express are my own and do not represent those of the Atlantic Council.

²² For example, see Sallee Ann Harrison, AP News, "[A Timeline of the Collapse at FTX](#)," (May 8, 2024); Anton Badev and Cy Watsky, Federal Reserve, "[Interconnected DeFi: Ripple Effects from the Terra Collapse](#)," (May 9, 2023).

³ For example, see SWIFT, "[Swift Unlocks Potential Tokenization with Successful Blockchain Experiments](#)," (August 31, 2023).

⁴ For example, see FinCEN, Advisory FIN-2019-A003, "[Advisory on Illicit Activity Involving Convertible Virtual Currency](#)" (May 9, 2019); EUROPOL, "[Cryptocurrencies: Tracing the Evolution of Criminal Finances](#)," (2021); Olga Kharif, Bloomberg, "[Wash Trading is Rampant on Decentralized Crypto Exchanges](#)," (September 12, 2023).

across the digital asset market. Of course, innovation *and* exploitation in finance are not unique to digital assets, and the risks and benefits of one blockchain system are not equivalent across all assets — they depend significantly on the design and features of specific systems. To make best use of the benefits and mitigate the critical risks, we need to ensure that technology, operations, and policy are aligned along critical safeguards and also with driving competitive and liquid U.S. markets.

That brings us to this critical juncture — the current alignment and implementation of protections in digital assets is not working. The status quo has not benefited consumers, markets, or national security. As just one example, *the largest heist in history just occurred in February of this year targeting this sector*, perpetrated by North Korean actors as part of their revenue generation to fund activities like their proliferation program.⁵ This incident also was not in a vacuum but instead was yet another cyber theft as part of a years-long building trend in this industry exploiting both pervasive cybersecurity and AML/CFT vulnerabilities. This is just one example, which sits alongside highly volatile markets that have lost trillions and defrauded consumers, but also an environment that is reportedly set to drive the best developers abroad rather than inspiring them to stay here and build to agreed upon guardrails. Inaction by both government and industry will not achieve desired outcomes for protecting consumers or businesses.

I applaud Congress for continuing to elevate the issue of digital asset legislation to ensure appropriate regulation in the United States. Despite calls from some to avoid regulation of digital assets that may seemingly legitimize an immature sector, I maintain that regulation is critical to give a north star that *demand legitimate and responsible activity* within an industry with many actors who aim to bring positive evolutions in finance and cryptocurrency. Regulation also provides *legitimate authorities and levers* to supervisors and enforcement agencies to hold accountable illicit actors that seek to defraud consumers, launder criminal proceeds, and undermine the integrity of the U.S. financial system. As I have testified to previously, clear and comprehensive guardrails are necessary to protect consumers, national security, and U.S. competitiveness in financial innovation.⁶ While timely progress is critical after several Congresses being unable to establish a comprehensive approach, these frameworks must also be deliberate, thoughtful, and comprehensive of the real and present risks, as well as opportunities, that we have observed in the digital asset ecosystem and broader financial system.

⁵ See Federal Bureau of Investigation, [Alert I-022625-PSA](#), “North Korea Responsible for \$1.5 Billion Bybit Hack,” (February 26, 2025).

⁶ See Carole House, testimony before the House Financial Services Committee Subcommittee on Digital Assets, Financial Technology, and Inclusion, “[Hearing on Crypto Crime in Context Part II: Examining Approaches to Combat Illicit Activity](#),” (February 2024); and Carole House, testimony before the House Financial Services Committee, “[Hearing on Navigating the Digital Payments Ecosystem: Examining a Framework for Payment Stablecoins and Consequences of a U.S. Central Bank Digital Currency](#),” (March 11, 2025).

The stated goals of the Digital Asset Market CLARITY Act of 2025 (the “Clarity Act”)⁷ to help address regulatory gaps and to provide clarity for an industry seeking it are laudable. Unfortunately, the tenets of the proposed legislation as drafted appear to be overly complex, forging notable gaps for coverage under consumer and market protections rather than closing them; leave insufficiently or unaddressed key areas like meaningful implementation and enforcement measures, countering illicit finance, and cybersecurity; and depart from the long bipartisan-stated principles of technology-neutrality that would enable regulations to persist in the face of technological innovations.

In my testimony, I briefly offer opportunities for addressing those issues and preserving a framework built on the key pillars of sound market regulation and national security interests. I draw many of these recommendations from the groundbreaking work of the Commodity Futures Trading Commission (CFTC) Technology Advisory Committee (TAC), where I co-chaired a group of 19 incredible industry, government, and academic experts to produce a first-ever comprehensive review of risks and opportunities in decentralized finance (DeFi), with outlined steps for policymakers to take build the framework for DeFi.⁸ I encourage legislators to consider these measures especially where existing digital asset market structures differ from traditional financial market structure, and urge you to be extremely deliberate when choosing to depart from long-tested principles needed to preserve integrity of markets, such as consumer protections, resilience against exploitation and shocks, and addressing separations of functions and conflict of interests.

Regulatory Gaps and Potential for Confusion

As I mentioned above, seeking to provide regulatory clarity, in both authority and application, are important at this critical juncture. It will establish clear rules of the road for responsible actors to engage and innovate in the space as well as ensure strong footing for regulators and enforcement agencies to oversee markets and investigate wrongdoing. A clear framework will also (finally) help level the playing field for U.S. firms that have long been more compliant than many foreign-operating cryptocurrency businesses that exploited their savings in non-compliance as a competitive advantage against more responsible U.S. companies.

The Clarity Act as currently written attempts to provide clarity through defining regulatory jurisdictional bounds between the Securities Exchange Commission (SEC) and CFTC as well as defining key terms of assets to establish scope of coverage as securities versus digital commodities. The bill also includes some important protection measures, specifically around areas like segregation of customer assets, limited disclosures such as around token structure and conflicts of interest, and registration requirements.

⁷ See Bill [H.R. 119](#), 119th Congress, “Digital Asset Market Clarity Act of 2025,” (2025).

⁸ See CFTC TAC, “[DeFi Report](#),” (January 2024).

However, the Clarity Act is still absent many important protections that we have observed to be critical to protect consumers and markets in the wake of a crisis. Within the 236 pages of the bill are confusing and ambiguous definitions and missing elements that pave the way for regulatory arbitrage and exploitation:

- *No Clear Non-Securities Spots Market Authority:* This bill does not appear to clearly outline authority over spots markets for assets that are not securities. The definition of “digital commodity” may be restrictive insofar as to only cover a limited set of tokens, which would leave potentially hundreds of tokens unregulated and/or without clear guidance on its applicability even if they function as financial assets.
- *Unclear Definitions and Impacts on Securities Laws:* There are various definitions in the bill whose challenges with clarity may subvert the drafters’ intent to provide clarity and defend against regulatory arbitrage. Some definitions may be seen to be crafted to frame large exemptions from responsibility decentralized finance, such as in defining concepts like groups and common control in a “decentralized governance system,” which in the bill is a system where participation (not even active involvement, just the pretext of participation) is “not limited to or under the effective control of, any person or group of persons under common control.” In another example, the bill treats assets called “investment contract assets” as digital commodities, though “investment contracts” have generally been a key element of securities laws.
- *Conflating Decentralization and Maturity:* The test for decentralization in the bill is described as a test of blockchain maturity. In a sector where projects that are (or at least claim to be) decentralized are being targeted and exploited for weaknesses in their code, cybersecurity, and irrevocability of mistakes or illicitly acquired assets, it is confusing on why a greater extent of decentralization — a concept that is also vague in the bill — inherently means maturity rather than other markers of good governance and operations. The decentralization test also introduces some confusion that may challenge real-world implementation, and is unclear on how such a feature impacts an asset functioning like a commodity versus a security. Current and former regulatory leadership has warned against arbitrary carve-outs of protections like under securities laws simply based on complex issues like decentralization that so far have largely been met with convoluted definitions that risk exemption significant amounts of high-risk investment-related activity.⁹
- *Departing from Technology Neutrality:* The approach in the Clarity Act departs from an economic function-centric approach to create a technology-bespoke framework, which unfortunately lends toward attempts to draft overly complex definitions and frameworks for coverage that change the nature of market protections simply due to the type of technology used to implement the system.

⁹ See Timothy Massad, Testimony before House Financial Services Committee, [“American Innovation and the Future of Digital Assets,”](#) (June 4, 2025) ;” Hester Peirce, SEC Statement, [“New Paradigm: Remarks at SEC Speaks,”](#) (May 19, 2025).

This also threatens potentially creating the opposite of a future-proofed regulatory approach that cannot keep up with future technological innovation.

National Security and the Critical Role of Enforcement

In the wake of serious national security threats like billion+ dollar hacks by rogue nations¹⁰, growing integration of cryptocurrency as a tool for transnational organized crime¹¹, market manipulation and fraud that can threaten system integrity and stability, as well as pressure from adversarial nations seeking to develop and leverage alternative financial systems to weaken and circumvent the dollar¹², it is clear that strong safeguards, including for U.S. competitiveness, are needed. This framework also demands we ensure policy and enforcement approaches both domestically and internationally create a level playing field for U.S. firms – often the most compliant firms in the world – to be able to compete fairly. Otherwise, the foundation we build these systems on risk faltering, with the potential to not only reap significant harms but also prevent us from harnessing the greatest positive potential that is possible from a secure and innovative digital finance ecosystem.

There is limited discussion of either illicit finance or cybersecurity in the Clarity Act — many more pages are honed on establishing large regulatory carve-outs than on establishing expectations, driving needed industry standards or sponsoring research and development, or appropriating necessary resources to ensure appropriately scaled and timely enforcement of these critical requirements. Also important to note, especially in light of recent changes in enforcement posture – beyond just creating the policy framework, the government and industry must work to apply and *enforce* the framework. A policy that isn't enforced or implemented does nothing to benefit consumers nor U.S. firms with stronger compliance programs that have been operating at higher costs and less competitive advantages than many foreign-operating firms.

I have testified previously¹³ to the critical needs for strengthening AML/CFT and sanctions authorities in the cryptocurrency space, which generally have been suggested to be saved for “comprehensive market legislation.” Such enhanced protections like appropriations for skilled enforcement and investigative personnel, sharpening tools like 9714/311 designation authorities, ensuring extraterritorial application of regulations

¹⁰ See Federal Bureau of Investigation (FBI), Public Service Announcement, I-022625-PSA, “[North Korea Responsible for \\$1.5 Billion Bybit Hack](#),” (February 26, 2025).

¹¹ See TRM Labs, “[Understanding the Use of Cryptocurrencies by Cartels](#),” (January 22, 2025); and Douglas Farah and Marianne Richardson, Georgetown University Journal of International Affairs, “[The Growing Use of Cryptocurrency by Transnational Organized Crime Groups in Latin America](#),” (March 20, 2023).

¹² See Hippolyte Fofack, Atlantic Council, “[Piece by Piece, the BRICS Really Are Building a Multipolar World](#),” (August 23, 2023).

¹³ See Carole House, testimony before the House Financial Services Committee Subcommittee on Digital Assets, Financial Technology, and Inclusion, “[Hearing on Crypto Crime in Context Part II: Examining Approaches to Combat Illicit Activity](#),” (February 2024).

and/or through designations of entities of high national security risk, creation of an enforcement strategy to scale timely enforcement against the most egregious violators, or resourcing public-private partnerships like the Illicit Virtual Asset Notification (IVAN) program are missing from the legislation but could be easily added in to help strengthen the holistic cryptocurrency framework. In the face of disbanding of the Department of Justice (DOJ) National Cryptocurrency Enforcement Team (NCET)¹⁴ and significant downsizing and weakening of enforcement offices and personnel across the U.S. Government, the legislation could help ensure that tools are being honed to better address the worst actors in the space. Only with meaningful enforcement can policy be truly impactful and can we reward the best actors in the space, which are typically American companies.

An Alternative Approach for Consideration – Joint, Targeted, Adaptable, and Balanced

I support calls for a legislative solution that enables nuance and distinct treatment across various assets based on their economic *function* and which will ensure persistent clarity and flexibility for regulators to address significant risks of fraud, manipulation, and investor exploitation that we have seen in the space. The legislation should also guide regulators with key principles, many of which are similar to those outlined in the Clarity Act, and should be done in full view of the benefits that some aspects of digital assets uniquely provide, such as an unprecedented level of market transparency for on-chain financial activity to enable greater market surveillance and oversight.

An alternative approach may help meet the intent of the drafters while giving time for greater exploration and experimentation while meeting near-term calls for the most beneficial transparency needs of the market, which I have observed to most consistently be calls for a clear pathway to registration. I encourage policymakers to consider a much more streamlined approach if a more complex bill proves too difficult to reconcile:

- *Dual Rulemaking*: Similar to efforts undertaken in the wake of the 2008 Financial Crisis and pursuant to the joint rulemaking efforts directed in Title VII of Dodd Frank, Congress could again direct the SEC and CFTC to jointly develop a framework and rulemakings to give greater specificity and adaptability to approaches to ensure appropriate coverage but at least one of the markets regulators.
- *Mandate for Sandboxes and Clear Registration Pathways*: In the interim while the SEC and CFTC craft their approach, Congress could direct a near-term establishment via sandboxes, provisional registrations, and other requirements with clear guardrails to help ensure clear near-term coverage while giving the time needed to thoughtfully evaluate the more complex issues like dual-registered

¹⁴ See Department of Justice, Memorandum, "[Ending Regulation by Prosecution](#)," (April 7, 2025).

entities, defining tokens, defining the jurisdictional hand-off, and how to address DeFi. Policymakers should consider looking to the United Kingdom's current joint efforts between the Bank of England and the FCA under the Digital Securities Sandbox¹⁵ for inspiration.

- *Clarify Commodity Spots Market Authorities:* The legislation should specify clearly authority to the CFTC over commodity spots markets, or at a minimum digital commodity spots markets.
- *Clear Principles for the Framework:* To ensure the regulators meet the intent of Congress, legislators should outline for regulators clear principles to be followed. These will draw significantly from existing markets regulation and the principles in the Clarity Act, and must especially include market and investor protection measures like against conflicts of interest, market transparency, capital requirements, and risk management like for AML/CFT and cybersecurity.
- *Explicit Appropriations and Mandate for Additional AML/CFT and Cybersecurity Initiatives:* The legislation would also optimally integrate near-term resourcing, not just authorizations, to ensure the ability to effectively police bad actors in the system, which should include the earlier-referenced initiatives like expanded targeting authorities, appropriations, public-private partnerships, and cybersecurity and information sharing standards.
- *Undertake Steps to Address the Regulatory Perimeter and Controls with DeFi:* Finally, legislators should direct the SEC and CFTC to jointly undertake the steps recommended by the CFTC TAC in evaluating how to evolve market structure in addressing issues like the unique constructs in DeFi. These steps include mapping ecosystem players, processes, and data; assessing compliance and requirements gaps; identifying risks; evaluating options, benefits, and costs of changes to the regulatory perimeter, and surging research and development and standards partnerships.¹⁶

With guardrails established and more consistent oversight by Congress, this approach, implemented through administrative procedure and thoughtful regulation with public engagement, I think is likely the best way to achieve a comprehensive and enduring framework.

In closing, I'd like to again underscore my gratitude for the honor of the opportunity to speak with you all today. It is critical that the United States make timely progress on establishing and implementing cryptocurrency regulatory frameworks, which should leverage years of effort on defining critical holistic protections that also reinforce the central role in the financial system and as a leader in technological innovation.

Thank you.

¹⁵ See Bank of England, "[Digital Securities Sandbox](#)."

¹⁶ See CFTC TAC, "[DeFi Report](#)," (January 2024).

Mr. STEIL [presiding]. The gentlewoman yields back. Professor Allen is recognized for 5 minutes.

STATEMENT OF PROFESSOR HILARY J. ALLEN, PROFESSOR OF LAW, WASHINGTON COLLEGE OF LAW, AMERICAN UNIVERSITY, WASHINGTON, DC

Ms. ALLEN. Thank you. Chairman Hill, Ranking Member Waters, and members of the committee, thank you for inviting me to testify at today's hearing. My name is Hilary Allen, and I am a Professor of Law at the American University, Washington College of Law. We are here to talk about a bill designed to supplant longstanding securities laws that were enacted to protect the public from harm. In many ways, the timing of this bill could not be worse. Many Americans already face economic precarity, with roughly half of the country living paycheck to paycheck. We are now at a moment, though, when prices are increasing, and there are legislative attempts afoot to further shrink the social safety nets that many people rely upon. In times of increasing economic desperation, people become more vulnerable to predation and gambling increases.

Crypto investing is not investing in the traditional sense, where investments in productive enterprises yield the possibility of a win-win outcome for both the investor and the enterprise. For most crypto assets, the only reason why they have any value is because of the possibility that someone else might be willing to pay a higher price for them. Unless an everlasting supply of new money can be drawn into buying the crypto asset, then its price will start to go down whenever the larger holders cash out, potentially toppling the whole edifice.

Crypto investing is speculative gambling, and in these kinds of situations, increasing access by eliminating regulation of crypto issuers is tantamount to throwing little fish to the sharks. This bill proceeds on the basis of many fictions, including that crypto assets have no issuers. Another such fiction is that digital commodities have a value that is substantially derived from the blockchain system. I would ask whether the value of a bank account is derived from the type of software a bank uses to maintain its deposit records. The answer is obviously no. No value is conferred by the type of technological plumbing used to record ownership.

The most glaring fiction in this bill, though, is the idea that the use of blockchain technology guarantees decentralization.

Mr. STEIL. The witness will suspend. We just want to make sure we get the tech right. It sounds like the microphone may not be on the live feed, so let us just suspend for a moment.

Ms. ALLEN. There we go. Glad to know it was not me. Let us see.

The most glaring fiction in this bill is the idea that the use of blockchain technology guarantees decentralization of economic power. It does not, and the crypto markets are rife with concentrated economic power, even in the parts that purport to be DeFi. This fiction is a linchpin of the bill, notwithstanding that the bill concedes that centralized control of blockchains will be necessary and can be exercised in emergencies. It should be obvious that if control can be exercised to protect blockchain users, it can also be weaponized against them.

What is even more concerning is that mere aspirations to decentralization are considered sufficient to invoke some of the dispensations in this regulatory regime. We do not let tweens drive cars today because they aspire to one day be mature enough to do so. We should not let issuers of what would otherwise be securities escape the securities laws because they aspire to one day reach decentralization nirvana. If this bill becomes law, it will upset bed-rock legal structures that undergird our financial markets, particularly because it is hard to predict how its complexities will play out.

It is somewhat surprising that Congress is moving so swiftly on legislation that risks undermining the stability of our financial markets, particularly when so few Americans currently show any interest in crypto or its underlying blockchain technology. The Federal Reserve recently reported in its Survey of Household Economics and Decisionmaking (SHED) report that only 2 percent of surveyed adults said they use cryptocurrency to make a financial transaction even once in a 12-month period. The St. Louis Fed recently reported that only about 4.3 percent of U.S. households owned any cryptocurrency at all in 2022, and lots of them owned small amounts only. Tellingly, although the crypto industry was responsible for 44 percent of all corporate expenditures on the 2024 election cycle, the political advertisements funded by that money did not mention crypto. The notion of the crypto voter is by and large a myth.

I want to close by saying a few words about the relationship between innovation and the law. Regulation is not an obstacle to innovation. It channels innovation to reflect priorities determined through the democratic process. Exemptions from regulation work is a subsidy that can prop up technologies and business models that might have little to recommend them on a level legal playing field. If this bill were to become law, that would be tantamount to the government picking winners among businesses, allocating a subsidy to those who use blockchain technology at the expense of other technological rails. Right now, medical, scientific, and other important technological innovations are not being funded, so that begs the question of why blockchain innovation is being prioritized by our elected representatives at this moment. The primary use cases for crypto are speculation and funding illicit activity. If the crypto industry has socially useful capital formation benefits to offer beyond that, it should be able to demonstrate that within the existing securities laws framework. Thank you very much.

[The prepared statement of Professor Allen follows:]

**Minority Day Hearing on American Innovation and the Future of Digital Assets: From
Blueprint to a Functional Framework**

Before the U.S. House of Representatives Committee on Financial Services

Friday, June 6, 2025

Prepared Statement

**Hilary J. Allen, Professor of Law
American University Washington College of Law**

Chair Hill, Ranking Member Waters, and Members of the Committee:

Thank you for inviting me to testify at today's hearing. My name is Hilary Allen, and I am a Professor of Law at the American University Washington College of Law. I teach courses in corporate law and financial regulation, and my research focuses on financial stability regulation and financial technologies. I have authored multiple law review and popular press articles about the dangers that crypto poses for investors and our economy more broadly. I have also written a book, *Driverless Finance: Fintech's Impact on Financial Stability*, that explores the threats that crypto and other fintech innovations pose to our financial system. Prior to entering academia, I spent seven years working in the financial services groups of prominent law firms in London, Sydney, and New York. In 2010, I worked with the Financial Crisis Inquiry Commission, which was appointed by Congress to study the causes of the financial crisis of 2007-2008.

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1. Introduction

When we hear from the crypto industry that existing regulation is incompatible with their technology, that is a misdirection. It is entirely possible for a blockchain-based technology

business to comply with existing investor protection and financial stability regulation. However, for many crypto businesses, it may be true that existing regulation is incompatible with the economics of their business model, especially if their business model depends on doing things that we have learned, over the years, tend to harm people. But we have little to lose as a society from limiting the profitability of this kind of business model; unfortunately, the contemplated bill is designed to supplant existing law in order to ensure the profitability of the crypto industry.

The bill offers fewer investor protections than the existing securities laws, and was intentionally designed in this way in order to accommodate the crypto industry's current market structure. This bill will also give crypto assets a veneer of legitimacy, making it easier for fiduciaries operating pension funds and 401k plans to invest in them. Also, the deregulation facilitated by these kinds of bills can run both ways: by providing the crypto industry with "lighter touch" regulation than traditional finance, they encourage traditional financial institutions to refashion their services as crypto services in order to be able to take advantage of the lighter touch regime.

2. The relationship between innovation and the law

Technology businesses are influenced by existing laws, and by how those laws are or aren't enforced. When laws that protect the public are enforced against new tech-based businesses, that sends a signal to similar businesses to minimize their harms and fit within the four corners of those laws. If those laws aren't enforced, that works as a green light for tech businesses to move fast and break things. That green light is a kind of subsidy, one that gives tech-based businesses a competitive edge over the industries they're trying to disrupt (which *do* have to comply with existing laws). These "green light subsidies" can prop up technologies and business models that might have little to recommend them on a level legal playing field.

Unfortunately, the US Supreme Court has recently made life harder for regulators who want to apply existing rules to tech businesses. By making it easier to fire the leaders of regulatory agencies, ending long-standing deference to expert agency decision-making, and embracing doctrine that raises questions about whether an agency can tackle novel issues without express Congressional authorization, the Supreme Court has made it easier for Silicon Valley to stare down their regulators. Against this backdrop, it's concerning to see Congress considering digital assets legislation that would harden the crypto industry's challenges to existing laws into a permanent legislative permission structure. As the Consumer Financial Protection Bureau's former Chief Technologist Eric Meyer put it, "I think Americans give up a lot of power if we agree with the premise that new technology requires new rules of the road."¹

If this market structure bill were to become law, that would be tantamount to the government picking winners among businesses, allocating a subsidy (in the form of not requiring the crypto industry to play by the rules that govern the rest of the financial industry) to those who use blockchain technology at the expense of other technological rails. Picking winners in this way would be problematic even if blockchain technology had many benefits, but it is particularly concerning given the technology's insuperable inefficiencies and operational fragilities. More than 1500 independent computer scientists, software engineers, and other technologists signed on

¹ <https://www.politico.com/newsletters/digital-future-daily/2025/04/11/5-questions-for-eric-meyer-00286906>

to a letter to US Congressional leaders in 2022 that clearly stated that “[b]y its very design, blockchain technology is poorly suited for just about every purpose currently touted as a present or potential source of public benefit.”² The chief appeal of blockchain technology thus far has been as a way of avoiding regulatory oversight – using an inefficient technology that doesn’t scale very well might still seem very efficient to a business if it allows that business to justify things that would otherwise be illegal.

If Congress passes this bill, it will essentially bless the evolution of a parallel financial system beyond the boundaries of democratic accountability and oversight. Their legislative subsidy of blockchain technology will encourage adoption of a flawed technology and will distort our financial markets. If this bill is enacted, the subsidy it confers is likely to be particularly robust given the current status of the administrative state. Critical implementing rules for this legislation will be established by government agencies with decimated levels of staff, often led by political appointees with ties to the crypto industry, and any attempts to create new rules that do indeed rein in the harms of the crypto industry are unlikely to find much support from the Supreme Court.

Ultimately, regulation isn’t an obstacle to innovation; it channels innovation to reflect priorities determined through the democratic process. Right now, Congressional appropriations to fund scientific and other important technological innovations are not being distributed, so that begs the question of why blockchain innovation is being prioritized by our elected representatives at this moment. The primary use cases for crypto are speculation and funding illicit activity. If the crypto industry has socially useful capital formation benefits to offer beyond that, it should be able to demonstrate that within the existing securities laws framework that protect investors and ensure compliance with anti-money laundering requirements. Legislation exempting the crypto industry from existing regulation is being rushed through without full consideration of its many unintended consequences: like the paradigmatic butterfly flapping its wings, this bill will have ripple effects for our financial markets and our democracy. It is not something to be adopted lightly, especially because the vast majority of Americans do not view crypto as a priority.

The Federal Reserve recently reported that 2% of surveyed adults said they used cryptocurrency to make a financial transaction even once in a twelve month period.³ The St Louis Fed reported that about 4.3% of U.S. households owned any cryptocurrency in 2022.⁴ Tellingly, although the crypto industry was responsible for 44% of all corporate expenditures on the 2024 election cycle,⁵ the advertisements funded by that money did not mention crypto. The notion of the “crypto voter” is by and large a myth.

And lest you think this limited uptake is an argument in favor of making crypto more readily available, let me emphasize that crypto is not a solution to financial precarity in America. It is much more likely to make people financially worse off. Wages have been shrinking due to forces beyond workers’ control, and safety nets have been drying up. With roughly half of all Americans already living paycheck-to-paycheck, it is not surprising that many Americans have turned to gambling in search of a lifeline. Even for those who wouldn’t otherwise be tempted to

² <https://concerned.tech/>

³ <https://www.federalreserve.gov/publications/files/2024-report-economic-well-being-us-households-202505.pdf>

⁴ <https://www.stlouisfed.org/on-the-economy/2025/mar/cryptocurrency-ownership-us-households>

⁵ <https://www.citizen.org/article/big-crypto-big-spending-2024/>

gamble much, financial precarity can make risky betting seem like a rational thing to do with one's spare money (or, more dangerously, with money that's been borrowed and needs to be paid back win or lose). Some of the crypto industry's limited success with consumers so far has come from exploiting people's financial precarity by dangling hopes of winning "generational wealth." So-called bitcoin ATMs are springing up alongside payday lending and check cashing operations in lower-income US neighborhoods – these kiosks allow people to use cash to buy crypto, but almost never allow users to withdraw cash. If Congress strips even more of the social safety net away and tariffs make goods more expensive, people will grow even more vulnerable to exploitation by the crypto industry.

Gambling is a zero-sum game and the house tends to win. Technology doesn't change those odds. True investing is supposed to be for the socially useful purpose of raising capital for productive activities, where there's a possibility of a win-win outcome for both the investor and the business using the investor's capital. Because there is no productive capacity behind crypto assets, it is inevitably a zero-sum game where any profits that the crypto industry and crypto "whales" make are at smaller investors' expense. In these kinds of situations, "democratizing" is tantamount to throwing the little fish to the sharks. The only reason why most crypto assets have any value is because of the possibility that someone else might be willing to pay a higher price for it. Without any productive capacity or assets behind them, the price of crypto assets can drop to zero very quickly. Unless an everlasting supply of new money can be drawn into buying the crypto asset, then its price will start to go down whenever the larger holders cash out, potentially toppling the whole edifice. There are many things that Congress could do to address the financial precarity of the American people; expanding crypto access is not one of them.

3. The dangers of disturbing the current financial regulatory framework

The proposed market structure bill is an intensely complex piece of legislation that will, if it becomes law, upset bedrock legal structures that undergird our financial system. It is impossible to fully predict all the unintended consequences of this bill becoming law. Lawyers will certainly profit from testing and exploiting the law's loopholes, but for those who value certainty and stability in our financial markets, there are many dangers that will only be revealed with the passage of time (to be clear, there are also many obvious dangers associated with this bill, which I will discuss below). To reiterate the point made above, it is somewhat shocking that Congress is considering legislation that risks undermining the stability of our financial markets when so few Americans show any interest in crypto or its underlying blockchain technology. It is even more shocking that the bill is being moved through Congress so quickly given its intricacies and potential disruptions.

To make a provocative point, the proposed Section 4(a)(8) exemption stands out from existing securities exemptions both because of its size (an issuer can raise \$150 million from retail investors in any 12 month period, which is orders of magnitude larger than current crowdfunding offerings which are capped at \$5 million) and because it allows for general solicitations of retail investors. If the goal were simply to deregulate securities offerings and weaken investor protections, an exemption could simply stop there and avoid all this bill's complexity – there would be no need for hundreds of pages of new concepts and legislative text tying itself in knots in an attempt to establish that there's something special about securities whose ownership is recorded on the blockchain.

Blockchain provides a new kind of technological infrastructure for delivering financial services, but that technological infrastructure will not create neutral or self-executing financial markets. Blockchain-based finance needs at least as many regulatory guardrails as existing financial markets – given the track record of the crypto industry thus far, more intense regulatory scrutiny is warranted, not less. The impacts of any technology are inextricably intertwined with the people who use it, and the existence of blockchain technology does nothing to change the economic incentives of those deploying it. If the primary motivations of the people and businesses deploying blockchain technology are rent-seeking, predation, or externalization of costs, then those are harms that the law must continue to address.

We have decades, sometimes centuries, of experience with financial predation and destabilizing crises, and our existing body of financial regulation reflects hard-earned knowledge about how financial services businesses can harm people, and we should not dispense with that regulation lightly. The primary purpose of financial regulation is to protect the public from harm, not to support the profitability of the crypto industry – and the crypto industry is (at best) blind to the harm its business models are inflicting on the public.

The securities laws were created in the wake of the stock market collapse of 1929. In adopting the Securities Act of 1933, Congress outlined the kinds of harms that the legislation sought to protect against:

During the postwar decade some 50 billion of new securities were floated in the United States. Fully half or \$25,000,000,000 worth of securities floated during this period have been proved to be worthless. These cold figures spell tragedy in the lives of thousands of individuals who invested their life savings, accumulated after years of effort, in these worthless securities. The flotation of such a mass of essentially fraudulent securities was made possible because of the complete abandonment by many underwriters and dealers in securities of those standards of fair, honest, and prudent dealing that should be basic to the encouragement of investment in any enterprise.

Alluring promises of easy wealth were freely made with little or no attempt to bring to the investor's attention those facts essential to estimating the worth of any security. High pressure salesmanship rather than careful counsel was the rule in this most dangerous enterprise.⁶

These harms, outlined by Congress almost one hundred years ago, resonate today. People losing their life savings after investing in worthless assets supplied by unscrupulous dealers who did not provide any meaningful disclosure – that would sound very familiar to those who invested using centralized crypto platforms like Celsius and FTX, and using DeFi platforms like Terra/Luna. And while these are the most catastrophic crypto failures we've seen so far, losses have been widely distributed among other crypto investors as well. According to crypto researcher Molly White's *Web3 is going just great* tracker, the total amount lost to crypto industry "grifts and disasters" as of May 2025 was more than \$78 billion.

⁶ H.R. Rep. No. 85, 73d Cong., 1st Sess. 2 (1933).

Securities regulation is primarily focused on protecting investors from harm. Financial regulation also seeks to protect the stability of the financial system, which in turn protects everyone. Because the broader economy relies on the financial system for payments services, to manage risks, and to amass and allocate capital, financial system failure has significant implications for the people and businesses that make up the broader economy, as we saw in 2008. Research from the Bank for International Settlements has concluded that “while the [2022] crypto collapse may have affected individual investors, the aggregate impact on the broader system was limited.”⁷ This is good news, and it was not an inevitable outcome – if crypto *had* integrated with the traditional financial system prior to 2022, then the fallout from the failures of Terra/Luna, Celsius, FTX might not have been limited to investors. All of us would have been harmed if there had been a crypto crash-inspired financial crisis. But today, there are many efforts afoot to further the integration of crypto and traditional finance. From the approval of crypto ETPs to bills blessing stablecoins to tokenization of real world assets on crypto blockchains to authorizing 401k plans to invest in crypto, this integration makes it unlikely that we will be spared from the fallout of the next crypto crash. And so those who choose not to buy crypto themselves are increasingly vulnerable to the consequences of its volatility and vulnerabilities.

4. Other harms associated with legitimizing crypto

The market structure bill is primarily targeted at excluding crypto from existing financial regulatory regimes, but if it achieves its end goal of increasing crypto adoption, then there will be many other non-financial harms associated with crypto proliferation. I provide here just a few examples of the dangers of encouraging the evolution of a parallel blockchain-based financial system. I would add the caveat, though, that many in the crypto industry don’t use blockchain technology for their operations, preferring to use traditional databases given the blockchain’s limitations. While limited use of blockchain would ameliorate some of the concerns I raise here, it also completely undermines arguments for why this bill is necessary. Before proceeding with this bill, I would respectfully recommend that Congress gather information about the extent to which the crypto industry is actually using blockchain technology.

Privacy

When it comes to privacy, blockchain technology offers the worst of all worlds. Blockchains – and all of the transactions recorded on them – are publicly visible. Unless a crypto user takes advantage of software tools like tumblers and mixers, anyone who knows that user’s unique identifier can trace their entire transaction history, and that transaction history can sometimes reveal data about a person’s location. This is highly concerning for victims of stalkers and abusive partner violence, or for those being unjustifiably targeted by law enforcement officials. Sophisticated criminals and national states seeking to evade sanctions, however, take advantage of tumblers and mixers to disguise their transactions and avoid detection.

Crypto is also being used to fund other kinds of privacy incursions. Take Sam Altman’s “World” project, which uses a device known as “The Orb” to collect biometric data by scanning retinas. In exchange for their biometric data, people receive the crypto asset WorldCoin.

⁷ Giulio Cornelli, Sebastian Doerr, Jon Frost, and Leonardo Gambacorta, *Crypto Shocks and Retail Losses*, BIS BULLETIN No. 69, 4 (Feb. 20, 2023), available at <https://www.bis.org/publ/bisbull69.pdf>.

WorldCoin can't be used for much right now, but the vision is that ownership of WorldCoin will onboard holders into a new, blockchain-based version of the internet that will be known as Web3. Previously deployed primarily in countries with fewer legal protections, World launched in San Francisco in April 2025. People are giving up their unique biometric data for highly volatile crypto assets: priced at over \$11 in March 2024, one WorldCoin was worth less than \$1 a year later.⁸ Also like other crypto, there are reports of users permanently losing their WorldCoin through hacks and other technological snafus.

Environment

Different blockchains use different kinds of mechanism to verify transactions, but the bitcoin blockchain notably relies on something referred to as "proof-of-work" or "bitcoin mining." Essentially, companies expend significant amounts of electricity and use highly specialized computer equipment to guess a string of numbers that will give them the right to add transactions to the bitcoin blockchain. The winning miner gets paid; the environmental costs of all the other inherently wasteful guesses are borne by all of us. Bitcoin mining uses roughly as much energy as an entire country like the Netherlands; the specialized mining computers burn out after a couple of years, also generating roughly as much hazardous electronic waste as the Netherlands.

The vast majority of Bitcoin mining was done in China, until the Chinese government kicked the mining companies out in 2021. Bitcoin mining business then took root in the United States in what the New York Times has described as "a boon for the fossil fuel industry."⁹ Mining costs are felt most keenly by the communities located near the mining companies' warehouses, who often see their power bills skyrocket and are tormented by noise that has been compared to having a jet engine in your backyard that never leaves.¹⁰ Republican legislatures in Arkansas, Louisiana, Montana, and Oklahoma have already passed "Right to Mine" legislation modeled on a bill prepared by the Satoshi Action Fund (a non-profit with reported links to the Koch Brothers' fossil fuel interests and the Project 2025-authoring Heritage Foundation).¹¹ This legislation undermines local government efforts to require crypto mining companies to comply with noise and zoning ordinances, and prohibits state utilities from setting electricity rates for crypto miners that are different from other industrial rates – even though crypto mining can put severe stress on electrical grids and increase energy prices for neighboring households.

National Security

It is surprising that members of Congress are comfortable with the fact that bitcoin mining operations throughout the United States have reported links to the Chinese government.¹² It is also surprising that members of Congress are willing to accept the national security risks that would come from building a parallel financial system on flawed and fragile blockchain infrastructure.

⁸ <https://coinmarketcap.com/currencies/worldcoin-org/>

⁹ <https://www.nytimes.com/2023/04/09/business/bitcoin-mining-electricity-pollution.html>

¹⁰ <https://www.washingtonpost.com/business/interactive/2022/cryptocurrency-mine-noise-homes-nc/>

¹¹ <https://jacobin.com/2025/01/dark-money-bitcoin-reserve-lobby>

¹² <https://www.nytimes.com/2024/05/13/us/bitcoin-mine-biden-ban.html>

A blockchain is software, and software is not “set and forget:” as it interacts with other software it can decay as well as develop security vulnerabilities. Big tech platforms and traditional financial institutions employ armies of engineers to maintain their software; when it comes to important financial services infrastructure, there are internationally accepted regulations that require providers to have policies and procedures in place regarding maintenance, cybersecurity, and recovery from major disruptions. When it comes to blockchains, though, no one is in charge of or accountable for performing these kinds of functions – and there’s no guarantee that the foundations and other *ad hoc* maintainers that fill the breach will always have the best interests of blockchain users at heart. Wall Street Journal reporting has indicated that the handful of people who maintain the bitcoin blockchain software are often funded through ad hoc foundation arrangements¹³ – it is entirely possible that hostile nation states could pay these software maintainers to compromise the blockchain’s software.

Even without altering the software of blockchains, their game-theory based verification mechanisms remain vulnerable. In 2022, the cybersecurity firm Trail of Bits was engaged by the Department of Defense’s research agency DARPA to investigate just how decentralized blockchains actually were from a security perspective. With regard to the Bitcoin blockchain, they found that “the vast majority of nodes do not meaningfully contribute to the health of the network” and that “the core developers and maintainers of blockchain software are a centralized point of trust in the system, susceptible to targeted attack.”¹⁴ They concluded that, at that time, four pools of bitcoin miners working in concert could disrupt the bitcoin blockchain if they wanted to – or they could be hacked. Transaction validation on the Ethereum blockchain is also concentrated in a few hands: a 2024 report from the Federal Reserve Bank of New York found that “even though there are 156,150 block proposers, five large staking pools capture more than 50% of all the proposer revenue and blocks proposed.”¹⁵

5. Specific problems with the bill

These operational vulnerabilities can also be exploited by hackers, and there is nothing in this legislation that addresses these risks – financial market utilities in the traditional markets are governed by the internationally accepted Principles for Financial Market Infrastructure. There is no equivalent in this bill, which is a gaping omission that makes any user of blockchain-based finance more vulnerable. As mentioned earlier, legislation this complex will inevitably have unintended consequences. In particular, this bill suffers from trying to tie law too specifically to crypto technology and business models at this particular moment in time, ensuring that technological innovation could be used to arbitrage the law if enacted, quickly rendering the investor protections that *are* included in the bill obsolete. While it is not clear precisely how the inevitable arbitrage will play out, there are already clear and predictable problems associated with the bill as drafted. I provide here not an exhaustive list, but a sample of things to be concerned about.

Value derived from use of blockchain

¹³ Paul Kiernan, *Bitcoin’s Future Depends on a Handful of Mysterious Coders*, WALL ST. JOURNAL (Feb. 16, 2023).

¹⁴ <https://blog.trailofbits.com/img/wpdump/7539c81d4b8e441403714a6c53dc14d3.pdf>

¹⁵ https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1102.pdf?sc_lang=en

This bill refers to digital commodities that have “a value that is substantially derived from the adoption, use, and functioning of the blockchain system.” To highlight the absurdity of this kind of approach, I would ask whether the “value” of a share is derived from its relationship to the databases maintained by the DTCC on which ownership is recorded? Or whether the value of a bank account is derived from the type of software a bank uses to maintain its deposit records? The answer is obviously no – no value is conferred by the type of technological plumbing used to record ownership. This is a foundational concept for the bill, and it makes no sense.

Decentralization fairy tales

The concept of decentralization is a linchpin of this bill. Both the intended new exception from the Securities Act’s registration requirements and the provisions relating to DeFi are premised on the idea that blockchain technology will be able to force economic decentralization. This is an entirely unrealistic and flawed premise. This Committee has already received testimony from Mark Hays of Americans for Financial Reform on the concentrations of economic control in nominally decentralized finance,¹⁶ and so I offer just one illustration here. Uniswap is a nominally decentralized exchange, controlled by the holders of distributed governance tokens. But researchers have found that as of 2022, less than 10% of Uniswap token holders bothered voting (whereas the shareholder participation rate in US public companies is more like 70%). And even if all of those token holders did participate (voting is done by delegating tokens to a delegate), ownership of Uniswap tokens is so concentrated that those researchers found that only 11 delegates need to agree on any change for it to go through.¹⁷

This market structure bill recognizes that centralized control of blockchains will be necessary and can be exercised in emergencies; if control can be exercised to protect blockchain users, it can also be weaponized against those blockchain users. What is even more shocking is that mere aspirations to decentralization are considered sufficient to invoke this regulatory regime. We don’t let tweens drive cars today because they aspire to one day be mature enough to do so; we shouldn’t let issuers of what would otherwise be securities escape the securities laws because they hope to one day reach decentralization nirvana. If we accept the fiction that there is no issuer of these assets, then harmed investors will have no recourse against the people who actually issue these assets.

A blockchain is a spreadsheet or database that you can add information to, but not delete information from. The main thing that sets blockchains apart from other databases is that instead of having trusted authorities who are charged with adding and removing entries, a blockchain theoretically allows any computer or “node” hosting a copy of the database to add entries to that database so long as some kind of validation mechanism is satisfied that those new entries should be added (entries can’t be removed without taking drastic steps to remake the database in a process known as “forking,” which is a significant problem for consumers who have made a mistake or been the victim of a fraudulent transaction). The purported absence of any trusted authority charged with updating the database is often referred to as “decentralization.”

¹⁶ https://ourfinancialsecurity.org/wp-content/uploads/2024/10/MHays.AFR_Testimony.HFSC-Digital-Assets-Subcommittee.DeFi-Hearing.Sept-10-2024.pdf

¹⁷ <https://www.sciencedirect.com/science/article/pii/S2096720924000216>

However, a system needs to offer more than just the *opportunity* for decentralized control to actually *be* decentralized. Blockchains, and many of the things built on them, are technologically decentralized system in the sense that there are lots of nodes involved, but if one person can control lots of those nodes, or some nodes are more important than others practically speaking, then control of the system will become centralized and all that effort that went into technological decentralization will be for naught. For centuries, we’ve had the “technology” for decentralized organizations in the form of corporations that issue lots of shares, but the fact that I can buy a single share in a corporation doesn’t give me the right to have any meaningful say in how that corporation runs its business.

As technology publishing guru Tim O’Reilly observed, “history teaches us that there will always be new avenues for power to become centralized.”¹⁸ He then noted that “blockchain turned out to be the most rapid recentralization of a decentralized technology that I’ve seen in my lifetime.” Part of the explanation for why control tends to become centralized is that full participation in a decentralized system requires a user to do a lot of upfront work to figure out exactly how the system functions, and then to keep engaging after they’ve figured it out. Part of it is that it is very unwieldy for lots of people to have an equal say in how the system should run, particularly in an emergency when swift action is required. Having a hierarchy of control streamlines things in the face of uncertainty, and makes life easier for people who don’t want to invest heavily in learning the intricate workings of something. And when there are opportunities to make money from hierarchy and streamlining, the evolution of centralized intermediaries seems inevitable – someone will always rush to fill a profitable power vacuum. This is, of course, how our current internet became intermediated by Big Tech platforms like Google (now Alphabet) and Facebook (now Meta): they made the internet easy to use for those who didn’t understand how internet protocols actually worked, and became some of the largest companies in the world as a result. Once people have established control, they have the same incentives that intermediaries have always had to exploit and profit from that control.

If Congress exempts intermediaries from the securities laws just because they can tell a good story about a decentralized utopia, then that is a grave mistake. This fairy tale thinking infects other parts of the bill as well. For example, in trying to carve out underlying investment contract assets from the securities laws, the definition relies upon language that says that the asset can be transferred “without necessary reliance on an intermediary.” What this implies is that the use of intermediaries is permitted, but exemptions from the securities laws will be available so long as a good story can be told of the theoretical possibility of transactions processed without an intermediary. Elsewhere, Section 501 of the bill outlines “findings” that provide support for the enactment off the bill. These findings are, once again, built on crypto industry talking points rather than the realities of blockchain technology and the crypto industry that is built on it; they raise the specter that industry talking points about the necessity of other kinds of innovation will be used to justify deregulation more broadly (including a moratorium on AI regulation).

An invitation for regulatory arbitrage

¹⁸ <https://www.cbsnews.com/news/web3-cryptocurrency-nft-tim-oreilly/>

This bill seeks to remove the vast majority of crypto assets from the investor protection oversight of the SEC. It essentially seeks to codify certain parts of Judge Torres' ruling in the Ripple case: the Judge's reasoning on this point was roundly criticized both by academics and other judges for being backwards on investor protection. This approach would offer securities law protections to sophisticated industry participants who buy crypto directly from the seller, but leave regular people who buy on the secondary markets without those protections. This is backward from the perspective of investor protection, but perhaps consistent with the currently prevailing trend of benefiting insiders at the expense of everyday Americans.

By removing crypto from the SEC's jurisdiction, the bill would give more jurisdiction to the CFTC. The CFTC is widely regarded to be the crypto industry's preferred regulator. It is a much smaller agency with a much smaller budget than the SEC, and unlike the SEC, it has no statutory investor protection mandate and limited experience regulating retail-dominated markets.¹⁹ The CFTC also allows exchanges to self-certify the assets they list (in a self-certification regime, an exchange is permitted to certify to the CFTC that an asset complies with the law, rather than putting the onus on the CFTC to ensure compliance).²⁰ Doing so would deprive investors of the protections afforded by the SEC's registration and disclosure regime for public offers and sales of securities, as well as the protections of securities broker/dealer and exchange registration requirements that would help mitigate the conflicts of interest inherent in the crypto exchange business model. Furthermore, this bill would create regulatory arbitrage opportunities outside of the crypto industry: while crypto advocates have sought a bespoke regulatory regime for crypto, issuers of other types of securities would also have incentives to migrate into the new, lighter-touch regime (which would seemingly be accessible to them if they simply recorded ownership of their securities on a blockchain).

Conflicts of interest at exchanges

Securities exchanges are not allowed to also be securities brokers and vice versa, because of the conflicts of interest such a relationship might entail. This bill blesses these conflicts of interest for crypto exchanges and allows them persist. As such, there's the possibility that a crypto exchange could manage trades in ways that benefit its high-paying customers over other customers, particularly if that exchange is also a blockchain validator and therefore in a position to dictate the order in which certain transactions are processed (and auction that off to the highest bidder). Crypto exchanges are also allowed to have venture capital firm affiliates. This conflict of interest runs in both directions: an exchange has incentives to pump startups funded by their venture affiliate; the venture affiliate has incentives to fund lots of digital asset projects that can then be traded on the exchange in order to generate more transactional fees for the exchange.

6. Possible legislative reforms

¹⁹ Dennis M. Kelleher, *10 Key Questions that Must Be Answered Regarding the Senate Agriculture Committee's Crypto Legislation that FTX Endorsed*, BETTERMARKETS (Nov. 30, 2022), available at https://bettermarkets.org/wp-content/uploads/2022/11/Better_Markets_Fact_Sheet_10_Questions_FTX_Hearing.pdf.

²⁰ For more on the CFTC and self-certification, see Lee Reiners, *Bitcoin Futures: From Self-Certification to Systemic Risk*, 23 N.C. BANKING INST. 61 (2019).

The crypto industry – rather than the public – is likely to be the primary beneficiary of this bill. Existing financial laws and regulations – particularly the securities laws – provide financial regulators with tools that can effectively address many of the harms associated with crypto business models. Robust enforcement of these laws and regulations is key to curbing the crypto industry’s harms, but this bill would undermine many of these laws and regulations and is therefore inferior to the status quo. If lawmakers are contemplating new legislation, however, there are some reforms that would further assist in this regard.

Banking regulation

As discussed above, banking regulation has performed reasonably well thus far in protecting the traditional financial system from the fallout of crypto industry implosions. That may not continue to be the case, though, given the current Administration’s encouragement of the integration of crypto and traditional finance. In this environment, legislation that formally recognizes the separation of banking and crypto – a type of “Glass-Steagall 2.0” – would be helpful. Such legislation should prohibit banks from investing in any crypto assets, or accepting them as collateral for loans. Banks should also be prohibited from holding stablecoin reserves in a deposit account, as those funds could disappear in the event of the run on the stablecoin, exposing the bank to the risk of a run itself. Insured depository institutions should also be prohibited from issuing their own stablecoins. Congress may also wish to reconsider the wisdom of allowing banks to record transactions on permissionless blockchains.

Investor protection regulation

If new crypto legislation is adopted, it should reaffirm the SEC’s jurisdiction over crypto assets. Legislation that amends the definition of “security” in the Securities Act of 1933 and the Securities Exchange Act of 1934 to categorically provide that all crypto assets are securities would mean that the Howey test would no longer be relevant to determining whether a crypto asset is a security. The crypto industry would know with absolute certainty that the securities laws apply to them, and that the SEC is their regulator.

A ban

The legislative reforms outlined so far seek to utilize and improve existing regulatory frameworks to curb the harms associated with crypto business models. However, the most effective way to protect both the stability of our financial system and individual investors would be to ban the issuance and trading of crypto assets. As this testimony has already explored, we have much to gain and little to lose from a ban on crypto (and the gains would go beyond investor protection and financial stability – they would also include limiting environmental damage and protecting national security).

It is sometimes said that such a ban would be impossible to enforce because of the decentralized nature of crypto. However, but there are many people against whom such a ban could be enforced. Most obviously, centralized exchanges serve as important gateways to the crypto markets. If they were banned from listing crypto assets, then the market for those assets would most likely diminish significantly. Alternative exchanges do exist that are operated by

DAOs rather than a single entity, but a ban could still be enforced against such exchanges. As already explored, DAO governance tokens are held by real people and those real people could be prohibited from holding governance tokens in a DAO operating a prohibited business. Practically speaking, ownership of these tokens tends to be reasonably concentrated with founders, venture capitalist funders, and crypto whales, so enforcement efforts would only have to target a limited number of holders to be effective. A ban is therefore feasible, and can be effective even if not 100% impermeable.

Gambling regulation

If Congress does not wish to implement a bank, they could also consider the recommendation of a UK parliamentary committee that crypto should be required to comply with existing gambling laws, rather than financial regulation. The committee reached this conclusion because of concerns that regulating crypto investments as a “financial service” could “create a ‘halo’ effect that leads consumers to believe that this activity is safer than it is, or protected when it is not.”²¹

²¹ <https://committees.parliament.uk/publications/39945/documents/194832/default/>

Mr. STEIL. The witness yields back. Mr. Naylor is recognized for 5 minutes.

**STATEMENT OF BARTLETT COLLINS NAYLOR, FINANCIAL
POLICY ADVOCATE AND ECONOMIST, PUBLIC CITIZEN**

Mr. NAYLOR. Chair Steil, Ranking Member Waters, and members, it is my honor to sit in the reflected esteem of my fellow panelists and fellow Idahoan. Perhaps the most clear-headed, articulate finance law professors in the Nation, the Chief of Staff of the Securities and Exchange Commission, the Chair of the Commodity Futures Trading Commission. It is also a solemn time because I believe that when the Ron Chernow or the Steven Spielberg or the Lin-Manuel Miranda of 200 years from now writes or does a musical about this President, they may well take a deep dive into this hearing because what is going on is the greatest corruption in presidential history.

George Washington alerted his stepson to buy the very land that we are on before he designated it as the Nation's Capital, President Lincoln apparently sold sinecures to secure the Thirteenth Amendment. My source for that is Steven Spielberg, and President Obama wore a brown suit.

[Laughter.]

Mr. NAYLOR. Now, these are definitely things to be concerned about, but the Trump corruption is just beyond any of that.

Now, I was the head of investigation for the Senate Banking Committee, but it does not take anything but somebody watching social media to see these corruptions. I personally believe I witnessed a Federal crime on May 22 when I stood outside the Trump golf course and watched the co-conspirators. Now, they were not wearing ski masks, but they were identifiable because they had tuxedos on, and these are people that paid a collective \$148 million for the favor of being with the President, as the ranking member has so articulately put it.

Now, what are these schemes? Again, just look at social media. There are at least three violations at stake here. One is that the President may receive gifts. News to me, he may receive gifts, but he cannot solicit gifts, and that is what I believe he is doing when he sells the Trump meme, and again, he is not offering you anything. He says this is not an investment. His Securities and Exchange Commission put out guidance saying this is without value, so basically, he is saying, give me money, I want money. Second, the President cannot get an emolument. He cannot get a gift from a foreign king or prince or a government, and he is doing that, many examples, but the \$2 billion stablecoin is just one of them. You cannot sell favors. You cannot say, give me money and I will host you at a dinner, or you might be under investigation by the SEC, but if you give me \$30-\$50 million, I will terminate that, so you cannot do any of that.

Now, I appreciate that Pam Bondi and the Office of Government Ethics are not returning our letters where we have asked for an investigation, but there is something that you can physically do beyond this hearing, and that is you can ask the Government Accountability Office (GAO) to determine that his Trump meme promotion is a solicitation of a gift, and that in turn helps the next

responsible administration with an independent Department of Justice and Attorney General to lay the groundwork for a successful prosecution. He is not immune from this. This is not an official act. He has helpfully told us that. His press secretary has said his meme gala was on his personal time. Again, I would urge that this committee ask for the GAO report.

Finally, and most importantly, no responsible Member of Congress can vote on a bill that legitimizes or advances stablecoins or other cryptocurrencies while we are witnessing the greatest corruption in presidential history. Thank you.

[The prepared statement of Mr. Naylor follows:]



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Testimony

Bartlett Collins Naylor

Financial Policy Advocate, Economist

Public Citizen

Before the

House Financial Services Committee

Hearing on

“American Innovation and the Future of Digital Assets:

From Blueprint to a Functional Framework”

Friday, June 6, 2025, at 9:00 AM ET, Room 2220 Rayburn House Office Building

Introduction

On behalf of more than 500,000 members and supporters of Public Citizen, it is my solemn honor to provide testimony at what may be one of, if not the first congressional hearing that explores what we believe to be the [greatest, most flagrant](#) violation of conflict-of-interest statutes in United States presidential history.

I serve as financial policy advocate for Public Citizen’s Congress Watch division. 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.

Public Citizen Efforts to Hold Trump Accountable and Defend Government

Since the beginning of the Trump administration, Public Citizen has worked assiduously to hold the president accountable for misconduct.

Drawing on our historic strengths and our work in the first Trump term, Public Citizen has prioritized tracking Trump corruption. We publish a [tracker](#) for the massive number of corporate conflicts of interest among Trump's appointees. To date, the Trump administration has [dismissed or withdrawn enforcement](#) against 18 crypto corporations, and frozen enforcement against 3 (total of 20 corporations, with Binance benefiting from both categories). Trump signed the first-ever presidential pardon for a corporation – the crypto corporation BitMEX – which now will never have to pay its \$100 million fine.

In addition to the overall documentation, we publish longer reports into the K street conflicts of important actors in the administration such as [Attorney General Pam Bondi](#) and White House Chief of Staff [Susie Wiles](#). Our work on Pam Bondi led to Public Citizen testifying on the AG's conflicts of interest as the only outside group opposition witness in Bondi's confirmation hearing.

The examples of corruption and conflict-ridden decision-making on the part of this President are sulphurously legion. From his Tesla car show on the White House lawn to benefit Elon Musk, to his recently accepted jumbo jet gift from Qatar, to the fact that he never issued an executive order on ethics (breaking 30 years of precedent), to the firing of the head of the OGE and numerous inspectors generals, and much more. Public Citizen has issued reports, filed complaints and endeavored to make sure that this corruption doesn't simply become background news.

In late May, Public Citizen Co-President Lisa Gilbert spoke at a press conference with members of Congress including Rep. Sam Liccardo (D-Ca.) of this committee to highlight the disgusting corruption of the memecoin advertising and associated presidential profits. Co-President Robert Weissman spoke at a protest Public Citizen organized with Our Revolution in front of the memecoin reward dinner at the Trump National Golf Course in Virginia.

To defend government operations, Public Citizen has filed 15 lawsuits to date since Trump returned to power. We believe the Trump regime is unilaterally, unconstitutionally, and unlawfully dismantling the federal government, from Cabinet-level departments to lesser-known sub-agencies that perform the routine, unheralded work that makes for a functioning country. Attached below is a summary of that litigation.

Summary of Trump's Crypto Grift and Pending Legislation

Both houses of Congress now consider legislation addressing cryptocurrency. At the same time, President Donald Trump, in his self-described role as a private citizen, promotes not one, not two, but multiple for-profit crypto projects. He personally already profited [hundreds of millions of dollars](#). Legislation legitimizing crypto will surely fatten those profits. Before Congress approves any legislation in this sector, responsible lawmakers must force Trump to divest from all such crypto ventures.

Joining Public Citizen in this characterization of Trump's historic grift and demand that Congress force termination before any legislation proceeds include the nation's [leading government ethics](#) organizations and individuals, including Accountable.US, the Project on Government Oversight, and former White House Republican and Democratic ethics counsels.

Further, we ask the committee to direct the Government Accountability Office (GAO) to declare that one of Trump's crypto projects, namely what he calls his "meme," qualifies as a solicitation of a gift. While Trump controls other federal ethics and law enforcement authorities, he does not control the GAO. Without such a determination, any lawmaker could offer a "meme" as a vehicle for legalized bribery.

Trump's Crypto Devolution

Trump once dismissed bitcoin, the most popular crypto, as [“based on thin air.”](#) It is a [“scam.”](#) It [can facilitate unlawful behavior, including drug trade and other illegal activity.](#) Now, he's the self-proclaimed crypto president.

Recently, the Trump family announced an agreement with a fund backed by Abu Dhabi that “would be making a \$2 billion business deal using the Trump firm’s digital coins,” according to the [New York Times](#). This deal involves a stablecoin. 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.”

Before this, Trump promised a presidential dinner to the largest new buyers of his crypto “meme,” called “Trump.” He [restated](#) this “gala” solicitation May 5. He hosted this gala on May 22 at his golf course near Sterling, Va.. Public Citizen [led a protest](#) at this [live violation](#) of federal conflict-of-interest statutes, which drew a large turnout and considerable [media](#) attention, as noted above.

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 to why the public might be interested in sending money, the Trump meme [website explains](#): “This Trump Meme celebrates a leader who doesn’t back down, no matter the odds.” 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.” Trump’s Securities and Exchange Commission also stated that meme coins have “no use.” 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.

Already, Trump has profited millions of dollars from the meme and other ventures. His initial sale generated nearly \$100 million. The latest salvo in April brought in roughly [\\$100 million](#) more. Some new buyers come through the Binance exchange, legally barred for US investors, meaning that Trump may well be violating the emoluments clause with this venture 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 meaningless.

Paradoxically, while this Trump meme is worthless (by his own estimation) Trump managed to create an earlier crypto that is worth even less. In October, 2024, he became the [“chief crypto advocate”](#) for World Liberty Financial, a nascent cryptocurrency firm. The World Liberty Trump crypto is worse because it

cannot be resold. This Trump crypto buys “governance,” but only a minority share. Trump controls the majority of the governance tokens.

Now, Congress considers twin bills on stablecoins. Perhaps not coincidental for a president who calls himself a “stable genius,” one bill is called the STABLE Act, and the other, (originally) the GENIUS Act. Stablecoins typically tie to the US dollar—one dollar buys one token.

Public Citizen views crypto dimly, largely as a Ponzi scheme whose victims disproportionately include vulnerable populations. We view stablecoins as financing vehicles for illicit activity, including human, drugs and arms trafficking. We attach below our analysis of the STABLE Act. But the deficiencies we highlight pale compared with the unprecedented gift perpetrated by Trump.

At the very least, Congress must bar the president along with all elected officials and their families from owning, buying or otherwise trafficking in stablecoins. Americans must be assured that policy won’t be fashioned by those profiting from the shape of the legislation. We support legislation introduced by [Ranking Member Maxine Waters](#) and that of other lawmaker to address Trump’s conflict of interest gift

Further, Congress should approve an amendment that restates conflict laws that already apply to the president. Namely, he may [not solicit gifts](#); he may not accept gifts from a foreign sovereign; he may not sell political favors.

Finally, federal ethics officials must declare that promotion of a meme constitutes a solicitation of a gift, in violation of conflicts and anti-bribery statutes. Public Citizen has [appealed to the Department of Justice](#) and the Office of Government Ethics for such a determination. (Letters attached below, and [linked](#).) We do not expect these Trump-controlled offices to respond to our letters or take action. However, the Government Accountability Office (GAO) operates independently. We ask responsible lawmakers to request a GAO determination.

Pro-crypto lawmakers apologize that Trump corruption will persist whether or not Congress approves crypto legislation. We reject this defeatist position. Congress must not abdicate any powers to hold Trump accountable. Without conflict-of-interest guardrails, approving these bills effectively endorses Trump’s conflicts. The bills will integrate crypto into mainstream banking, serving to fatten his gift.

In conclusion, Trump may not face felony prosecution under his administration. But his millions in crypto gift might lead to accountability under a subsequent independent federal prosecutor. His immunity only applies to presidential acts and he and his representatives themselves emphasize that his crypto efforts are [personal](#). Shilling crypto falls outside this immunity. We welcome this committee’s early and urgent interest. Ideally, accountability will come sooner than a change in administration.

Thank you.

Summary of Public Citizen Litigation v Trump Administration

15. Suing to Maintain an Independent Consumer Product Safety Commission

The Consumer Product Safety Commission (CPSC) does pretty much what its name suggests. It conducts product-safety research, sets standards, and issues recalls. Under federal law, the agency has five commissioners who serve staggered seven-year terms. To ensure the CPSC's independence, Congress stipulated that commissioners can be removed by the president prior to the end of their terms only "for neglect of duty or malfeasance in office but for no other cause."

However — with no explanation and no suggestion of neglect of duty or malfeasance — Trump has illegally attempted to terminate three CPSC commissioners whose terms are not complete. On May 21 — representing those commissioners — Public Citizen filed suit in federal court challenging the terminations as unlawful and outside the president's constitutional and statutory authority.

We are seeking an expedited ruling in the case to have the commissioners restored to their roles so they can continue their critical work on behalf of American consumers.

14. Suing to Preserve the National Institute for Occupational Safety and Health

Somewhat under the radar, the regime has been dismantling the National Institute for Occupational Safety and Health (NIOSH). Housed within the Department of Health and Human Services — now under the "leadership" of MAGA convert Robert F. Kennedy Jr. — NIOSH is the country's premier authority on occupational safety and health, protecting workers in high-risk industries like mining, firefighting, construction, and healthcare.

Among other things, NIOSH screens miners for black lung disease, provides medical monitoring to September 11 first responders, and evaluates the safety of worksite protective gear (including certifying respirators like the N95 masks that were so essential throughout the COVID-19 pandemic).

Since Trump's inauguration, roughly 85% of NIOSH's staff has been fired, slated for termination, or otherwise forced out. With NIOSH so weakened, workers throughout the country who otherwise would have been safe will get sick, hurt, and killed on the job. (Following coverage of these cuts, a small portion of the employees have been called back to work.)

On May 14 — in partnership with AFL-CIO attorneys and representing numerous unions — Public Citizen filed suit in federal court to block the Trump regime's illegal shutdown of NIOSH. Our lawsuit seeks an order for the administration to immediately resume the many activities the law requires NIOSH to perform.

13. Suing to Defend Oversight Offices at the Department of Homeland Security

When Congress created the Department of Homeland Security (DHS) in 2002, it established within the new department an Office for Civil Rights and Civil Liberties (CRCL) to make sure DHS respected those

foundational freedoms. Congress also established an Office of the Citizenship and Immigration Services Ombudsman (CISOMB) within DHS to help immigrants who experienced problems dealing with department bureaucracy. And, in response to abuses reported during the first Trump administration, Congress established an Office of the Immigration Detention Ombudsman (OIDO) within DHS to monitor conditions in detention facilities.

On March 21, DHS announced its intention to close all three of these oversight offices and fire nearly all of the employees. On April 24, Public Citizen — representing several organizations that work with immigrants and people living near the US-Mexico border — sued DHS and Trump’s Homeland Security Secretary Kristi Noem (self-professed dog killer) over the unlawful attempt to shutter the three oversight offices created and funded by Congress.

After several court hearings, the judge denied our motion for a temporary restraining order in light of the administration promising to post public notices indicating that the offices remained open and would continue performing their statutory functions. Our motion for a preliminary injunction is still pending.

12. Suing to Block “DOGE” from Ending International Labor Rights Programs

For decades, Congress has authorized funding for the Bureau of International Labor Affairs (ILAB) within the Department of Labor. ILAB protects workers and businesses in the United States from unfair competition on the part of companies and governments that violate workers’ rights to free association and collective bargaining, that use forced labor or child labor, or that otherwise violate labor rights to gain an unfair advantage in the global marketplace.

In March, the Trump administration terminated all of ILAB’s cooperative agreements in one fell swoop. The so-called Department of Government Efficiency (DOGE) being run by Elon Musk made clear that the regime would not spend the funds that Congress specifically appropriated to combat unfair labor practices and to support workers’ rights abroad.

On April 15 — representing several impacted organizations — Public Citizen filed suit in federal court to block the administration’s abrupt and unlawful bulk termination of ILAB’s programs. We then filed a motion for a preliminary injunction and are now waiting for the judge’s decision.

11. Suing to Restore Environmental Tools Scrubbed from Federal Websites

Shortly after the Trump regime took over in January, it started removing essential information about climate change and environmental justice from the websites of various agencies — including the Department of Energy, the Department of Transportation, the Environmental Protection Agency, and the Federal Emergency Management Agency.

The deleted pages were key to explaining how communities around the country are harmed by or benefit from energy, environmental, and transportation policies. The pages supported work examining how pollution affects disadvantaged communities, supplied a means by which community advocates can explain environmental harms, and provided the foundation for public participation in regulatory and legislative processes.

On April 14 — on behalf of the Sierra Club, the Union of Concerned Scientists, and others — Public

Citizen filed suit in federal court challenging the removal of numerous interactive pages related to climate change and environmental justice from publicly accessible, and taxpayer-funded, government websites. On May 16, we filed a motion for a preliminary injunction.

10. Suing to Stop Project 2025 Architect from Hiding How Administration Allocates Funds

Trump put a man named Russell Vought — a self-avowed “Christian nationalist” and one of the primary architects of the *Project 2025* manifesto that is essentially an authoritarian playbook for the Trump regime — in charge of the federal government’s Office of Management and Budget (OMB).

One of the many things OMB is responsible for is “apportionment” decisions — legally binding budget decisions that specify the federal funds that an agency may spend and any conditions on the agency’s expenditure of those funds. By law, OMB is required to post information about its apportionments on a publicly accessible website. But, in late March, OMB took down its Public Apportionments Database and told Congress that it will stop maintaining the database altogether.

On April 8 — representing Citizens for Responsibility and Ethics in Washington (CREW) — Public Citizen filed suit in federal court challenging OMB’s removal of the Public Apportionments Database from its website. On April 18, we moved for a preliminary injunction and partial summary judgment in the case. The court promptly held a hearing, and we are now waiting for its decision.

9. Suing to Save the Institute of Education Sciences

In 2002, Congress established the Institute of Education Sciences (IES), a semi-independent division of the Department of Education. By conducting, supporting, and disseminating high-quality, evidence-based research, IES has been the cornerstone of research on education in America for over 20 years.

In February, the Department of Education — now being run by billionaire former professional wrestling magnate and MAGA extremist Linda McMahon — began dismantling IES by cancelling dozens of contracts for research studies and support services vital to the agency’s functioning. In March, roughly 90% of IES employees were notified that they would be terminated.

On April 4 — representing education researchers, practitioners, and organizations — Public Citizen filed suit in federal court challenging the administration’s illegal attempt to shut down IES. On May 16, the court held a hearing on our motion for a preliminary injunction.

8. Suing to Prevent the IRS from Illegally Sharing Taxpayer Data with DHS and ICE

Like other workers, undocumented workers are required to pay income taxes. The Internal Revenue Service (IRS) is legally required to treat their tax records, like those of every other taxpayer, as private and confidential — unless disclosure is specifically allowed by law. No law permits the IRS to disclose tax records for immigration enforcement purposes. But the Trump regime wants to access tax data — including names, current addresses, and information about dependents — to support its mass deportation agenda.

This is not just about the rights of undocumented workers. Congress enacted taxpayer privacy laws in response to misuse of IRS records during the presidency of Richard Nixon. If the Trump regime is

allowed to carry out this particular invasion of taxpayer privacy — in flagrant violation of the law — it won't stop there. Before you know it, millions and millions of Americans could be subject to illegal invasions of privacy and government surveillance. It's a page right out of the authoritarian playbook.

On March 7 — with co-counsel and on behalf of immigrant rights organizations — Public Citizen filed suit in federal court to prevent the IRS from engaging in the unauthorized disclosure of taxpayer information for purposes of immigration enforcement. On March 14, we filed a motion for a temporary restraining order. And on March 31, we filed a motion for preliminary injunction to prevent the IRS from sharing taxpayer information with DHS and U.S. Immigration and Customs Enforcement (ICE).

Our motion for a preliminary injunction was denied. The court held that the law allows the IRS to share some taxpayer information with ICE solely to support criminal investigations and that the IRS said that was all it was doing. The court also indicated that sharing information for civil immigration enforcement would not be permissible. We then appealed the denial of the motion.

7. Suing to Protect the Consumer Financial Protection Bureau

In 2008, Wall Street's reckless greed set off a worldwide financial crisis. In response, Congress — exercising its constitutional authority to regulate commerce — established a new federal agency, the Consumer Financial Protection Bureau (CFPB), to protect the American people from wrong or unfair conduct by Big Banks and other giant financial institutions. Public Citizen played a major role in the creation of the CFPB, which has recovered billions for everyday Americans and helped create a fairer, more transparent financial marketplace.

While Trump has openly declared his intent to “totally eliminate” the CFPB, the administration cannot lawfully dismantle a federal agency created by statute. Any attempt to do so is in defiance of the Constitution's separation of powers.

On February 13, Public Citizen and co-counsel filed suit in federal court to block the administration's illegal and unconstitutional attempt to dismantle the CFPB. On February 14, the judge barred the administration from firing employees or sending out reduction in force notices, from destroying CFPB data or records, and from defunding the agency while the case proceeds.

At a March hearing, lawyers were able to cross-examine current and former CFPB officials and employees, who made plain that the administration had planned, illegally, to eliminate the agency altogether. In a 115-page decision, the court granted our motion for a preliminary injunction, barring the administration from taking steps to destroy the agency. We are now waiting for the court of appeals to rule.

6. Suing to Block Trump's Illegal and Inhumane Foreign Aid Freeze

On his very first day back in office, Trump issued an executive order directing agencies to freeze foreign assistance that supports humanitarian efforts worldwide.

On February 10, Public Citizen filed suit in federal court on behalf of two organizations — AIDS Vaccine Advocacy Coalition and Journalism Development Network — that receive federal grants for humanitarian work. On February 12, we filed a motion for a temporary restraining order requiring the administration to

allow aid groups funded by the U.S. to resume work while the case proceeds. The judge issued a temporary restraining order on February 13.

On February 26, with the administration so far having failed to comply with the order, the judge ordered it to release funds by midnight that day for work performed before the freeze went into effect. Instead, the administration asked the Supreme Court to overturn the judge's order and excuse its noncompliance.

On March 5, the Supreme Court rejected the administration's request to excuse its noncompliance with the judge's order requiring payment of completed work. On March 6, Public Citizen lawyers were back in court arguing for a preliminary injunction requiring the administration to allow work, and funding for that work, to resume while the case proceeds. The court granted our motion for a preliminary injunction in part.

On May 2, we amended the lawsuit to include an additional plaintiff, the Center for Victims of Torture. And we asked the court to order reinstatement of the over 80% of foreign assistance funding that had been cancelled. Meanwhile, the administration's appeal of the preliminary injunction order is pending.

One other point worth making in relation to this case: Polls reveal that Americans tend to think foreign aid accounts for 25% or even 50% of all federal spending and that they would prefer it to be something like 10% instead. In reality, only about 1% of the federal budget — just one penny out of every dollar — goes to foreign aid. With that relatively modest expenditure, American aid helps millions and millions of people all across the world who are facing disease, famine, illness, malnutrition, and oppression.

5. Suing to Keep "DOGE" out of the Department of Education

DOGE operatives infiltrated Department of Education databases that include financial information of thousands of student-loan applicants and their families.

On February 7, Public Citizen filed suit in federal court to block DOGE from accessing these databases. On February 18, the judge denied our motion for a temporary restraining order. We later dismissed the case.

4. Suing to Preserve the U.S. Agency for International Development

Shortly after returning to power, Trump tried to dissolve the U.S. Agency for International Development (USAID) — in clear disregard for the law and the Constitution. Elon Musk later bragged that he had spent a weekend "feeding USAID into the wood chipper."

Established by Congress in 1961 — when John F. Kennedy was president — USAID provides life-saving food, medicine, and support to much of the rest of the world. In January, though, Trump's Secretary of State Marco Rubio illegally ordered USAID workers to stop doing their jobs, froze the agency's funding, and prepared to lay off or fire nearly all employees. With USAID in disarray, medical clinics, soup kitchens, refugee assistance programs, and countless other critical projects across the globe could not operate.

On February 6 — with co-counsel at Democracy Forward and representing two federal worker unions — Public Citizen filed suit in federal court to stop Trump from carrying out this global humanitarian

nightmare. We initially got a temporary restraining order, but the judge later lifted it, allowing the administration to terminate the majority of USAID's employees. We subsequently added Oxfam America as an additional plaintiff and filed a motion for summary judgment, which is still pending.

3. Suing to Restore Critical Health Information Deleted from Government Websites

Under the “leadership” of MAGA sycophants installed by Trump, many federal agencies — including essential public health agencies like the Centers for Disease Control and Prevention (CDC) and the Food and Drug Administration (FDA) — recklessly removed important information and data from their websites.

The CDC and FDA wiped from their websites vital information that doctors and researchers all across the country were using to treat patients, monitor diseases, advance medical discoveries, and save lives. For example, the CDC scrubbed information about school bullying, contraception, and preventing the spread of HIV. The FDA deleted pages about increasing female enrollment in clinical trials. In some instances, information that had been publicly available going back to the 1990s had vanished.

On February 4 — on behalf of Doctors for America — Public Citizen filed suit in federal court to reverse the unlawful deletion of critical health information from government websites. Two days later, we filed a motion for a temporary restraining order, which the court granted on February 11, requiring the administration to restore the deleted webpages and datasets while the case proceeds.

On March 11, we filed a motion for a preliminary injunction and summary judgment in the case. That motion is still pending before the judge.

2. Suing to Limit “DOGE” Infiltration of the Treasury Department

The U.S. Treasury Department possesses sensitive personal and financial information for millions and millions of Americans who send money to or receive money from the federal government. Federal laws protect such information from improper disclosure and misuse — including by barring disclosure to individuals who lack a lawful and legitimate need for it. But instead of protecting Americans' private information as required by law, Scott Bessent — Trump's jillionaire Treasury Secretary — allowed DOGE access to the data.

On February 3 — representing the Alliance for Retired Americans, the American Federation of Government Employees, and the Service Employees International Union, with co-counsel at Democracy Defenders Fund — Public Citizen filed suit in federal court to stop Trump's Treasury Department from illegally sharing Americans' information with DOGE in violation of the federal Privacy Act.

We filed a motion for a temporary restraining order on February 5. The next day, the court issued an interim order preventing Elon Musk and any of his DOGE operatives from accessing the Treasury data while the case proceeds. On March 7, the court denied our motion for a preliminary injunction, relying on administration promises not to engage in the misconduct we warned about. We have since filed a motion for summary judgment in the case.

1. Suing over Failure of “DOGE” to Comply with the Federal Advisory Committee Act

Within minutes of Trump taking office on January 20, Public Citizen — joined by the American Federation of Government Employees and Democracy Defenders Fund — filed suit in federal court alleging that Trump's so-called Department of Government Efficiency (DOGE) was not complying with the Federal Advisory Committee Act. That law requires federal advisory committees to consist of members with a fair balance of viewpoints, to make meetings open to the public, and to make records and work product available to the public.

The case was later consolidated with two similar cases that were filed soon afterward. With DOGE mutating into something much more than an advisory committee, we voluntarily dismissed the case in early March.



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March 5, 2025

Douglas A. Collins, Acting Director
U.S. Office of Government Ethics
250 E Street, SW., Suite 750
Washington, DC 20024

Dear Acting Director Collins,

Further to our letter of February 5, 2025 regarding President Donald Trump's personal cryptocurrency venture, the Securities and Exchange Commission (SEC) recently declared new [policy](#) about so-called "meme coins."

On February 27, 2025, the SEC stated, "Meme coins typically are purchased for entertainment, social interaction, and cultural purposes. . . . Meme coins . . . typically have limited or **no use or functionality**. . . . [The meme coin] does not generate a yield or convey rights to future income, profits, or assets of a business." [Emphasis added.]

We highlight this new statement for two reasons. First, this SEC statement constitutes the official policy of President Trump and the Trump administration. In a previously dated [executive order](#), President Trump asserted that all agency policies must reflect those of the president. "It shall be the policy of the executive branch to ensure Presidential . . . control of the entire executive branch." That is, it is official policy of President Trump that the Trump meme may have "no use."

Second, the SEC statement buttresses our claim that those who purchase the meme are rendering President Trump a "gift." In the Trump [meme website](#), we noted that President Trump emphasized that those who sent money for the meme were simply celebrating strong leadership. "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."

Precisely what is a meme? 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."

As with the recent SEC policy statement, the Trump [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.”

As we noted in our February 5 letter, 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 and the new Trump SEC declaration that the meme may have “no use,” we have noted that other cryptocurrency observers deride memes generally as without value. [Former Trump 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.

Again, we ask you to investigate whether President Trump has violated 18 U.S.C. § 201, as implemented in 5 C.F.R. § 2635, barring the president from soliciting gifts.

To restate our February 5 claim, 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. As president, he has solicited. 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.”

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.

In light of the new SEC policy, we reiterate our request that the Office of Government Ethics investigate this arrangement to determine whether it constitutes an impermissible gift solicitation. If the OGE finds 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



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March 31, 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 Citizen, we offer the following comments on bills slated for mark-up before the House Financial Services Committee on April 2, 2025. Several misguided bills serve only to buttress cryptocurrency, a sector riddled with grifters. Other bills reduce bank safeguards, or reverse consumer protections. Such lawmaking ill serves the American public.

What inescapably explains this Committee's and Congress' unreasonable attention to crypto is the flood of [political spending](#) by a handful of crypto financiers in the 2024 election cycle, and the threat of more in the next cycle. Lawmakers must not allow political spending by an inherently harmful sector to shape important policy.

President Donald Trump now figures as the face of cryptocurrency, replacing [Sam Bankman-Fried](#). The latter serves a prison term after looting billions of customer dollars. The former promotes numerous [crypto projects](#), enriching himself perhaps [more through this effortless half-year-old gift](#) than from his decades-long career with [six bankruptcies](#), [failed casinos](#), a grounded airline, a short-lived non-accredited university, unsold steaks and vodka, and more.

Generally, Americans don't care much for crypto. According to the [Federal Reserve](#), 93 percent of Americans neither own nor use crypto. [According to Pew](#), 88 percent of Americans who report they are familiar with crypto declare they don't trust it. Arguably, that's because crypto scams abound. One that [deserves this Committee's scrutiny](#): President Trump's meme coin scheme. By his own estimation, this meme instrument holds no value, an observation recently [affirmed by Trump's own Securities and Exchange Commission](#). Public Citizen [believes](#) President Trump may be in violation of federal law that prohibits the president from soliciting gifts.

Yet in service of Trump's latest crypto ventures and the tsunami of crypto politico spending, this committee insists that Congress must act urgently. Bill sponsors insist that this precious innovation deserves promotion.

In our comment, we begin with discussion of the Stablecoin Transparency and Accountability for a Better Ledger Economy Act, or STABLE Act, which includes a description of stablecoins, an outline for responsible legislation, and a critique of the STABLE Act. We then we turn to a discussion of the other bills.

Stablecoins

Prevailing cryptocurrencies gyrate wildly in price, often in a single day. In the last five years, Bitcoin traded as high as \$110,000 per token and as low as \$10,000. These swings undermine the case for digital assets as a means of exchange: A customer who believed that Bitcoin would rise in value would not rationally use one for a purchase on that day since they would be over-paying. They would only use the coin if they thought the price would fall. Conversely, a vendor who believed Bitcoin would fall would not accept the coin, since it would be an underpayment, and would only accept the token if they believed the price would rise. In other words, a fluctuating price stifles the use of Bitcoin as a vehicle of market exchange.

Stablecoins promised to answer the problem of volatility in pricing by pegging each token to a specific value, such as the U.S. dollar, held in a reserve. However, many sponsors failed to fully back these tokens with legitimate reserves. The [New York Attorney General](#) fined Tether and Bitfinex for such failures. [Celsius](#) promised high yields to those who purchased its stablecoin, but allegedly paid those yields with newer investors' money, a basic Ponzi scheme.

In less dramatic cases, many stable coins have not been "stable" [according to a review by Moody's](#), with many failing to hold to a \$1 value per token.

Meanwhile, other stablecoins may be used in [illicit finance](#).

Public Citizen welcomes responsible legislation that addresses these problems. We believe any stablecoin bill should contain the following assurances:

- Assets are backed on a 1-1 basis.
- The assets must be safe and highly liquid, restricted to U.S. Treasury securities.
- The sponsor must maintain capital of 5 percent. (Sponsors must maintain assets that are 5 percent greater than the value of outstanding stablecoins.)
- Sponsors must not be affiliated with any commercial firm, that is, a firm that is not a bank. (This includes firms such as Facebook or Walmart.)
- Sponsors must comply with anti-money laundering and know-your-customer laws.
- Sponsors must disclose their climate footprint.

Sponsors must register with the Securities and Exchange Commission (SEC).

Registration must include:

- A list of any criminal conviction, deferred prosecution agreement, and pending criminal proceeding in any jurisdiction against all of the following: (i) The applicant; (ii) Any executive officer of the applicant; (iii) Any responsible individual of the applicant; (iv) Any person that has control over the applicant; (v) Any person over which the applicant has control.

- A list of any litigation, arbitration, or administrative proceeding in any jurisdiction in which the applicant or an executive officer or a responsible individual of the applicant has been a party for the 10 years before the application is submitted determined to be material in accordance with generally accepted accounting principles and, to the extent the applicant would be required to disclose the litigation, arbitration, or administrative proceeding in the applicant's audited financial statements, reports to equity owners and similar statements or reports.
- A list of any bankruptcy or receivership proceeding in any jurisdiction for the 10 years before the application is submitted in which any of the following was a debtor: (i) The applicant; (ii) An executive officer of the applicant; (iii) A responsible individual of the applicant; (iv) A person that has control over the applicant; (v) A person over which the applicant has control.
- A set of fingerprints for each executive officer and responsible individual of the applicant.
- Sponsors must publicly disclose monthly their assets, liabilities, capital, income, and expenses of the licensee, and secure and publish an independent audit of this financial data quarterly.
- Sponsors shall maintain a surety bond or trust account in United States dollars in a form and amount as determined by the SEC for the protection of those who engage in digital financial asset business activity with the registrant.
- Banks that hold stablecoins must post 1250 percent risk capital, as described by the [Basel Committee](#).
- Penalties for infraction of any of these terms shall be one percent of the outstanding value of the stablecoin on the first infraction, and termination of the stablecoin on the second.
- Legislation should include a resolution framework in the case of failure as standard bankruptcy proceedings typically take years before customers can recover funds.

HR. 2392, the STABLE Act

The STABLE Act focuses on essentially one element of what's necessary to govern stablecoins: namely the integrity of their reserves. It requires that the sponsor buy safe securities, such as U.S. treasuries. Even here, however, the STABLE Act falls short because it also allows the sponsor to include uninsured demand deposits. While cash might seem safe, if held in a bank, accounts beyond \$250,000 would not enjoy FDIC coverage. The episode of Silicon Valley Bank's failure demonstrated this vulnerability. Further, the bill relies on sponsor certification (or attestation) as to the components of the reserve. Instead, responsible legislation should require an audit by a firm overseen by the Public Company Accounting Oversight Board (PCAOB). (Some stablecoins have sought audits from firms outside this recognized regime.)

Generally, the STABLE Act includes several foundational flaws. First, it invites major commercial firms such as Amazon, Walmart, Twitter/X and/or Facebook/Meta to enter the banking sector because it lacks provisions under the [Banking Holding Company](#) Act that otherwise prohibit non-financial firms from entering the banking business. The nation's centuries old policy separating banking and commerce stems from concerns about concentration in power. Creditors should not face the moral hazard of competing with the borrower. Viability of a credit facility should not hinge on the viability of a commercial venture. For example, an automobile manufacturer that also sponsored a stablecoin might raid the reserve should

car sales begin to falter. Or a major online aggregating retailer might disfavor a subcontractor if it failed to use the aggregator's stablecoin. [History illustrates](#) that when banks have entered commerce, such as financiers did in the late 19th century during the construction of railroads, manipulations led to frequent economic shocks. Any stablecoin legislation should obligate issuers to abide by robust Bank Holding Company Act provisions that guard against these harms by restricting sponsorship to existing banks.

Second, the STABLE Act provides a dual oversight structure, permitting stablecoins to register under individual states. This allows a race to the bottom, where unscrupulous sponsors would seek the state with the most convenient rules. The bill calls on the states to establish safety standards, but these will inevitably be worked out between industry and lawmakers with little consumer protection given the scant interest by average Americans in this sector.

The bill also fails to establish clear safeguards for those stablecoins that seek federal oversight, with the same vague injunctions to regulators. As implementation of the 2010 Wall Street Reform Act demonstrates, regulators were slow to implement rules, and those rules reflected intense Wall Street lobbying. With the U.S. Supreme Court decision eliminating [Chevron deference](#), rules that industry finds inconvenient now may perish at the whim of cherry-picked courts.

Third, the bill fails to provide speedy resolution for customers in case of failure of a stablecoin. Bankruptcy does not suit a firm that custodies savings that should be available within days of a failure, as is the case with banks that are resolved by the Federal Deposit Insurance Corp. Bankruptcy triggers an automatic stay on payments that could take years before the relief of funds, according to [Georgetown Prof. Arthur Wilmarth](#), which renders "priority" little relief in actuality. Related to this, the bill includes adequate custodial rules. The STABLE Act declares that stablecoins are the property of the investor and must be segregated from sponsor funds. But this [doesn't direct the bankruptcy](#) court to pay the investor immediately.

Lastly, the bill lacks a fair redemption regime. It simply requires the stablecoin sponsor to establish a policy. It fails to prohibit a firm from establishing exorbitant fees, or setting an unreasonable time to honor a redemption, or favoring some customers over others. A sponsor could establish long waiting periods; a sponsor could even change policies, such as advertising a low fee one month, then raising it the next, and setting different fees for different customers. In a money market mutual fund, all customers receive the same prevailing interest rate and enjoy equal redemption rules.

Sponsors of this bill will not admit that they're serving the business interests of President Trump. Instead, [proponents](#) insist that Congress must urgently approve crypto-friendly legislation to protect American innovation leadership in what they mislabel as a promising technology sector. But this claim misunderstands the very nature of decentralized finance. Cryptocurrency and its developers live digitally on the internet that respects no state or national borders. There are no sprawling Silicon Valley office campuses, no Detroit factories, and certainly no country that's luring innovators in the way that cheap labor invites American manufacturers to relocate overseas.

- Binance, the world's largest crypto exchange, began in China, then moved to Japan after China banned crypto trading in 2017, and then to [Malta](#). It has no formal corporate headquarters. It [notes](#), "Binance, one of the largest remote companies in the world, is setting the standard for the future of work with its global, decentralized workforce. "Binance employment [reached 3,000](#) before a one-third staff reduction in 2023. It now lists [5,000 employees](#) "from more than 50 countries and working from nearly 100."

- Coinbase, the largest crypto exchange based in the United States, [counts 3,700 employees](#). Most of [these work remotely](#). Coinbase originally drew most employees from the San Francisco Bay Area, but that has changed, and it now longer maintains a headquarters. Some Coinbase [employees live outside](#) the United States.
- Bitcoin, the largest cryptocurrency by capitalization, famously claims no ownership or control. A group of five coders reportedly maintain the [related software](#).
- Ethereum, or more precisely, Ether, the second largest cryptocurrency, emerged from the efforts of Russian-born Canadian Vitalik Buterin and a number of associates in 2013. Unlike a conventional company, a volunteer community maintains the system, akin to contributors to Wikipedia. The [Ethereum Foundation](#) lists 21 employees. It maintains an office [in Zug, Switzerland](#).
- Tether, the world's largest stablecoin, as measured by the amount of currency invested in the token, lists [El Salvador](#) as it's country of registration. It moved there from the British Virgin Islands. Tether Chief Executive Paolo Ardoio said the El Salvador relocation marked the first time it would maintain a dedicated office. Tether employs roughly 100 staff, and most work remotely, [according to news reports](#).

Few policy makers can rationally fear El Salvador or Malta as threats to American innovation. Of note, a number of crypto fraudsters prefer [countries with difficult extradition treaties](#) with the United States, also hardly the nations that should worry American policy makers as innovation usurpers.

Remote crypto “innovators” might choose location based on urban amenities, or natural attractions. To lure them, American policy makers might need to concentrate more on urban planning, or the creation of a new Riviera and Alpine range, improvements only feasible in science fiction.

Members of Congress who naturally promote employment in their districts won't find cryptocurrency innovation a fecund sector. A [2023 report](#) identified 190,000 total employees working worldwide in the crypto industry (down from 210,000 in 2021). Roughly a third of these work for exchanges (such as Binance), another 26 percent work in crypto financial services, and about 15 percent in blockchain protocols and mining (which is verification of transactions). U.S. nationals account for about 29 percent of the total workforce, or about 55,000. This scattered workforce would be better served with retraining in a productive sector.

In sum, this committee should not be guided by Trump's business goals, must not succumb to political spending, and should not hide behind specious arguments about American primacy in crypto innovation. Without foundational amendments, we ask the Committee to reject this bill.

Conclusion

President Trump's actions imperil our nation's economy along with an ominous swath of other arenas, from human rights, to health, international relations, education and more. This Committee should conduct rigorous oversight over these actions. Instead, the primary legislation it chooses to advance in this mark-up shamefully enhances his personal business. History will not record this charitably.

For questions, please contact Bartlett Naylor at bnaylor@citizen.org

Sincerely,

Public Citizen

Mr. STEIL. The witness yields back. Ms. Fischer is recognized for 5 minutes.

STATEMENT OF AMANDA FISCHER, POLICY DIRECTOR AND CHIEF OPERATING OFFICER, BETTER MARKETS, WASHINGTON, DC

Ms. FISCHER. Good morning. Chairman Steil, Ranking Member Waters and members of the committee, thank you for inviting me to testify today. My name is Amanda Fischer, and I am the Policy Director and COO at Better Markets, a nonprofit, nonpartisan, and independent organization founded in the wake of the devastating 2008 financial crisis. Today I want to provide a few thoughts on the context in which this bill is being considered, and then I want to provide some thoughts on specific aspects of the Complexity Act that I think are dangerous, and all of my comments today are an abbreviation of a long document that I submitted that thoroughly goes through the bill.

First, the context in which Congress is considering this bill. I agree with the ranking member that the chairman has not allowed adequate time to consider this wide-reaching proposal. I myself have read it multiple times and consulted with top securities law experts, and I am still unclear about the application of many provisions in the bill. Ranking Member Waters is correct to demand technical assistance from the subject matter experts at the SEC without any withholding or editing by the Chair's Crypto Task Force. That is a standard that we upheld in the last administration, and the professional experts at the SEC deserve to have their voices heard by all members and their staff.

Second, the financial regulatory agencies are under siege. Democratic commissioners nominated by the President and confirmed by the Senate have been fired without cause. Soon the CFTC will have only one commissioner. By the end of the year, the SEC will be down to a three-member Commission of all Republicans, notwithstanding that they have a statutory mandate of bipartisanship. The CFPB is on life support. The President has threatened to fire the Fed chair, and the previous vice chair self-demoted in avoidance of being fired.

Third, the President signed a dangerous executive order in February placing the formerly independent regulatory agencies under White House control. Again, this is dangerous. Fourth, the administrative law context in the courts has become openly hostile to regulators using the authorities granted from Congress to engage in rulemaking. This bill includes many, many instances where Congress punts on providing specific directives. Given the speed of recent Supreme Court rulings, that is very concerning.

As for the bill itself, the bill will blow a hole through the laws wisely put in place by the Congress after the Great Depression and replace it with a shoddy regime that is deliberately fuzzy, and loophole ridden. The bill provides concepts of a plan on key investor protections, and it sends most crypto regulation to the CFTC, even though that Agency was created for non-retail commercial buyers and sellers of futures and swaps.

To go through a few provisions of the bill, first, the offering regime. There are so many investor protection exemptions for crypto

to sell their investments to the public under this bill that I do not even think anyone will resort to using the dangerously broad process at the SEC. Crypto issuers will claim their DeFi, claim that they are not offering investment contracts. They will claim that they are collectibles or meme coins. They will claim that they are airdrops, or they will claim that they are subject to the grandfathering provision. For those that do use the exempt offering framework at the SEC, that, too, is vastly permissive.

The trading regime in this bill is likewise light touch. It defers to the crypto exchanges themselves on how to comply with a vague set of core principles. This is in contrast to the national securities exchanges, which are subject to tight rules requiring affirmative SEC approval. Instead of the competitive tensions we see right now between exchanges and broker dealers, crypto exchanges will unilaterally set the rules on fees, trading protocols, and key features. Exchanges may well be able to keep their venture capital affiliates. There are wide exemptions for trading on their own exchanges, and there are weak cybersecurity safeguards.

With regard to the brokering and custody regime; no fiduciary duty, no regulation, best interest, no best execution rules. There are very few protections for data breach notifications or for arbitration, and likewise, there are many gaps in the custody framework with investors having unclear rights to their own assets, and we could bring back the crypto lending models of now bankrupt BlockFi, Voyager, and Celsius.

I will just conclude by saying, perhaps most profoundly, this bill's regular regulatory gaps will not be quarantined to crypto. Over time, we will see more and more companies shoehorn their capital-raising efforts onto the blockchain because of regulatory arbitrage instead of legitimate business need. The CEO of Robinhood said on CNBC that it is 10 times cheaper for him to run his crypto business than his equities and options business. Why? He does not have to pay for customer protection, SEC exams, or Securities Investor Protection Corporation (SIPC) insurance. Of course, it is cheaper. I do not think that is the type of innovation that is good for consumers.

[The prepared statement of Ms. Fischer follows:]



**Written Submission of Amanda Fischer, Policy Director and COO, Better Markets
Before The U.S. House Committee on Financial Services Committee
“American Innovation and the Future of Digital Assets:
From Blueprint to a Functional Framework”
June 6, 2025, 9am EST**

Background

Good morning, Chairman Hill, Ranking Member Waters and Members of the Committee. Thank you for the invitation to testify today. My name is Amanda Fischer, and I am the Policy Director and COO at Better Markets, Inc., a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support financial reforms of Wall Street, and make the financial system work for all Americans again.

Introduction

After the crypto industry and sympathetic policymakers [aggressively](#) argued for years that crypto entirely fell outside the remit of the Securities and Exchange Commission (SEC) (notwithstanding the [dozens of settled and litigated actions](#) by the SEC [dating back to 2013](#) that indicated otherwise), the Digital Asset Market Clarity Act, or CLARITY Act, proceeds to provide legal immunity for all previously-issued tokens and activities under federal and state securities law, and creates a cascade of prospective offering and conduct exemptions. Perversely, those exemptions apply not based on the characteristics of the asset but based on the recordkeeping technology used to track its purchases and sales.

If you squint, the bill endeavors to replicate the foundational laws born out of the Great Depression – the Securities Act of 1933 and the Securities Exchange Act of 1934 – but it does so in ways that are deliberately fuzzy and loophole-ridden. The bill provides “concepts of a plan” on disclosure, issuer liability, SEC review of issuer statements, broker and dealer regulation, custodial safekeeping, and well-regulated and transparent trading marketplaces. It then airlifts this shoddy regime out of the SEC and airdrops it into the Commodity Futures Trading Commission (CFTC). This regulatory “switcharoo” ignores the fact that the SEC was created with the express purpose of regulating the American public’s investments while the CFTC was

created for a very different purpose - to regulate a largely non-retail, commercial market for futures and swaps.

This bill would distort capital formation, pushing companies to raise money via investment contracts and on blockchains regardless of how useful that fundraising method and that technology is for their operations. The bill would likewise encourage investors to buy up crypto assets, as they now will have false confidence in a legal framework wrongly touted by policymakers as protective. Compared to the foundational securities laws, the CLARITY Act offers worse disclosures with lower standards of legal liability for issuers, lessens protections for investors when interacting with intermediaries like brokers, and would make buyers of crypto assets more subject to predation and manipulation on exchanges. It also guts the role of our state enforcement agencies.

A False Problem

There is no technological reason why crypto assets cannot comply with existing securities laws. Under existing authority, the SEC has wide latitude to iterate with issuers to develop a disclosure regime bespoke to their offering. For example, [the SEC has already registered fractionalized works of art, sculpture and even elite racehorses](#). Moreover, the trading regime for crypto need not deviate from the Securities Exchange Act of 1934. After all, the vast majority of crypto customers don't trade on blockchains at all, but instead go to centralized exchanges that use internal databases to track customer orders – the same as any existing national securities exchange, transfer agent or clearing agency.

Moreover, crypto projects have in fact raised capital while in compliance with SEC rules. In 2018, one *MarketWatch* [analysis](#) found nearly 300 separate crypto projects raised money through exempt offerings via the SEC, mostly using Regulation D (Reg D). In other words, the market was booming for crypto projects to get early-stage, SEC-compliant funding even years ago. However, large crypto trading platforms – which colloquially call themselves “exchanges” – threw caution to the wind in an environment of enforcement forbearance and started listing these exempt offerings and making them available for retail customers to trade. They did this even though the issuers explicitly acknowledged they were offering securities, even filing Form D notices. These trading platforms relied not on the law, but rather on the prevailing sentiment at the time that the SEC would only crack down on fraudster Initial Coin Offerings (ICOs) and not the venues that put crypto securities into the hands of retail investors.

It should also be noted that several crypto/distributed ledger projects currently operate consistent with securities law and were taken effective during Chair Gensler's term - [Franklin OnChain USG Money Fund](#) and [BlackRock's BUIDL](#), as two examples, as well as trading platforms like [Securitize](#) and [tZERO](#). And Figure Markets recently launched a [blockchain-based FAC \(YLDS\)](#) for use on their alternative trading system (ATS). This is not an exhaustive list but it is meant to be indicative that motivated market participants have, in fact, worked with the SEC constructively.

To the extent that further crypto intermediaries have not registered with the SEC, it is because doing so would require an admission of past misconduct, expose their business to state or private liability even in the face of SEC amnesty, and would likely drastically cut into their profitability (in fact, the CEO of Robinhood [said](#) it cost the business 10 times more to run their securities business than their crypto business, mostly likely due to providing consumer protections and paying for Securities Investor Protection Corporation insurance). The reason that the crypto industry is so intent on passing this legislation is not because they can't comply with the securities laws, but because "putting the toothpaste back in the tube" at this point would be too cumbersome and costly.

Political and Administrative Law Context

Disregarding the substantive merits of the proposal, the political and administrative law context in which this bill arrives is worthy of consideration.

First, federal financial regulatory agencies are under siege in the current Administration. Democratic commissioners, dually nominated by the President and confirmed by the Senate, have been [fired without cause](#), with the Supreme Court in a two-page decision [declining to place an injunction](#) on the firings. As Justice Kagan pointed out in her [dissent](#) in *Trump v. Wilcox*, this may well be a shadow docket decision, with no promise that the court will ever hear oral arguments on the constitutionality of this brazen challenge to the 90-year old *Humphrey's Executor* precedent. Moreover, soon, the CFTC will only have one Commissioner, with no further Commissioner nominations on the horizon. Absent a nomination by the President, the SEC is separately set to have a three-member Republican-only commission by the end of 2025, despite the statutory requirement and long history of being bipartisan. The CFPB is on life support, and their demise is [cheered](#) on by leaders in the crypto industry. A pending court decision will determine whether mass firings at the agency can continue. The President has intermittently [threatened](#) to fire the Chair of the Federal Reserve Board, and the previous Vice Chair for Supervision and Regulation at the Fed [self-demoted](#) in avoidance of being fired.

Second, the President in February signed an Executive Order placing the formerly independent financial regulatory agencies under the control of the White House, requiring review by Office of Information and Regulatory Affairs before rulemakings can be proposed for public comment or adopted. This severely upends the integrity of the rulemaking process.

Third, the CFTC is aggressively and unilaterally expanding its own remit, separate and apart from anything in the CLARITY Act. The agency is moving forward to [allow perpetual futures](#) products (or derivatives that never expire) and to [permit trading 24 hours a day](#), seven days a week. This is notwithstanding [feedback](#) from the [core constituency](#) of the CFTC – farmers, ranchers and traditional derivatives end-users – who have expressed concern that this will import danger into futures markets for which market participants and the CFTC are unprepared. The CFTC also recently [withdrew](#) its litigation with KalshiEx LLC, an "event contract" marketplace that allows customers to place bets on the outcome of events like political elections and sporting contests. By unilaterally disarming in the Kalshi case, the CFTC is conceding that the multi-billion dollar

gambling industry can now escape longstanding state-level regulation by restructuring their products not as bets but as futures under the jurisdiction of the Commission. Like in the case of perpetual futures and 24/7 trading, the CFTC has no resources, expertise, technology or staff to oversee these expansive new markets. Indeed, they have been operating under continuing resolution-level [funding](#) of \$365 million for years, and the resources provided in this bill are not commensurate with the surge in responsibility for crypto along with all these unrelated new developments.

Fourth, the administrative law context in the courts has become openly hostile to regulators using permissive authorities granted from Congress to engage in rulemaking. The CLARITY Act includes many instances where Congress punts on providing specific directives to the CFTC or SEC and instead grants the agencies broad authority to write rules (or exceptions to the rules) governing the issuance, custody, brokerage and trading of crypto. In the [words of one crypto industry lobbyist](#), “the big question [on the CLARITY Act] is how much discretion are we comfortable giving to regulators? The CLARITY Act is a meaty bill in 236 pages, but it leaves many issues unresolved, instead authorizing – and frequently requiring – the SEC and CFTC to figure them out in rulemaking.” This ambiguity is a risky proposition in the current legal environment, where challengers to agencies’ rules increasingly seek out particularly [corporate-friendly legal venues](#). Likewise, there has been a spate of [Supreme Court rulings](#) in recent years that narrowly cabin the authorities of agencies to engage in interpretive rulemaking and make it easier for corporate interests to challenge rules. Any legislation should be as prescriptive and robust as possible to ensure a fulsome rulemaking process.

Policymakers would be well-served to keep each of these pieces of context in mind when engaging in any crypto legislative effort.

Cascading Exemptions in the Issuer Disclosure Framework

The CLARITY Act should be viewed as a series of cascading exemptions from registration under securities laws for the issuance and intermediation of crypto assets. In fact, the exemptions are so broad that it is unclear who, if anyone, will avail themselves of the opportunity to issue exempt investment contracts under section 202 of the bill. Below describes the series of exemptions from securities and even commodities law requirements.

Exemption for Decentralized Finance (DeFi)

First, sections 309 and 409 of the CLARITY Act create exemptions from securities and commodities law, respectively, for activities “in relation to the operation of a blockchain system or in relation to a decentralized finance trading protocol.” The bill then lists a set of six undefined activities that could encompass large amounts of intermediation in the crypto marketplace. Further, the language is not narrowly tied to *digital commodities activities* that occur in DeFi alone, but instead drafted to encompass any DeFi activity that could at all otherwise fall under the remit of the SEC or CFTC. This should cause policymakers concern. For example, request for quote (RFQ) trading services in the Treasury market have [argued](#) that they

merely provide “messaging services” that allow buyers and sellers to transact and are therefore not exchanges. Is it the intent of the bill authors to permanently exempt RFQ platforms in Treasuries from SEC regulation? In short, the DeFi exemption from regulation is so broad in the bill it is unclear how much of the crypto market may migrate from centralized platforms to so-called DeFi services in order to escape all oversight.

This DeFi exemption persists even for registered legal entities that engage in the above conduct (i.e., the exemption is not just for open-source code without an owner but for recognized, legal firms incorporated under state law). This provision appears to be modeled upon Wyoming’s decentralized autonomous organization (DAO) law, and exempts from regulation activities by the legal entity so long as they are not “centralized” and “hierarchical” and are purely “administrative or ministerial.” To be clear, the CFTC previously litigated this in the [Ooki DAO case](#) and won the case in the Northern District of California. This provision of the bill would upend that legal precedent and allow market participants the best of all worlds – the benefits of incorporation without any of the attendant legal liability for their actions.

Digital Commodities Loophole

The next section of this memo discusses the exempt offering framework for investment contracts that happen to trade and settle on a blockchain. But issuers may not even need to avail themselves of that framework under the bill. For example, in many litigated actions with the SEC, defendants claimed that they weren’t offering an investment contract at all because various prongs of the *Howey* test had not been met. Coinbase in oral arguments with the SEC in federal court famously argued that the crypto assets listed in the SEC’s complaint were not investment contracts but more akin to collectibles, [citing Beanie Babies](#). Though the requirements in the exempt offering framework of the bill are modest, crypto issuers will be able to sidestep the requirements by simply claiming they are digital commodities offered and sold not as part of an investment contract.

Collectibles Loophole

The bill exempts offerings with “value, utility or significance” from being investment contract offerings in the bill. This exception applies even if the token provides voting or economic rights and even if the value of the token can be expected to rise or fall based on the efforts or success of the blockchain. Because nearly every crypto issuer can claim that their offering has “value,” this so-called “collectibles” exception will further swallow the rule. This is not withstanding the fact that previous SEC [settlements](#) established that, in certain instances, collectibles like NFTs can be securities offerings. Further, courts have [established](#) that just because a crypto asset may have a consumptive use (like collectible value) that does not provide the offering blanket immunity from the securities laws.

Airdrop Loophole

The bill also exempts “[airdrops](#)” (using the nomenclature “end-user distribution”) from being considered securities offerings. Airdrops are transactions in which crypto issuers provide free tokens to users in exchange for bolstering the marketability of the blockchain. While on its face, these transactions would seem to be exempt from the *Howey* test, a facts and circumstances determination ought to be required, and a blanket exemption is ill-advised. For example, in a spate of “[free stock cases](#)” in the 1990s the SEC considered whether the distribution of free shares of traditional stock were offerings under the Securities Act. According to one [summary](#), “in each case, prospective recipients of stock were required to sign up on the respective issuer’s website and provide personal information including their names, physical addresses and email addresses, in order to receive free shares. Additional free shares were offered in exchange for referrals and, in one case, with the purchase of a service.” The SEC’s analysis in these cases evaluated whether the “free stock” (or “airdrop” by another name) generated some form of economic benefit for the investment scheme, and in many cases that answer was “yes.” In the case of airdrops, they may be employed by crypto issuers to create a market for the tokens, generate promotional benefits for the related blockchain platform, or perhaps creating more interest in a related token sale. All of these indicia might cause the offering to meet the *Howey* test, though the CLARITY Act wholesale exempts these transactions.

Grandfathering Provision Loophole

The bill also provides wide legal amnesty from any reporting requirements for all existing crypto tokens. Specifically, the bill exempts crypto issuers that either last offered tokens before January 1, 2020 or last offered tokens before June 1, 2025, provided that they are no longer engaged in “material ongoing efforts related to the blockchain system.” Though that “material ongoing efforts” proviso is undefined, it stands to reason from other parts of the bill – including certification of how a blockchain system becomes “mature” and therefore sufficiently decentralized – that this test should be easy to meet for all extant tokens.

Exempt Offering Framework

For those token projects that cannot or do not take advantage of the myriad exemptions above, the new exempt offering framework proposed in section 202 is another avenue for capital raising that is way outsized and permissive compared to other exempt offering allowances. First, token issuers need only to *intend* for the blockchain system to which the digital commodity relates to be “mature” in four years. Issuers can then raise \$75 million per year (adjusted for inflation), for up to 4 years (so \$300 million) with no restrictions on general solicitation or accredited investor status of purchasers or any other concentration limits on individual ownership as a function of the person’s net worth (though there is a limit on no single purchaser owning more than 10% of total tokens). This exemption dwarfs those available under Regulation A+, Reg D or Regulation Crowdfunding. Issuers need only provide modest disclosures to investors (including an exception to withhold the transaction history if it’s not “technically feasible”). There is also no requirement that the token issuers’ proceeds be used to actually develop the blockchain or protocol, with funds raised from the public instead able to be used to pay off early investors.

Secondary Market Trading Exemption

For all digital commodities and for all (or nearly all?) investment contracts that even *intend* to become mature, all secondary market trading in the asset is henceforth exempt from SEC oversight and transitions to the CFTC regime.¹ This provision exempting secondary market sales of investment contracts from securities law effectively codifies a single court [decision](#) from Judge Torres in the Southern District of New York, notwithstanding the fact that other courts in the [same](#) and other [districts](#) have uniformly rejected that reasoning.

“Mature” Blockchains

It is worth unpacking how an asset is meant to escape SEC oversight and migrate to the CFTC. To wit, the bill provides that when taken together with its related digital commodity, a blockchain that “is not controlled by any person or group of persons under common control” can apply to be deemed mature pending some modest proof-of-concept with operations and functionality, and therefore free from SEC oversight. Assets that trade on mature blockchains are able to transition to the CFTC trading regime. Notably, there is a glaring loophole related to the already permissive “unilateral control” proviso, with there being an exception to allow for unilateral control for the purposes of “regular maintenance” and “cyber security.” Given that all major coding changes could be framed as “regular maintenance,” this exception seems significant.

Generally speaking, the maturity threshold is incredibly low, and notably, the SEC will not have resources to hire staff to make these determinations. Reading source code, in particular, is not the natural skill set of current employees at the Commission. And even if the SEC did reject maturity determinations for being insufficient, the punishment for failing to achieve maturity is some disclosure obligations and permissive authority vested in the SEC to stop future capital raising efforts. Further, while the discussion draft allowed any digital commodity issuer, related person, or affiliated person to certify to the SEC that the blockchain was now mature, the CLARITY Act now also allows a “decentralized governance system of the blockchain system” to do so. It is unclear how a decentralized group of persons would hire counsel and submit to the SEC such a certification.

There is also a per-entity 20% limit of ownership of the native token of the blockchain for it to be deemed “mature.” That is also a permissive standard. Even if one wanted to enforce this standard, it will be difficult to do so because the beneficial owners of the tokens could have wallet addresses that are pseudonymous. For example, it is common in crypto for scammers to engage in “[Sybil attacks](#)” in airdrops, where they create duplicate wallet addresses to claim multiple dumps of the same token. The bill has some language directing regulators to write

¹ Previous iterations of the bill restricted this secondary market trading exemption to investment contracts that did not give the purchaser an ownership interest or other interest in the revenues, profits, or assets of the issuer (meaning, offering an investment contract whose only expectation of profit was capital appreciation was the only type of exempt investment contract). It is unclear what the bill authors intend for this version of the bill based on the drafting of various definitions and exemptions.

rules to require reporting around the ownership of tokens by related and affiliated persons, but that information may be kept confidential by the SEC and it is unclear if they will require Know Your Customer-level information or merely wallet addresses.

Oddly, even after a blockchain is “mature” (and presumably free from the individual control of a single entity?) there are ongoing reporting requirements for unnamed persons engaged in material ongoing efforts. If the blockchain is mature, why would there continue to be entrepreneurs responsible for its development? Who is responsible for reporting ongoing information to the SEC? These questions reflect the inherent tensions embodied in this legislation.

The bill also does not contemplate the idea of blockchains or their digital commodities morphing back into being securities, even though crypto industry leaders themselves have [admitted](#) that that is a possible outcome.² This rigidity to re-regulate crypto as a security is all the more noticeable given that regulators have flexibility to find other ways to deem blockchains to be mature in response to evolving circumstances.

A Shoddy Trading Framework

Now that this memo has discussed the offering framework for digital commodities and how they migrate onto trading platforms, it is worth discussing the weak investor protections available to crypto customers in the secondary market.

CFTC Spot Authority on Exchanges

The CLARITY Act provides the CFTC with “exclusive jurisdiction with respect to any account, agreement, contract or transaction involving a contract of sale of a digital commodity” and authorizes the Commission to register digital commodity exchanges. There are exceptions to the CFTC’s exclusive authority for custodial and depository activities of banks (but oddly, not credit unions) and an exception for initial offerings of investment contracts, which is the purview of the SEC (but maintains exclusive CFTC jurisdiction over the secondary sale of investment contracts). It is unclear how this CFTC exclusive jurisdiction provision is meant to interact with other places in the bill that attempt to preserve certain SEC examination and enforcement authorities when digital commodities are traded by SEC registrants.

The CFTC’s digital commodity exchange regime differs substantially from the securities regime governing trading venues. First, exchanges can provisionally apply to be eligible with the CFTC, with existing registrants basically waived through and new registrants given a set of very preliminary disclosures to provide to the CFTC. This “ask forgiveness, not permission” approach

² Coinbase Chief Legal Officer Paul Grewal in response to a question from Rep. Richie Torres in the House Financial Services Committee Digital Asset Subcommittee on March 9, 2023 noted, “Speaking generally, Congressman Torres, I agree that assets can change character over time, and to be completely fair, I suppose it is equally true that an asset that began as a commodity might evolve into security in some form as well.”

is non-existent in the retail-focused traditional securities market. Even after that provisional period, when the CFTC is then set to permanently register an entity, the rigor and process undergirding that application review is only briefly outlined in the bill. Instead, digital commodity exchanges need only represent to the CFTC that they comply with a set of “core principles” and the exchanges themselves “shall have reasonable discretion in establishing the manner in which the digital commodity exchange complies.” This deviates from the SEC’s exchange registration provisions, which require a rigorous, affirmative approval process by the SEC.

Digital commodity exchanges are permitted to trade essentially any asset where the underlying blockchain has been deemed “mature” according to the permissive SEC process described above, or any asset where the crypto company has submitted the basic exempt offering disclosures to the SEC with the intention to mature. Again, this is extremely light-touch compared to national securities exchanges, which can only list products approved by the SEC. Further, the CLARITY Act deletes previous language in the discussion draft that required digital commodity exchanges to “permit trading only in a digital commodity that is not readily susceptible to manipulation.” This is a requirement in the existing swaps regime which should also apply in the crypto market.

Likewise, digital commodity exchanges are not required to file rules and subject them to notice and comment, as in the case currently with national securities exchanges. This SEC exchange rule process requires regulatory and public engagement on issues such as changes to fees, allowable trading practices and listing standards, ensuring transparency and allowing for public comment before the SEC makes an approval or disapproval decision.

The CFTC has permissive authority to write rules to ensure fair market access to crypto exchanges. This differs substantially from the national securities exchange model, in which broker-dealers are members of the exchange and are generally entitled to fair access to the marketplace. In this CFTC regime, digital commodity exchanges would have much more latitude to discriminate against platform users across factors such as prices, fees or access based on subjective criteria. While a previous iteration of the bill required exchanges to “establish governance arrangements that are transparent to fulfill public interest requirements,” the new text deletes the public interest requirement and instead says governance arrangements must be transparent and “designed to permit consideration of the views of market participants.”

The provisions providing for digital commodity exchange registration also allow for several concerning conflicts of interest. First, there is no express prohibition on crypto exchanges having venture capital affiliates that make investments in crypto issuers that may want to list on the platform. Though there is vague language on mitigating conflicts of interest, again, exchanges are left with wide discretion on how to implement those core principles. Given that Coinbase operates a venture capital arm that [invested](#) in token projects like Do Kwon’s TerraForm Labs, it is important to expressly prohibit this.

Additionally, the bill has a fairly large allowance for crypto exchanges to trade for their own account on their own exchange, with the bill providing for such trading in instances where it is needed for “risk management” or “operational needs.” This loophole is concerning, given instances such as those related to [FTX](#) and [Binance](#) where the SEC alleged preferential access and manipulative trading schemes by exchange-affiliated “market-makers.” Even in the case of Coinbase, a senior executive [testified](#) to Congress in 2021 that “Coinbase is an agency only platform. We do not engage in proprietary trading on our platform. All prices established on our platform are due to market makers. So, we offer a platform for customers to come together, to offer bids and asks on a variety of currencies that we offer on our platform. So, the market price is determined by the market participants.” That same executive, when pressed later in the hearing on this topic, admitted that “every month we make an investment of crypto and add to our balance sheet...we do increase the investment on a monthly basis on pre-established investment protocols. We do buy those on our Exchange.” At a minimum, digital commodity exchanges should be required to provide granular detail to the public on if and how they trade on their own exchange to avoid uncertainty.

Finally, while the bill requires digital commodity exchanges to devise certain general “system safeguards,” there is no express requirement for any cybersecurity compliance requirements. In contrast, the SEC’s regime for national securities exchanges mandates compliance with [Reg SCI](#), which mandates that the exchange establish written policies and procedures, conduct annual reviews, and maintain records related to compliance with the regulation. They also need to establish systems and maintain them with adequate capacity, integrity, resiliency, availability, and security. Given the prevalence of hacks in the crypto market, including a recent [cyber incident](#) against Coinbase in which customer assets up to \$400 million have been put at risk by cyber criminals, this lack of cybersecurity resiliency requirements is troubling.

Trading Under SEC Brokers and Alternative Trading Systems (ATS)

The CLARITY Act permits SEC brokers and ATSs (and entities dually registered with the CFTC) to engage in transactions in digital commodities. SEC registrants can begin trading in digital commodities simply upon notification to the SEC (in contrast to the traditional securities market where [brokers](#) must submit Form BD to the SEC and a Continuing Membership Application with FINRA). The SEC is afforded one sentence of legislative authority to write rules governing brokers, dealers, national securities exchanges and ATSs, providing the Commission with the ability to “issue rules” according to what is “necessary or appropriate in the public interest or for the protection of investors.” The SEC examination and enforcement authority over solely or dually registered ATSs and broker-dealers is likewise murky under the bill, with various provisions at time appearing to contradict one another.

Oddly, ATSs registered only with the SEC can only trade up to 25% of the total volume of digital commodities or \$50 billion in any quarter over the last two calendar years. It is unclear what the ATS is supposed to do if or when the cap is hit. For example, should they automatically suspend all trading? How would that work with customers that may be mid-execution in a transaction? Likewise, brokers are permitted to engage in digital commodities provided that, in the two most

recently completed fiscal years, its sales, commissions or other activities in digital commodities that do not exceed the lesser of 10% of gross revenues or \$100 million. These volume and dollar caps are odd, and it is unclear whether the total volume of digital commodities traded is based on domestic activity, domestic and international activity, only ATS activity, or ATS and digital commodity exchange activity, etc.

The bill also stipulates that a digital commodity ATS that is part of a national securities exchange will not be considered a facility of an exchange. This is important because currently, facilities of exchanges are subject to the same regulation and rule filings as the exchange itself – important protections to ensure that the ATS activity does not import risk or conflicts to the national securities exchange.

Finally, the bill clarifies that Securities Investor Protection Corporation (SIPC) insurance does not apply to digital commodities or stablecoins, which may cause investor confusion when held or traded alongside traditional securities. The typical investor, when dealing with an SEC-registrant, should not be expected to know which of their investments is covered by insurance protection for the broker's failure and which is not. Stablecoins may be even more confusing, as up to \$250,000 in cash is covered under SIPC but dollar substitutes in the form of stablecoins are not.

Custody and Safeguarding Customer Assets

Both in the provisional registration sections (which relate to digital commodity exchanges, brokers and dealers) and in the sections outlining CFTC regulation of those entities, it is unclear if a crypto intermediary needs to maintain an actual crypto asset for every crypto asset put into custody by the customer. For example, if I buy one Bitcoin for the price of \$100,000, does the exchange need to keep on-hand one Bitcoin or \$100,000? What happens if the price of Bitcoin surges and investors all run to withdraw their Bitcoin? Likewise, the bill allows intermediaries to invest customer assets into a range of “safe” investments but also includes a provision allowing the CFTC to expand permitted investment to any other assets they deem approved. The CFTC is also given authority to waive the requirement that digital commodity exchanges keep customer assets in a qualified digital commodity custodian, notwithstanding that a wide range of entities are already conditionally eligible to meet that qualification in the bill under existing licenses (i.e., all state-chartered trust companies, regardless of the robustness of the state regime).

As noted further below, this bill allows exchanges to permit customers to waive asset segregation requirements to engage in staking or other “blockchain-related” activities. Again, this type of rehypothecation subjects both customers and the platforms to substantial risk, regardless of customer consent.

Crypto Lending and Staking

The exclusive jurisdiction of the CFTC likewise could well apply to crypto lending arrangements, whereby crypto exchanges today offer products where customers can deposit crypto assets and be promised a return if they keep those assets locked at the exchange. Many [crypto lenders](#)

including BlockFi, Voyager, Celsius and Nexo went bankrupt or ceased operations in the United States during the Crypto Winter of 2022. Both the [SEC](#) and [state securities regulators](#) took action against these arrangements which multiple cases resolved that it was unregistered securities market activity.

Likewise, the bill would expressly allow crypto exchanges to provide crypto staking products under the exclusive jurisdiction of the CFTC. Staking involves exchanges pooling crypto assets of customers, locking them up for some period of time, during which the exchange performs certain expert services for maintenance of those assets, and sometimes guaranteeing revenue smoothing on the staking returns (in one [case](#), promised returns were as high as 21%). Staking can bear a striking resemblance to any traditional pooling/yield securities arrangement. In addition to the settled action, the SEC litigated that staking was an unregistered securities offering in [two separate](#) actions in which the Commission prevailed in early court decisions by judges that considered the issue.

Gutting the Gold Standard of Investor Protection

The CLARITY Act represents a severe diminution of the protections owed to investors dealing with brokers in the digital commodity marketplace versus the securities marketplace. The bill requires vague business conduct requirements mostly focused on disclosing risks, requiring businesses to deal in a fair and balanced manner, and establishing standards around testimonials and marketing. This falls far short of the requirements applicable to SEC-registered brokers, which must abide by Regulation Best Interest, which requires broker-dealers to act in the best interest of their retail customers at the time they make a recommendation, without putting their own financial or other interests ahead of the customer's interests. The bill also does not contain rules related to best execution, which require brokers to execute customer orders under the most favorable conditions available to them. Other rules not present in the digital commodity broker regime include those related to customer notifications of cyber breaches, limits on sharing customers' data, and explicit rights in arbitration.

Further, the bill does not even contemplate the concept of a digital commodity investment adviser, meaning no investor will be able to find an investment professional to offer them advice on crypto purchases that will owe them a fiduciary duty.

Sundry Other Problems

Funding Resources

In the CLARITY Act the SEC is not granted authority to apply Section 31 fees, which cover the cost of the SEC's operations, to crypto market participants. This is notwithstanding the fact that SEC-registered entities may engage in crypto trading. The consequent lack of funding authority will burden-shift the cost of resources to oversee the crypto market from crypto firms to firms engaged in traditional securities markets.

For the CFTC, the ability to collect fees to pay for all the activities required under the bill expires in four years. It is unclear who or how the regime is supposed to sustain itself in a future Administration. And again, given the unrelated ways in which the CFTC is expanding its remit, this unsetting fee authority cannot possibly pay for all the staff and technology required by the bill.

Bank Engagement in Crypto

The bill would prevent federal banking agencies and the SEC from requiring digital commodity market participants from recognizing a liability on their balance sheet related to crypto or to hold capital against that liability. This seeks to codify the repeal of Staff Accounting Bulletin 121. Given the uncertainty of bankruptcy law's application to crypto (including as recently in the Prime Trust bankruptcy case in which crypto market participants wrote [amicus briefs](#) due to legal uncertainty), this provision feels like an unwise limitation on banking agencies on preventing the risks of the crypto market from metastasizing into the wider banking system.

The bill also allows banks to engage in any number of digital commodity activities or even acquire equity in crypto companies by amending Bank Holding Company Act section 4(k).

Public Interest

Throughout the CLARITY Act, mentions of the "public interest" as a standard whereby regulators or market participants should evaluate actions has been stricken from the text versus the discussion draft version of the bill.

Wide Discretion

The CFTC in the bill can waive a host of integral requirements for intermediaries. Not all of those exemptions need to be done by rule, and they overwhelmingly require very few findings and universally require no findings that it is solely in the interest of investors or an orderly and efficient market. Put in the hands of a captured regulator (or an agency without a bipartisan quorum), this wide authority presents significant risks.

Implementation Timelines

Throughout the bill, implementation times are unrealistic given the amount of work required of regulators, the mandated interagency coordination and the lack of resources afforded to agencies. The CFTC will take significant time to hire requisite staff even if the budget resources are available.

Whistleblower Protections

The CLARITY Act applies the CFTC's whistleblower program to activities covered under the Act but does not appear to apply the SEC's whistleblower program notwithstanding the fact that

investment contract offerings fall within the remit of the SEC and that SEC-registered intermediaries can broker, deal in and make available to trade crypto assets.

“Innovation”

The bill oddly adds “innovation” to the mission of the SEC, even though innovation should already be encompassed by the other categories in the tripartite mission. For example, innovation should be in service to capital formation or investor protection or orderly and efficient markets, not an end unto itself. This provision could also provide a new basis upon which market participants can challenge SEC rules in court.

Crypto Cheerleading

The findings and Sense of Congress in the bill make unsubstantiated claims about crypto fueling the next generation of American growth. The Congress and regulators should not put their fingers on the scale of different modes of recordkeeping for capital formation.

Finhub

The bill oddly codifies the Finhub office at the SEC even though Chair Atkins just [disbanded](#) it.

Mr. STEIL. The witness yields back. Mr. Massad is recognized for 5 minutes.

STATEMENT OF HON. TIMOTHY MASSAD, RESEARCH FELLOW AND DIRECTOR OF DIGITAL ASSETS POLICY PROJECT OF THE MOSSAVAR-RAHMANI CENTER FOR BUSINESS AND GOVERNMENT AT THE KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY, AND FORMER CHAIRMAN, U.S. CFTC, WASHINGTON, DC

Mr. MASSAD. Chair Steil, Ranking Member Waters, members of the committee, and staff, thank you for inviting me to testify. The views I express are my own and do not represent the views of the Kennedy School of Government. I appeared before you on Wednesday and my views have not changed in 48 hours.

[Laughter.]

Mr. MASSAD. Thank you for inviting me back. I still believe the CLARITY Act will not provide the investor protection that we need, nor will it provide the clarity. It is vital to understand why that is in some detail because this is not and should not be about whether you are for or against the technology. I strongly believe the technology is potentially very useful. I just think there is a better way to do this. Let me quickly summarize what I said yesterday—I do not want to repeat myself verbatim—and then maybe suggest a couple of ways to think about this.

First of all, I agree with Ranking Member Waters' concerns about the President's activities. I also agree with some of the concerns that Chair Hill expressed in terms of what we need to be doing here. I suggested Wednesday that the primary goal should be to provide a regulatory framework for the spot market in digital assets that are not securities. That gap has been the reason for fraud, manipulation, rampant speculation. That gap has largely resulted from our fragmented regulatory system; so, I think the solution does need to bring the Agencies together, not just in a few rulemakings, but in a structural way. I outlined an approach that former SEC Chair, Jay Clayton, a Trump appointee, and I had suggested some 2 years ago, and a key aspect of that was it is a way to establish jurisdiction through joint rules without rewriting or overturning existing securities and derivatives laws.

The CLARITY Act obviously addresses the gap in regulation, but it does so in a way that I suggested violated two key principles, the do no harm principle and the keep it simple principle: do no harm meaning that we should not undermine the legal framework of our existing securities and derivatives markets, and the keep it simple principle is self-evident. The point is that we should not create legislation that is so complicated, that it creates endless opportunities for regulatory arbitrage by clever lawyers, arbitrage that will, in many cases, lead to undermining that traditional framework, and it should not be so detailed that it puts regulators in a strait jacket. We do not want to deprive regulators of the authority and flexibility to respond to the endless ways in which clever lawyers might subvert legislation, as well as the authority and flexibility to respond to changes in market conditions in the evolution of technology.

I hope we can get into a discussion of some of the specifics. I appreciate, in particular, Ms. Fischer's comments on some of the particular issues that concern her, and I share those concerns. I will not repeat those. Let me, though, use the last minute or so just to give you an analogy of maybe a way to think about what we are trying to do. Analogies are never perfect. They should not be taken too far, but imagine that driverless cars are more common than they are today, but that they still represent a small part of the market, and imagine that Hertz and Avis even rent them, and I rent one and I am in the backseat and the car goes through a red light and there is a crash, and somebody dies. We should not say, oh, well, let us do not produce driverless cars because it is technology. We need to perfect it, we need to move forward, but we also should not say, well, the guy who died, it is his fault. He should have known there are driverless cars on the road, and even if we required them to be painted red with green spots, he still should not just suffer the liability.

Then the question is, how do we allocate liability? Is the manufacturer liable? Maybe it produced the car incorrectly, maybe the code was wrong, and maybe there is someone up the chain who should be held responsible. Is Hertz liable because they did not install an upgrade? Am I liable because maybe there were routing options, and I overrode the routing option that said observe stop signs or red lights. We need laws, we need rules, but those should not undermine the rules that pertain to the rest of the cars, and this is a new area. It is evolving. We cannot write today something that is anywhere near as detailed as the CLARITY Act, and all of us can point out why. We need more of a principles-based approach that allows us to move forward. Thank you.

[The prepared statement of Hon. Massad follows:]

Written Statement of Timothy G. Massad*
before the
U.S. House of Representatives Financial Services Committee
“American Innovation and the Future of Digital Assets:
From Blueprint to a Functional Framework”
June 5, 2025

Mr. Chairman and Ranking Member Waters, members of the committee and staff, thank you for inviting me to testify today.

Introduction

The goals of promoting innovation and providing clarity with respect to digital asset technology are ones that everyone can support. But there is no consensus on the blueprint for getting there. If the Digital Asset Market CLARITY Act of 2025 (the “Clarity Act”) is the committee’s blueprint, we should step back and consider what we are trying to build.

The Clarity Act seems to start with the technology and ask, what do we need to do to make it easier for people to invest in this technology? But the strength of our securities and derivatives laws lies in the fact that we have traditionally focused on regulatory goals, and provided regulators with the flexibility to respond to changing conditions, including evolutions in technology, in order to achieve those goals.

If we ask, what is it that *Congress* needs to do to make sure the goals of our securities and derivatives laws are met as technology evolves, that leads to a different approach. The principal objective of market structure *legislation*—as opposed to *regulation* by the market regulators—should be to provide regulatory oversight of the spot market for digital asset tokens that are not securities. That structural gap in our regulatory framework has led to the high degree of fraud, manipulation and lack of investor protection, as well as rampant speculation, that has characterized the digital asset sector to date.

I have spoken about this gap since shortly after I became chairman of the Commodity Futures Trading Commission (CFTC) in 2014 and we declared bitcoin to be a commodity.¹ But efforts

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¹ See Timothy Massad, *It’s Time to Strengthen the Regulation of Crypto-Assets*, The Brookings Institute, p. 2 (Mar. 2019), <https://www.brookings.edu/research/its-time-to-strengthen-the-regulation-of-crypto-assets/> (hereinafter “Massad 2019”); and my testimony before the Subcommittee on Digital Assets, Financial Technology and Inclusion

to address this gap have been bogged down by an ongoing debate about how to classify digital asset tokens: are they securities, commodities or something else? Some would say we cannot provide for oversight of the market in digital asset tokens that are not securities unless we rewrite the definition of security and related standards. But having Congress rewrite the securities laws to “clarify” this boundary will do more harm than good.

Therefore, the first challenge in filling that gap is how to define the scope of jurisdiction, or how to define the digital asset tokens that are not securities and should not be regulated as securities. This committee’s prior attempt—the Financial Innovation and Technology Act for the 21st Century—proposed an incredibly complicated tri-partite test. It was unworkable and fortunately has been discarded. In its place, the Clarity Act proposes a slightly different approach but one built on a similar concept: when is a digital asset sufficiently “decentralized” so that it should not be considered a security? This approach is embodied in complex definitions that would be difficult to apply and measure in the real world. (Ironically, the Act offers an escape from some of its own tortured definitions by providing that a “blockchain system” need not actually *be decentralized* in order to be exempt from certain regulatory requirements. Instead, it is sufficient for the issuer to have the *intent that it be decentralized*.)

Thus, the Clarity Act takes us down a rabbit hole, one likely to generate more confusion than clarity. That is not to say decentralization is irrelevant; it can be an important factor in disclosure and other regulatory requirements, and I suggested the same when first writing about the need to strengthen crypto regulation in 2019.² But as used in the Clarity Act, it is an unstable foundation on which to build a regulatory framework.

The path forward should recognize that the regulatory gap arises in large part because we have a fragmented regulatory system. Indeed, the industry has exploited this fragmentation, by arguing that tokens are not securities and therefore not subject to regulation since neither agency had that spot market authority. The solution should therefore involve bringing the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) closer together, and giving them the authority, to address the gap.

Two years ago, Jay Clayton, the former SEC chair appointed by President Trump, and I argued that the critical way forward was to have Congress require the SEC and CFTC to work together to develop joint standards, either through a self-regulatory organization (SRO) or otherwise, that would apply to any intermediary that trades bitcoin or Ether—the two tokens whose status as non-securities is generally agreed upon. In this way, regulators would capture all relevant platforms “without first debating classification of each token or Congress pursuing tortured rewriting of existing definitions of securities and commodities.” The rules would apply to all tokens traded on such platforms, with the proviso that the SEC would retain jurisdiction over tokens that were securities. We warned that rewriting existing law “might fail to bring clarity

of the U.S. House of Representatives Financial Services Committee and the Subcommittee on Commodity Markets, Digital Assets and Rural Development of the U.S. House of Representatives Committee on Agriculture, “The Future of Digital Assets: Measuring the Regulatory Gaps in the Digital Asset Market,” May 10, 2023, <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408754> (“2023 Testimony”).

²*Ibid*, Massad 2019 at 49ff.

and inadvertently undermine decades of regulation and jurisprudence as they apply to traditional securities and commodities markets.”³

I have proposed bringing the SEC and CFTC closer together through an SRO in more detail in other writings and describe it further below.⁴ The SRO envisioned here would not mean the industry is governing itself. Consistent with U.S. practice since the 1930s, this SRO would be closely supervised and overseen by regulators—in this case, by the SEC and the CFTC jointly.

There may be other ways to bring the SEC and CFTC closer together to fill the regulatory gap and make sure regulations are technologically neutral, such as appointing common commissioners, or mandating that there be shared staff. The fact that this committee and the House Agriculture Committee have worked together on these issues is a good example of the cooperation that is needed.

Some members of the committee might say legislation must respond to the fact that previous regulators were not willing to consider whether rules needed to be revised in light of the technology. But if so, I would suggest they are fighting the last war. Some may feel that delegating authority to the SEC and the CFTC, even with general principles mandated by Congress, does not bring enough certainty: how do we know that the rules won’t be changed? Yet it is this type of administrative process that many on this committee, as well as many in the crypto industry, have been wanting the SEC and CFTC to undertake with respect to digital assets for many years. While success will depend on the mandate and direction from Congress, and the execution by the agencies, it is far better than writing into law complicated standards that are likely to be exploited and that cannot be easily fixed.

Others worry whether creating an SRO under the control of the SEC and CFTC will lead to vigorous investor protection in light of the current environment. The SEC, the CFTC and the Department of Justice have ended or paused nearly every crypto-related enforcement action, and disbanded teams with crypto expertise. The DOJ has publicly stated that it will not prosecute someone in the crypto sector for regulatory violations unless the defendant both knew of the regulatory requirement and violated it willfully. Considered together with the Clarity Act, it seems you need not comply with regulatory requirements as long as you either have the right intent or remain ignorant of what those requirements are.

In addition, the President of the United States and members of his family have launched several business ventures to personally profit from crypto, including issuing meme coins and a stablecoin. Traditional ethical standards have been ignored. He is selling the very tokens that his Administration will regulate. It increasingly seems as if this Administration’s primary goal is not to promote innovation but to promote the President’s own personal enrichment.

³See Clayton, Jay and Timothy Massad. “A Path Forward for Regulating Crypto Markets.” *Wall Street Journal*, 7 July 2023, and also “How to Start Regulating the Crypto Markets—Immediately.” *Wall Street Journal*, 4 December 2022.

⁴ 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 (“Massad-Jackson 2022”). I also proposed the SRO concept in my testimony in May 2023. See n. 1.

I have spoken to many people involved in crypto who abhor the President's activities. They recognize it hurts the industry. Unfortunately, they do not speak out because they fear it will adversely affect their business interests and they doubt speaking out will make any difference. They know that the President's activity can only be addressed by Congress, but they doubt that Congress will do anything. So the question is, if not you, then who? And if not now, then when?

My testimony proceeds as follows. I first discuss two principles that should inform market structure legislation: it must do no harm to our existing markets, and it should be kept simple. I then discuss why I believe the Clarity Act violates both these principles and why an alternative approach such as an SRO is better. I then turn to the risks of illicit activity, a subject that unfortunately gets very little attention in the Clarity Act, as well as some general comments on decentralized finance. Finally, I conclude with a discussion of how the current environment affects the consideration of market structure legislation.

The Importance of Doing No Harm and Keeping Things Simple

There have been several suggestions for the principles that should inform market structure legislation, including by the chairs of this Committee and the House Agriculture Committee.⁵ I suggest two simple ones: do no harm and keep it simple.

Do no harm means making sure that any digital asset market structure legislation does not undermine our existing capital markets. The U.S.'s \$120 trillion equity and debt markets, together with our derivatives markets, are the foundation of the U.S. economy and the envy of the world. They directly impact the health and well-being of our citizens and our businesses. Their depth, liquidity and diversity has been the source of great innovation over the years—and probably more useful innovation since the launching of bitcoin fifteen years ago than has come from digital asset technology. Their strength and integrity rests on a legal regulatory framework that has been gradually and thoughtfully created over almost 100 years.

For all the talk about the innovative potential of digital asset technology, it is vital to maintain perspective about its relative role in our economy and the fact that it is a *technology*, not an asset class.

Here is one point of comparison: the collective market capitalization of the “Magnificent Seven” companies—Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla—is \$16 trillion today. At the time bitcoin was launched in early 2009, two of these companies were not even public, and the other five had a collective market capitalization of just over \$300 billion. Their collective growth (of over 5,000%) and the incredible innovation they have brought over that period is due in part to the strength of our capital markets.

⁵ See French Hill and Glenn GT Thompson, “A Blueprint for Digital Assets in America,” Coindesk, April 4, 2025. <https://www.coindesk.com/opinion/2025/04/04/a-blueprint-for-digital-assets-in-america>. Chairs Hill and Thompson proposed the following principles: promote innovation; provide clarity for the classification of assets; codify a framework for the issuance of new digital assets; establish the regulation of spot market exchanges and intermediaries; establish best practices for the protection of customer assets; and protect innovative decentralized projects and activities and an individual's right to self-custody their digital assets.

Legislation that rewrites the definition of a security or revises the Howey test⁶ to promote this technology can easily undermine the markets. It could create fractures in the legal underpinnings of our markets that lead to evasion and regulatory arbitrage as market participants seek to take advantage of new standards to avoid compliance obligations.

This might include attempts to use digital wrappers around instruments that would otherwise be classified as securities, or distributing assets through an autonomous protocol that qualifies as “decentralized” and therefore exempt from regulation. The ingenuity of market participants will come up with endless ways to test, evade and exploit any legislative rewrite of core provisions of the securities laws. This could undermine disclosure requirements, position reporting requirements, control standards, rules to prevent fraud and manipulation and other standards.

I point out examples of how the Clarity Act could give rise to this below.

The desire to rewrite the definition of a security or revise the Howey test has also been motivated in large part not by the *absence* of legal clarity as to what constitutes a security, but rather by a *dislike* of recent judicial decisions as to that standard. The fact is the SEC has won most of its cases as to what constitutes a security, particularly in the context of primary offerings. A submission for a recent SEC roundtable documented in detail how the Howey test has been consistently applied in digital asset cases.⁷

There is another argument for clarity, however, that is sound. If it is not clear *how* one complies with the law in the case of digital technology—as opposed to simply being unwilling to do so—regulators can and should address that complaint. Whether the rules pertain to registration of intermediaries, custody, clearing and settlement, recording and transfer of securities or other areas, regulations should be technologically neutral. They should work for securities held in digital asset form.

Consistent with the keep it simple principle, that task should be left to the regulatory process and should not be the focus of legislation at this time. The SEC and the CFTC are now led by chairs who wish to address those issues and they can be expected to do so, ideally through public rule-making or other processes open to public input. Congress should step in only if regulators determine that they lack the authority to do so.

The keep it simple principle calls for choosing a path forward that is most likely to achieve the primary goals most efficiently, with least risk of inadvertent harm. That means writing legislation that is not overly complicated, that establishes general principles, and that leaves to an administrative process the development of more detailed rules or guidance. Unfortunately, the Clarity Act, as with its predecessor, FIT 21, does not do this.

⁶ SEC v. W.J. Howey Co., 328 U.S. 293 (1946).

⁷ Lee Reiners, Prepared Statement for SEC’s Crypto Task Force March 21, 2025 Roundtable titled “How We Got Here and How We Get Out – Defining Security Status” and Responses to “Security Status” Questions in SEC Commissioner Hester Peirce’s February 21, 2025 Statement Titled “There Must Be Some Way Out of Here.” <https://www.sec.gov/files/ctf-input-reiners-2025-3-18.pdf>

The CLARITY Act

The CLARITY Act is an extremely complicated bill, and I do not claim to have fully understood all its provisions in the short time since its publication. I would guess that most members of Congress will not have the time to fully understand its provisions and implications. That concern alone should lead us to question whether this is the right “blueprint.”

There should be no doubt that many, many lawyers will spend huge amounts of time developing ways to exploit this legislation and engage in regulatory arbitrage strategies on behalf of their clients, in order to find ways to take advantage of lesser compliance burdens. (I was a corporate lawyer for 25 years with one of the top firms in the world and am very familiar with how complex legislation can be very susceptible to regulatory arbitrage.)

With over 200 pages of detailed, complicated provisions, the implications of which are difficult to assess, I fear the Clarity Act is likely to have two principal effects: first, it will guarantee its own obsolescence, because the technology will evolve and the particulars of provisions will become outdated or not relevant. Second, and of far greater danger, it will encourage people to make investment or transaction decisions because something is a digital asset, or a digital commodity, or can be certified as a mature blockchain system, or can be traded on a decentralized finance trading protocol, and would therefore be subject to materially different regulation. In short, it will generate massive exploitation of its provisions and regulatory arbitrage.

I wish to highlight a few examples of the reasons why I say this.

Excessive Reliance on the Concept of Decentralization. The Act relies excessively on the concept of decentralization. It is used to rewrite and provide exemptions from important provisions of the securities laws. But the concept of decentralization is unstable ground on which to build a regulatory framework: it is difficult to define and measure, it can change over time, and it is not necessarily even the right metric by which to judge innovation.

Even those who might be expected to support legislation that is built on this concept have expressed their skepticism or even opposition. Consider the recent article by Joseph Hall, a partner at the law firm of Davis Polk and Wardwell and one of the top lawyers advising crypto companies. He testified, along with me and others, at a hearing of the Agriculture Committee two years ago. He recently wrote that it isn’t clear that decentralization is the best framework to use for market structure legislation. “The difficulty in saying whether decentralization occurs counsels against using it as the dividing line” between securities and commodities. In addition, whether an asset is decentralized can change over time, and a test built on decentralization excludes business models which are centralized, which is not a good way to advance development of digital assets. The subtitle of his article is that “policymakers are asking the wrong questions.”⁸

⁸ Joseph A. Hall, “Rethinking Crypto Regulation Means Throwing Out Old Questions,” Bloomberg Law, April 18, 2025, at <https://www.davispolk.com/sites/default/files/2025-04/Rethinking%20Crypto%20Regulation%20Means%20Throwing%20Out%20Old%20Questions.pdf>

The Chopping Block, a podcast hosted by three veteran crypto proponents who are widely followed in the industry and are quite knowledgeable about how crypto markets actually work, put it well in the title of a recent episode: “Decentralization Used to Mean Something. Now It Is Just a Vibe.”⁹

As I noted earlier, the concept of decentralization may be one factor to consider in fine-tuning disclosure or other requirements for digital assets.¹⁰ But it is very dependent on facts and circumstances, and it pertains to how a token is stored or maintained, not what it represents. For these and other reasons, it should not be the basis for a legislative definition of when a digital asset is or is not a security.

The Act Will Not Fill the Regulatory Gap. The Clarity Act is also unlikely to fill the gap in regulation that exists today—that is, the absence of spot market regulation of digital assets that are not securities. That gap has been the principal cause of investor abuses, as it has allowed crypto intermediaries—especially large, centralized ones on which most trading takes place—to operate largely as they please and without following the investor protection standards common in other financial markets. The problem is that although the Act provides for regulation of the spot market in “digital commodities,” the Act’s definition arguably would refer to just a handful of tokens. Indeed, that was the view of a few crypto industry experts to whom I put the question. Yet, the main centralized exchanges such as Coinbase, Kraken and Gemini list anywhere from 70 to 400 tokens.

What, then, about the rest? Nothing in the Act would appear to regulate the offer, sale or trading of those other tokens. There appears to be no prohibition on a centralized entity trading those other tokens, though it might have to be a sister platform to one on which “digital commodities” are traded. As a result, investors or users would remain with no protection unless those tokens are deemed securities.

Moreover, the tokens listed on centralized exchanges are just a fraction of the total tokens created each year. The crypto web site CoinGecko estimates that 600,000 new tokens were created in January of 2025 alone.¹¹ Those that aren’t listed on centralized exchanges may then be traded on decentralized exchanges.

With respect to these other tokens, whether traded on centralized as well as decentralized platforms, many are meme coins, which the SEC has stated are not securities. There has been a dramatic increase in recent years in the issuance of meme coins and investor abuses pertaining to them—most notably pump and dump schemes. Other tokens may be the equivalent of reward points, or tokens used in video games, or other types of “utility” tokens. It may well be that many of these tokens should not be viewed as financial instruments and should not be subject to

⁹ “Decentralization Used to Mean Something. Now It Is Just a Vibe,” The Chopping Block/Unchained podcast, May 29, 2025. The episode focuses on how the \$223 million Sui hack illustrates how the term decentralization is “being quietly redefined.” In their May 10, 2025 episode, the hosts discuss the Clarity Act and one says “I didn’t totally understand what the boundaries of [the mature blockchain system definition] are. And I think it’s intended to be a little bit vague. But it’s not really clear what it means for a team or a small group of people to have control over this thing.”

¹⁰ See *n.* 2.

¹¹ <https://www.coingecko.com/research/publications/bobbys-crypto-aggregate-2025-02>

regulation by either the SEC or the CFTC. But we need a process for deciding how to classify them and should decide what type of standards should apply—including whether the activity more closely resembles gambling and should be regulated as such.

Other Examples of How the Clarity Act May Undermine Existing Securities Laws. The Act could also undermine existing securities laws in other ways. I will offer a few examples, which require some detailed explanations of how the provisions work.

The definition and use of the term “**mature blockchain system**” is one example of how the Clarity Act’s excessive reliance on the concept of decentralization would subvert traditional securities laws and fail to create adequate investor protection. This term is a building block for offerings of “digital commodities”, the new asset category that the Act would distinguish from securities. The term “mature blockchain system” is defined to be a system “that is not controlled by any person *or group of persons under common control*” (ital. added). But the concept of a “group” and the concept of “under common control” are separate and distinct attributes in the securities laws, either of which can constitute a form of control: a group can exist by virtue of a contract or unwritten understanding among multiple persons, while “under common control” is a measure of affiliate status. By combining the two, “control” is far less likely to be deemed to exist, thus making it easier to qualify as a mature blockchain system and to get the benefit of a lesser regulatory burden. Compounding that problem, the certification of a blockchain system as being mature uses a 20% threshold for control—as long as there is no person (or “group of persons under common control”) above that threshold, there is no control. But control is often deemed to exist at a much lower level, depending on the facts and circumstances. The certification also requires that an issuer not have “unique permission or privilege” to alter the system except in certain respects. That standard is one that an issuer seeking to maintain effective control could easily get around, by providing token holders with a limited supermajority veto right, for example.

All these elements make it easier for someone to maintain effective control of a blockchain system but still meet the test of being considered “mature.” A further weakness of the Act is that one need not actually *satisfy* the “mature” standard to be entitled to the new exemption from the Securities Act for a capital raising transaction. One need only have the *intent* to create a “mature blockchain system.”

Another problematic area is **the definition of “digital commodity” and the revision of the term “investment contract.”** The Act revises the term “investment contract”—a core component of the definition of “security” in the securities laws—so as to exclude an “investment contract asset,” which is defined as a digital commodity. This creates the basis for exempting offers and sales of digital commodities from the securities laws, both offerings by the issuer (subject to meeting certain minimal requirements) and secondary offerings. Although the definition of “digital commodity” excludes certain securities, the relationship of these two definitions and the way they relate to certain exemptions is likely to lead to confusion and attempts to evade requirements.

This, together with the “mature blockchain system” standard, illustrates the dangers of writing complex definitions based on decentralization. Even SEC Commissioner Hester Peirce has

warned against the dangers exemptions of this sort can create. In recent comments about the general idea of exempting sales of investment contract assets from the securities laws, her words are equally applicable to the Clarity Act provisions:

[T]reating all secondary sales of crypto assets as being free of the investment contract runs the risk of facilitating bad behavior: the dumping of crypto assets bought as part of an investment contract on retail investors while the crypto asset lacks function and its associated network or application remains centralized (and thus subject to information asymmetry concerns). If the initial holders are out of the picture because they have sold their crypto assets, the investment contract is unenforceable, and the issuer can dump its crypto assets too and walk away—wealthy and unaccountable—for completing the project. Companies looking at capital raising options might even be tempted to use such crypto asset sales instead of other capital-raising methods: promise to build a network or functional product, do a crypto asset presale to venture capitalists, stop developing the network or product once they have sold out to retail, and plow the proceeds of the initial crypto asset sale into building their actual business.¹²

Her remarks are ample reason why we should not create such an exemption legislatively. Even if it makes sense for the SEC to develop customized disclosure or other rules for such transactions, matters that are very facts-and-circumstances dependent such as these should be left to an administrative process.

A final example I will cite of how the Clarity Act could create confusion and potentially undermine existing law is in the **definition of and exemptions for “decentralized finance trading protocols.”** A decentralized finance trading protocol means a blockchain system through which participants can “execute a financial transaction,” subject only to minimal conditions such as “without reliance on any other person to maintain control of the *digital assets* [ital. added] of the user”. The Act provides that activities related to decentralized finance trading protocols are largely exempt from the Securities Exchange Act. The scope of activities is broad, and includes “providing a user-interface that enables a user to . . . interact with a blockchain system.” That could be a business which exercises discretion over routing of transactions, or which could be the source of asymmetrical information—both reasons we should consider it an attachment point for regulation. But none appears to be provided in the Act. Moreover, given the breadth of the phrase “execute a financial transaction” and the definition of “digital asset”—which includes any representation of value on a blockchain system—all sorts of activities could conceivably take place on such platforms and be exempt from the law, including transactions in securities.

These are just a handful of examples. The Act’s detailed provisions over the course of its almost 200 pages create other ways in which it may generate confusion and undermine our securities laws. Even where there is a valid argument for customizing rules for assets in digital form, Congress should focus on higher level principles and leave the work of writing detailed rules or guidance to an administrative process.

¹² Commissioner Hester Peirce, “New Paradigm: Remarks at SEC Speaks,” May 19, 2025, at <https://www.sec.gov/newsroom/speeches-statements/peirce-remarks-sec-speaks-051925-new-paradigm-remarks-sec-speaks>

The SRO and Other Alternative Approaches

Congress should not try to write detailed rules and should instead direct the SEC and CFTC to work together to (i) address the gap in investor protection that exists with respect to the spot market in non-security digital assets and (ii) make sure existing rules are technologically neutral. This could be done with a joint SRO or otherwise.

A primary reason why the security versus commodity debate has been so vexing is because of our fragmented regulatory structure. It has been easier for countries with a single regulator with broad authority to respond to the rise of digital asset technology because it did not trigger a jurisdictional question between different agencies. Any solution needs to bring the agencies closer together.¹³

The Congress can provide the SEC and CFTC with the necessary authority by using a simple way of addressing what has otherwise seemed like a difficult problem: how does one define “non-security digital asset tokens” in order to create regulatory oversight of that market, without rewriting securities laws in ways that undermine traditional protections? The market structure law can mandate that these joint rules would apply to any trading platform or other intermediary transacting in bitcoin or Ether. (Other assets as to which there is a consensus that they are not securities could also be included in the legislation but is likely not necessary.) This is likely to ensure that any significant intermediary is covered. The rules would then apply to all digital asset tokens in which any such intermediary transacts, subject to certain carve outs. These carve outs could go both ways: any digital asset token that is deemed a security would not be included and would remain subject to the securities laws. In addition, tokens that are not securities and do not have sufficient financial characteristics to warrant financial market regulation could be excluded, though this could be coupled with some other arrangement to provide reasonable investor or user protection.

While the SEC and CFTC could create an SRO on their own, it is preferable for Congress to direct them to do so. Congress should spell out its jurisdiction, structure, governance and responsibilities. To this end, if an SRO path is chosen, the market structure law would, among other things:

¹³ There have been many proposals over the years calling for a merger of the two agencies or at least better coordination between them because of gaps in oversight, lack of coordination, inefficiencies or other problems arising from having two market regulators. *See, for example, Report of the President Task Force on Market Mechanisms* (under Treasury Secretary Nicholas Brady in 1988) recommending greater coordination; the U.S. Treasury, *Blueprint for a Modernized Financial Regulatory Structure* (under Treasury Secretary Henry Paulson in 2008) recommending a merger; The Group of Thirty Report: *Financial Reform: A Framework for Financial Stability*, (chaired by former Federal Reserve Board chairman Paul Volcker in 2009), recommending a merger; the U.S. Government Accountability Office, *Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System* (2009), recommending merger or better coordination; the *Financial Crisis Inquiry Commission Report of 2011* (highlighting problems caused by having two regulators); and the U.S. Treasury, *A Financial System That Creates Economic Opportunities: Capital Markets*, (under Treasury Secretary Steve Mnuchin in 2017), calling for greater harmonization. This is a good time to take a simple step to institutionalize greater cooperation.

- set forth the basic structure and governance of the SRO, drawing on the precedents that exist in both the Securities Exchange Act and the Commodity Exchange Act, except that this would be jointly and closely governed by the SEC and CFTC. The board of governors would be diverse, and include not only representatives of digital asset market participants, but also traditional financial institutions, public interest organizations, and others. The SEC and CFTC would approve the SRO's rules and its budget (though funding can be imposed on the industry consistent with our traditional SRO practice). The Treasury Department could also be given some authority if deemed necessary to arbitrate any differences between the two agencies in the governance. While a new SRO would be mandated, the SEC and the CFTC can draw on the expertise and staffing of existing SROs such as the Financial Industry Regulatory Association (FINRA) and the National Futures Association (NFA) in forming the entity.
- mandate that any trading or lending platform that trades or otherwise deals in bitcoin or Ether would be subject to the rules of the SRO, as would any broker or dealer or certain other intermediaries, unless the platform or intermediary is registered with the SEC or CFTC as a securities or derivatives intermediary. (There could be de minimis exceptions for small actors.)
- mandate the core principles that would serve as the basis for SRO rules, which would be similar to the principles used in our securities and derivatives markets; and
- mandate that those rules would apply to all digital asset tokens traded or used on or by any such platform or intermediary that transacts in bitcoin or Ether, subject to certain limitations that pertain to the "boundaries" of the market regulated by the SRO.

Policing the Boundaries

There are two critical boundary questions in filling the gap in regulation. The first is whether a digital asset token is a security, but that is precisely why any solution must bring the SEC and CFTC together. With an SRO, the SEC could have the equivalent of a right of first refusal to determine that a digital asset token is a security and therefore must be traded on an SEC-registered platform or by an SEC-registered intermediary. An intermediary would not face the threat of being shut down, however, for having listed any such token.

While the SEC would rely on the *Howey* test and the other jurisprudence in this area, the mere fact that there would now be a regulatory framework for those non-security tokens should make the determinations easier. Although it is not expressly articulated as a fifth prong of the *Howey* test, Supreme Court cases have made clear that the existence of an alternative regulatory scheme can be an important factor in concluding that a financial instrument is not a security. For example, in *Marine Bank v. Weaver*, the Supreme court held that neither a federally insured certificate of deposit nor a related agreement constituted a security in part because the CD was subject to a robust, alternative regulatory regime, and therefore it lacked the risk typically associated with a security.¹⁴ Similarly, in *International Brotherhood of Teamsters v. Daniels*, the

¹⁴ *Marine Bank v. Weaver*, 455 U.S. 551 (1982)

court overturned a lower court ruling that held that participation in a non-contributory, compulsory pension plan was an investment contract and subject to the protections of the securities laws. The court said that the argument that securities regulation should apply was undercut by the fact that such plans are subject to extensive regulation under the Employee Retirement Income Security Act of 1974.¹⁵ The existence of an alternative regulatory scheme reduces the importance, from an investor protection standpoint, of concluding that something is a security.

The second boundary concerns digital asset tokens that are not securities *and* that are not financial in nature. That is, they should not be regarded as commodities, nor as instruments that are necessarily subject to financial market regulation. The agencies, or the SRO with the agencies' approval, could develop guidance by which to distinguish these tokens and the consequences of being in this third bucket. These determinations could also be formalized into a process involving the Treasury Department.

Ensuring Robust Oversight

If an SRO is used, it is vital that it not be captured by the industry. That is why an SRO must be tightly governed and supervised by the agencies. They would appoint its board, approve its budget and rules and have other measures of control. One could also incorporate lessons learned from the experience of the SEC's oversight of the Public Company Accounting Oversight Board (PCAOB), and its approval of budget and rules.

The Core Principles for Regulation

Congress would set forth the core principles for the rules that the agencies themselves, or an SRO, would develop. The principles would be familiar ones used in our securities and derivatives markets. They would also be similar to principles in the Clarity Act for the regulation of digital commodity exchanges and would include:

- governance standards (including fitness standards for directors and officers);
- protection of customer assets, including segregation and protection in bankruptcy;
- conflicts of interest (including prohibitions or limitations on the ability of trading platforms to engage in proprietary trading or having financial interests in listed assets);
- having adequate financial resources, including capital and margin;
- recordkeeping and periodic public disclosures;
- execution, clearing and settlement of transactions in a competitive, open, efficient and timely manner;
- pre- and post-trade transparency requirements including as to price, volume, and other trading data;
- prevention of fraud, manipulation and abusive practices (including prevention of wash trading, price distortion and disruption to delivery and settlement processes);
- listing standards and disclosure requirements for tokens;

¹⁵ *Teamsters v. Daniel*, 439 U.S. 551 (1979)

- disclosures to customers, including regarding fees, recourse, trading procedures, and dispute resolution;
- impartial access;
- risk management practices;
- operational resilience, cybersecurity standards and business continuity and disaster recovery policies;
- reporting to and sharing of information with regulators and other agencies including the Treasury and the Federal Reserve Board; and
- know your customer (KYC), anti-money laundering (AML) and combating financial terrorism (CFT) standards.¹⁶

These principles are further discussed in the paper I wrote with Professor Howell Jackson.

The approach outlined here is a pathway to achieving investor protection quickly and comprehensively. Most spot market trading occurs through centralized intermediaries. This approach would dramatically improve investor protection on those platforms by covering all tokens traded. Simply eliminating wash trading—where someone trades with themselves or an affiliate to inflate the price or trading volume of an asset, and which has been estimated to represent 50% or more of the trading on crypto platforms¹⁷—would be a huge improvement. I believe this approach would also take some of the speculative air out of the sector’s sails generally and help encourage investment and developer activity toward more useful applications of the technology.

Illicit Finance Risks and DeFi Protocols

I wish to highlight two other subjects that are critical in any market structure legislation:

Illicit Finance

It is surprising to me how little is said about the risks of illicit finance in the Clarity Act. When proposals have been recently made in connection with the stablecoin legislation to expand the authority of the Treasury Department to address illicit finance, particularly in decentralized finance activities, some proponents of the legislation responded that those subjects should be addressed in the market structure legislation. But that is not evident in the current draft.

¹⁶ See also Massad and Jackson (2022), *supra*, note 5.

¹⁷ See Lin William Cong et al., *Crypto Wash Trading* (July 2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3530220 (estimating that wash trades account for 70 percent of volume on unregulated cryptocurrency exchanges); see also Jialan Chen et al., *Do Cryptocurrency Exchanges Fake Trading Volume?* 586 *Physica A* 126405 (Jan. 15, 2022); Matthew Hougan, et al., *Economic and Non-Economic Trading In Bitcoin: Exploring the Real Spot Market For The World’s First Digital Commodity*, Bitwise Asset Management (May 24, 2019), <https://www.sec.gov/comments/sr-nysarca-2019-01/srnysearca201901-5574233-185408.pdf> (study demonstrating that “95% of reported trading volume in bitcoin is fake or non-economic in nature”); Javier Paz, *More Than Half of All Bitcoin Trades are Fake*, *Forbes* (Aug. 26, 2022), <https://www.forbes.com/sites/javiarpaz/2022/08/26/more-than-half-of-all-bitcoin-trades-are-fake/?sh=11ea350b6681>; see also Steve Inskeep et al., *How “wash trading” is perpetuating crypto fraud*, NPR (Sept. 23, 2022), <https://www.npr.org/2022/09/23/1124662811/how-wash-trading-is-perpetuating-crypto-fraud>.

The legislation should give the Treasury Department and market regulators ample authority with respect to preventing the use of digital assets for illicit finance or evasion of sanctions. This should not be limited to requiring intermediaries to comply with the Bank Secrecy Act because digital assets can be transferred without the involvement of an intermediary on decentralized blockchains. The authority needs to be broad and flexible for that reason. In 2023, the Treasury Department proposed several ways in which its authority should be expanded, which could be included in this legislation. Among other things, it should include authority to address the role of mixers, tumblers and other devices used to disguise identity. That can be coupled with a recognition that rules must strike a balance between preventing illicit finance and respecting individuals' privacy. The authority needs to be broad and flexible also because we do not know exactly how the sector and technology will evolve.

DeFi Protocols

I noted earlier concerns about the specific term “decentralized finance trading protocol” in the Clarity Act. It is worth noting some general reasons why we should not exempt from regulation protocols or processes on the basis that they are “decentralized,” regardless of the particulars of the definition. DeFi protocols that engage in providing financial market services or transactions should meet, or have outcomes consistent with, the requirements we impose through regulation on similar “trad fi” services and transactions, even if the manner of meeting those requirements might vary.

The subject of “DeFi” is often discussed as if it were monolithic, when in fact the terms “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, and with respect to the degree to which firms or human actors exercise control or discretion. DeFi protocols and services may have various types of what have been 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.¹⁸ That is, they are not fully decentralized. It is also the case that there may be an automated protocol but a related “front-end” service provided by a firm or person in which discretion and control are being exercised. Therefore, the term “decentralization” is of little value.

Proponents of making wholesale exceptions for “DeFi” also seem to ignore the fact that the “trad fi” world has experienced waves of automation before. We developed regulatory responses to automation and can do so again, even if this is a somewhat different type of automation. Our securities and derivatives markets have gone from manual floor trading to highly automated processes in just a few decades. Our rules have generally kept pace with an increasing diversity of trading platforms, faster speed, and less human involvement.

As an example, internalizers in the securities markets could be thought of as having certain similarities to the automated market makers of the digital asset world: they are large broker-dealers who fill orders from their own inventory rather than routing them to public exchanges.

¹⁸ 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.

Internalizers have been made subject to order routing, best execution and payment for order flow requirements. Under Regulation SCI, an internalizer that operates a system critical to market infrastructure can be designated an SCI Entity which is then required to maintain robust cybersecurity, disaster recovery and reporting systems. While internalizers are centralized entities that provide a clear point of attachment for regulations, the regulatory response to them is an example of how we have responded to automation in the past and can do so again.

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 we must ensure that the regulatory goals of consumer and investor protection, market integrity and transparency, financial stability or prevention of financial crime are achieved, even if in a different manner. 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 the Treasury securities market. Even if such a platform truly was automated and not subject to the control of a human operator, and even if participants engaged in self-custody, we would still want to make sure various regulatory goals were achieved.

The extent of DeFi activity in the crypto world is still relatively small. (Although estimates and methods of calculation vary, Messari data finds that only 5% of crypto trading takes place on decentralized exchanges whereas 95% is on centralized exchanges.¹⁹) We need to develop more precise analysis of the various ways in which protocols might be decentralized and autonomous, as well as the control vectors that might still be present, and develop agreed-upon language for describing the extent or type of “decentralization”. The market structure legislation should call for appropriate studies and recommendations by regulators and Treasury; it should not be granting broad exemptions or exceptions at this time.

The President’s Crypto Business Ventures

As we consider legislation to regulate the crypto markets, we cannot ignore the actions by President Trump to personally profit from crypto. These actions deserve opprobrium in any context, but all the more so at a time when regulation of digital asset technology is such a prominent public issue.

The Trump meme coins were issued two days before inauguration and five days before the issuance of the Executive Order on Strengthening American Leadership in Digital Asset Technology.²⁰ It is hard to imagine an action that could have been more contrary to the spirit and opening words of that order, which is to “promote United States leadership in digital assets” and “responsible growth and use of digital assets.”²¹ The meme coins have been described as a “classic meme-coin pump and dump scheme.”²² They appear to serve no purpose other than the

¹⁹ Messari April 25, 2025, add cite. <https://messari.io/exchanges>

²⁰ 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”).

²¹ Executive Order 14178.

²² Khalili, Joel. “The Trump Memecoin’s ‘Money-Grab’ Economics.” *Wired*, 20 January 2025 (citing interview with Jacob Silverman).

personal enrichment of the president. In the words of Vitalik Buterin, they are vehicles for “unlimited political bribery,” because those seeking to curry favor with the Administration—whether they be individuals, companies or countries—may purchase the coins, knowing the President will profit from their actions, while they can still deny that seeking government favoritism was their purpose. Instead, they can claim they were merely speculating on a digital asset.²³ The reports concerning the dinner that the President held for the top 220 holders indicate he spent little time there and had little of substance to say. That seems to underscore that his crypto agenda is making a profit.

The Trump Organization’s acquisition of World Liberty Financial and its issuance of a stablecoin is equally inappropriate and shocking, particularly as Congress works to pass stablecoin legislation. The various other business ventures that have been discussed in the press—such as a transaction with Binance or the acquisition of bitcoin mining capacity—further suggest that the priority of the Administration is not promoting crypto innovation but promoting the President’s personal enrichment.

This activity creates a cloud over the crypto industry, and over the enterprise of developing market structure legislation. Only Congress can address this and I strongly encourage Congress to do so.

Conclusion

Thank you for the opportunity to testify. I would be happy to take your questions.

²³ Turner Wright, “Vitalik Buterin takes aim at “unlimited political bribery” using tokens,” Cointelegraph, January 23, 2025, at <https://cointelegraph.com/news/vitalik-buterin-unlimited-political-bribery-tokens>

Mr. STEIL. The gentleman yields back. We will turn to member questions. I will now recognize the gentleman from Ohio, Mr. Davidson, Chair of the Subcommittee of National Security, recognized for 5 minutes for questions.

Mr. DAVIDSON. Thank you, Chairman Steil. Look, thank you for responding to this opportunity to talk more about the CLARITY Act. I really think it was sort of unscheduled at the beginning of the week, but it is a great time to talk about a great bill. We have worked for years. I remember back in 2017 when the initial coin offering market was exploding and I was a new member of this Financial Services Committee, being alarmed, like, should we not be doing something about this, and we did not. Then 2018 was going by and we did not, and so I convened a hearing at the Library of Congress to talk about what needed to be done, and frankly, it still needs to be done. You need a bright-line test to define what is and what is not a security. People have tried to apply the Howey Test, but it is a court decision. It is not even in statute.

Then under the guise of much as Professor Massad just highlighted, of supporting the bill, people have spent essentially half a generation working to undermine the industry. Oh no, I support the industry. Gary Gensler was one of those guys. He taught at MIT, and then he became the Chairman of the SEC, and I was hopeful that finally we would have somebody that really understands the technology, who we could make progress on, but what he really did was serve the interests of Elizabeth Warren and become the leader, the face of the anti-crypto army.

While the industry broadly sees itself as left of center politically, politics, make no mistake, has stopped the legal clarity that this market needs. It is 100 percent Democrat opposition to progress in this bill, and that is continuing to this day, and I think that is disappointing. I think a lot of people in the industry would like to see us work together to get this done, and frankly, I kind of like the policy part of this and hate the politics part of it, but the politics part has been fine for Republicans, right? You have single-issue voters that have come over and said, let us be in support of the Trump Administration. They were a huge win for us flipping Silicon Valley. David Sachs being part of Treasury, all this kind of momentum is great for the GOP and our party, but the right policy eventually makes good politics, and I think that is the thing we need to focus on here. What is the policy?

This does provide the bright-line test. While people say, oh, well, I am just concerned about investor protection, let us be clear what kind of investor protection you have provided. You kept people from being able to put Bitcoin in their 401(k)'s for 10 years. In 2013, the first applications for Bitcoin Exchange-Traded Funds (ETFs) were made, and the market wanted to do this, the market was ready to do that, the demand was there for it, but the regulators would not provide the clarity that was there. As it turned out, the SEC seemed to have the authority to do it all along because they did. It was not because we took action and passed a law, so thankfully, the industry has not waited for us. In that time, Bitcoin appreciated from, well, in 2013, \$200 to now \$105,000, but I guess everybody is wrong, right? You have these people that are just convinced

that this is not really going to be a thing. What you have protected people from is making money.

The last thing, one of the best ways to protect people, we finally got in this bill in a very important way, which is self-custody. We like to trust our institutions. We have regulatory bodies that are supposed to make sure that the institution and, frankly, the industry is providing good consumer protections, and I think this bill does a pretty good job of doing that. I trust myself with my assets. It is personal property at the end of the day, and so the protection for self-custody is vital. I think in the future you are going to see things that take from where this bill leaves off where we create something called a digital commodity, so of course, there has to be a way to do capital formation for something that is not a security or is not a commodity. It is a digital commodity, so it has its own path for capital formation.

Securities are securities, but there are going to be people that want to tokenize them, and they are. There will be tokenized exchanges, and people will want the list on those, and this bill says to the SEC, do a study on that. I hope we follow up and provide legal clarity on exactly how to tokenize securities. The same is going to happen with tokenized commodities, and we are seeing a massive market for tokenized real-world assets, and so I think this is the start of progress, that we need to get through the finish line. We need to stop pretending that we are for an industry while working to undermine it by preventing legal clarity. We need to pass this bill. I yield back.

Mr. STEIL. The gentleman yields back. We will do one more member question prior to breaking for votes. I now recognize the ranking member of the full committee, Ms. Waters.

Mr. WATERS. Thank you very much. I do believe that our panelists here have identified the complexity and the problems with this bill. Market structure is a bad bill. It is a bad bill in every way that you can possibly describe what is wrong with this bill, and so some members have talked about amendments to the bill. Some members have talked about jurisdiction. You heard a little bit about, still, the confusion around whether or not it is a security or commodity, on and on and on.

Now, Mr. Taylor, you made a very, very strong, profound statement. You said that what this President is doing is more corrupt than what has been done by any President in the history of this country. So, those who are interested in trying to make it a better bill and coming up with all these amendments, the President of the United States is now in control of all our independent agencies. He said to the SEC, "You do not do anything before you bring it to me." I am in charge here. What good does it do to talk about amendments when you have a corrupt President who is enriching himself and his family, who is brazen in the way that he is doing it? Please comment for me.

Mr. NAYLOR. Yes. Ranking Member Waters, if you wrote this bill with the help of Elizabeth Waters and Brad Sherman and all the smart, progressive, consumer-minded people, but you did not have a ban that forced the sale of Trump's crypto, that would be inferior. Even your bill, we would oppose if you did not ban Trump's crypto grip.

Mr. WATERS. Well, and I feel strongly about that. The President has demonstrated that he has no concern or respect for the people of this country in the way that he has brazenly taken on enriching himself with the ownership of crypto. Mr. Davidson just said that what we are doing is stopping people from making money. No, I want to stop the President of the United States and his family, Melania and his sons, from all owning crypto, and the Members of Congress and the Cabinet. None of us should be in a position where we own crypto and enrich ourselves at the expense of the people.

My bill is all about stopping Trump in the Crypto Act. My bill is very clear, and I want to just say this, to mention that I am not adamantly, forever opposed to crypto. Perhaps we can work out some of the jurisdictional issues, et cetera, et cetera, sometime in the future. What I am opposed to is in this act, my bill that I have, again, and I will reiterate, the crooked President of the United States of America who has decided to use the Office of the Presidency to enhance his access to profits. I mean, that is what it is all about and so thank you.

If we do all these amendments that people are talking about—I am going to vote for crypto because we are going to amend it—it does no good. What you are doing is strengthening the President. Democrats cannot do this because we are trying very hard to change the direction of this country. We are trying to encourage voters that something is wrong with the direction and the President of the United States, but we empower him if, in fact, we leave him as being able to own and control crypto and enrich himself. I want to be very, very clear about that.

This bill, with all the amendments that can be made, if we allow the President, and the Cabinet, and the family, and the Members of Congress to own and control crypto, we have done nothing but enhance his ability to stay in office with additional money, more money coming to him from all over the world, as been done with Abu Dhabi. How much did Abu Dhabi put into this TRUMP?

Mr. NAYLOR. I am aware of \$2 billion.

Mr. WATERS. Two billion dollars through Bianca? That is where I think it went. Look, we are very clear about all of this, and we just want to make sure that the members have the correct information and all of the information by which to make a decision.

Mr. STEIL. The gentlewoman's time has expired.

Pursuant to the previous order, the chair declares the committee in recess, subject to the call of the chair. We will reconvene immediately following votes.

The committee stands in recess.

[Recess.]

Chairman HILL [presiding]. The committee will reconvene and come to order.

The gentleman from Wisconsin is recognized.

Mr. STEIL. Thank you very much, Mr. Chairman. Again, we are here having a conversation, hopefully about the bill. I got an opportunity to listen to the Democratic witnesses. There were a couple of comments on the bill, but a lot of comments on President Trump, which is a little bit of the continuation of Trump derangement syndrome that we sometimes see on this committee. I think it could

be a real opportunity to dive into the substance of the bill, which is, I remind everyone, a bipartisan piece of legislation.

It is not common that I would quote Minority Leader Jeffries, but it might be appropriate just to remind everyone what he said just as of Tuesday of this week at a hearing. When asked about crypto legislation, he said, "There are allies of the crypto industries on both sides of the aisle in the House." He then went on to say, "I think substantively, figuring out how we arrive at a bipartisan resolution of the crypto issues that are currently pending before Congress is what will best serve the American people, and also best in appropriately regulating the industry that allows for innovation, but also as guardrails to protect the American consumer."

You see Leader Jeffries, you see this piece of legislation actually calling for all of us to come together to recognize that the current state of affairs is incredibly unproductive and here is the fallacy that I often see of the argument of the left of some of those on this committee, not those that have engaged substantively. Again, I recognize this legislation has strong bipartisan support. The fallacy of the left of some of those who do not want to engage is what I call the nanny state fallacy, which is, if you have to go to the government to get permission to act, it is an idea that failure to get that permission will then end the behavior, and the fallacy there is that, really, that behavior just simply moves offshore outside the realm of regulation. That is exactly really what we saw during the Biden Administration with Gary Gensler in charge of the SEC. What we actually saw was a lot of the innovation and development occurring outside the United States, outside our norms and standards, without appropriate regulation. If you are concerned for consumer protection, as I am, and you do not want to see another FTX where individuals lost their money—

Mr. Chairman, the committee is not in order. I will continue.

Chairman HILL. The gentleman can proceed.

Mr. STEIL. What we really saw during the Biden Administration with Gary Gensler in charge was this innovation development occurring offshore, really to the detriment of many people who were putting investment, money, time, or effort into this space. If you look back at FTX, the lesson that I think in many ways that should be learned was instead of allowing that to occur offshore in an unregulated manner, in addition to having unethical individuals in charge, we should be working to bring this innovation development into the United States in a regulated space with clear rules of the road, which is exactly what your bill does, Mr. Chairman. It puts forth clear rules of the road so that individuals can invest, innovate, and develop in this space; so, I think this is a real opportunity to make sure that we are getting this right.

There are many Democrats who have come to the table in this regard, co-sponsored the legislation that you brought forward, put forward thoughtful ideas, suggestions, but instead, some of our colleagues—not all—some of our colleagues have taken an approach of putting their head in the sand. We saw earlier this year, we had a joint committee scheduled between the Financial Services Subcommittee that I chair along with the Digital Assets Subcommittee, the Agriculture Committee, chaired by my friend Dusty Johnson. At the beginning of that, the ranking member of the full com-

mittee, rather than engaging in thoughtful, productive conversations on the merit of the bill, made a decision to object. I thought that was disappointing. It is her right, but I found it disappointing because what we are trying to do is have this conversation and discussion to get this legislation correct and I think the introduction of the final text that you brought forward at the end of last week is a spectacular step forward to make sure that this innovation and development occurs here in the United States.

It is not often that I would align myself with Minority Leader Jeffries, but I think he was right in saying that we need to come together, as we have between committees, between parties, because this is not about Republicans or Democrats. This is about the United States of America leading in the Web3 space. This legislation dramatically moves us forward. It is disappointing that some of the comments are not focused on the substance of the bill or, rather, focused on extraneous topics, but, Mr. Chairman, I thank you for your leadership moving us forward in this nonpartisan manner that you have with the legislation. I yield back.

Chairman HILL. The gentleman yields back. The chair recognizes the gentleman from California, Mr. Sherman, who is the Ranking Member of our Capital Markets Subcommittee, for 5 minutes.

Mr. SHERMAN. Mr. Chairman, I do not oppose to crypto due to Trump derangement syndrome. I was against crypto before Trump came down the escalator, and Trump was against crypto for years and years until he discovered he could make money on it, and Mr. Flood accuses some of us of falsely pretending to be trying to help the crypto industry. No one should accuse me of that.

[Laughter.]

Mr. SHERMAN. I want to thank the chair for being here. It is true that crypto is innovative. A tremendous innovative process is being made in foreign countries on recreational drugs, on AI deepfakes. Not everything that is innovative is wonderful. I agree with the proponents of this bill and the crypto industry that says 55 percent of Americans want clear rules of the road, and divining the rules to regulate crypto by looking at a Supreme Court case involving *Orange Grove*'s applying a 1930s law to a 1940s. That is an absurd way to figure out what are the rules, but this industry does not want clarity. It wants a patina of regulation; so, what would be good, clear rules? Let me lay out what it would take for me to vote for this bill.

First, no bailouts. I am sure my Republican colleagues will agree that there should be no bailouts, but they will never agree to any text that prohibits bailouts because all the money and power on this issue is on the side of crypto, and they want to be able to tell people that bailouts are available. So many people will speak about bailouts, but there will always be a reason not to put it in the bill. Second, no purchases with U.S. taxpayer dollars. The goal of crypto is to become the reserve currency for the reserve currency. Obviously, Americans do not want us to use their dollars to buy Bitcoin, let alone Skibidi Toilet coin. He could be richer than Musk if the U.S. Government could buy Trumpcoin.

Fourth, no government corruption. We saw with Hunter Biden a situation where you create something at virtually no cost and effort and then allege it to have an enormous value and he made

\$100,000 here and there, but we have seen with Trumpcoin, you create something at virtually no cost, allege it to have an enormous value, and for \$300 million you sell it to the Chinese interests on TikTok, and then you wonder why the President refuses to enforce the law he has to enforce against TikTok because they will not sell to American interests. No insider trading. Musk says he did it all for three. Somebody made \$37 billion in 1 week because they knew that this new Agency would be called DOGE—what an absurd name—and a dog, \$37 billion to the people who knew in advance.

Fourth, no campaign contributions. Mr. Steil tells me that it would be bad for his political career if a \$1,000 contribution was made in his name to the Bernie Sanders campaign. Now, I cannot get a credit card in his name, I cannot get a checking account in his name, but I could go and use crypto to make a \$1,000 contribution to Bernie Sanders and just fill out this is Mr. Steil. Now, the reason I do not do that is not because I am too cheap, although I am. It is not because I am too honest. It is because Bernie's too honest to accept unhosted wallet anonymous crypto campaign contributions.

Mr. STEIL. Will the gentleman yield?

Mr. SHERMAN. No, because I have limited time, but I will have to find another way to cause the gentleman from Wisconsin a problem. Fourth, we need the Know Your Customer/Anti-Money Laundering throughout the system. The industry will never accept that. They named their product hidden money: "cryptocurrency." If you take the "hidden money" out of hidden money, it is like taking the "THC" out of weed, and nobody is going to buy it.

[Laughter.]

Mr. SHERMAN. Self-custody makes crypto the perfect device for drug dealers, for bankruptcy fraud, for human traffickers, but most importantly, for tax evaders. That is the big money.

We have great witnesses here, but one witness is missing: Donald Trump 1.0. Let me speak in his voice when he said in 2019, "I am not a fan of Bitcoin and other cryptocurrencies, which are not money and whose value is highly volatile and based on thin air. Unregulated crypto assets can facilitate unlawful behavior, including the drug trade."

Chairman HILL. The gentleman's time has expired.

Mr. SHERMAN. Mr. Trump, you are absolutely right. Thank you.

Chairman HILL. The gentleman's time has expired. The gentleman from Nebraska, the Chairman of our Housing and Insurance Committee, Mr. Flood, you are recognized for 5 minutes.

Mr. FLOOD. Thank you, Mr. Chairman. It is funny, I feel like I am having déjà vu. The arguments we are hearing today from my colleagues across the aisle sound exactly like the same ones they raised when we had the first portion of this hearing on Wednesday. It makes me wonder, is this really a substantive conversation about the legislation at hand, or has this just devolved into another partisan exercise? I mentioned this on Wednesday, but I think it bears repeating in this context. While I know that some of our friends on the other side of the aisle like to talk about President Trump, it is important to remember that any current activity in digital assets is taking place under the regime set forth by the previous administration and the previous SEC.

If you do not like what is happening with meme coins, you should probably agree that we need legislation. If you are concerned with what happened with the collapse of FTX in 2022, which I will add took place squarely during the time of the Biden Administration and Chairman Gensler, then you should probably agree that we need legislation. This committee is acting to fill a void that was left by the inaction and the foolishness of the previous administration, particularly the previous SEC. What we saw over the last 4 years was a series of repeated and embarrassing failures by the Commission. Rather than regulate, the SEC chose to litigate, and they kept losing over and over and over again.

I mentioned the DEBT Box case on Wednesday, a particularly embarrassing example where a judge actually said the SEC committed “gross abuse of power,” but that is not the only instance of the Commission failing on its face during Gensler’s time as chair. The D.C. Circuit unanimously ruled against the SEC in the Grayscale case, with the Court vacating the SEC’s denial of a Bitcoin ETF as capricious and unsupported by the facts. The judge in the Ripple case rejected the SEC’s sweeping attempt to label all secondary market token sales as security transactions, a ruling that gutted the Commission’s entire legal theory and enforcement approach. Repeatedly, over the last 4 years, it is clear that the SEC was not living in reality, that Chairman Gensler was steering us down on a path that would leave us to less investor protection, less clarity, and more embarrassing defeats for the SEC.

During that intervening time period, there was an opportunity for my Democratic friends across the aisle. In the absence of leadership from the SEC, they could have stepped up to the plate and offered their own solutions. They could have answered the call of some Biden-appointed officials, like CFTC Chair Benham, to provide greater authority to the CFTC to regulate this industry. They could have been part of the solution. They could have either done that in 2021 or 2022 when the Democrats controlled the House, the Senate, and the White House. They did nothing. Instead, we are here today listening to tired political rhetoric and not much substance.

I understand that some of my colleagues do not like elements of this bill. That is okay. We are here to work out differences and move forward. My fundamental question is this: what is your proposal? If not this, then what? If someone wants to put out a proposal that protects investors while making the serious attempt to meaningfully regulate the industry, I will take a look at it. I am sure I would not be the only one either, but if we have learned anything over the last 4 years, it is that the status quo is absolutely unacceptable. It does not work for investors. It does not work for the industry. No one is better off by keeping things as they are now.

The reality is there is only one bill out there that provides the CFTC with spot market authority over digital asset commodities. There is only one proposal out there that provides meaningful investor protections and works to apply the principles of security law to this novel asset class. There is only one bill that would provide regulatory stability needed to secure America’s place as a hub for blockchain innovation. Instead of politics, let us roll up our sleeves

and do the hard work of legislating. If you do not like the bill as it is now, engage with the chairman. Engage with the subcommittee Chairman Steil. Instead of a show hearing, let us engage in a dialog that can get us closer to regulatory clarity. Thank you.

Mr. STEIL. Will the gentleman yield? Will the gentleman yield?

Mr. FLOOD. Yes.

Mr. STEIL. I appreciate the time. I would note to my colleague, Mr. Sherman, on a sidebar here, the work we are doing in the investigation into ActBlue actually addresses the concern you raised that an individual—just for your awareness—an individual can make a donation in a credit card of someone else and load that information in, and there is no process that catches that. Maybe we have an opportunity to actually engage in some of the work we are doing on improving our campaign finance system. I would note that. I would also note to—

Mr. SHERMAN. Will the gentleman yield?

Mr. STEIL. We have 25 seconds, but I will have a sidebar with you later because I actually think we could do some really good work in this space. I would just build on a note that the ranking member said when she was speaking of her bill, she said, “My bill is all about stopping Trump.” I believe that speaks volumes about the other side’s work in this space. Mr. Flood, I yield back to you.

Mr. FLOOD. I yield back.

Ms. WATERS. That is what it is.

Chairman HILL. The gentleman yields back to Mr. Flood. Mr. Flood yields back. The gentleman from Connecticut, the Ranking Member of our Intelligence Committee, Mr. Himes, you are recognized for 5 minutes.

Mr. HIMES. Thank you, Mr. Chairman. Thank you to Ranking Member Waters for holding this. Mr. Steil, I am going to answer your prayers for a discussion on the substance of the bill. The context here, though, is, as I think you know, I have been a yes vote on both stablecoins bill and FIT21. I am struggling with this one for two big reasons. Number one, the innovation point, I have been a yes because of innovation, but 8 years ago, I was promised flying cars, and instead I got FTX, and time has passed, and I just do not see the applications out there compelling enough to take a big risk on what is untrod territory.

I do not agree with the witnesses in some cases, by the way. Decentralization is very vaguely defined, but decentralization is a new thing. We learned this in Bitcoin. It is a thing, and I think it is an innovative thing, and Mr. Massad has called repeatedly for more jurisdiction and scope of action for the regulators. Then I asked myself the question, which is will the regulators get decentralization and maturity and all these new novel concepts right? I look at those regulators and I say, do I trust these, and I look at my colleagues with whom I have worked with a long time. I am not going to get into the Trump thing, but has any single one of them condemned the corruption that we are seeing in the White House? The Senate bill on stablecoins apparently carves out activities by the President and Vice President.

I am struggling with this one, and I want to ask two questions. Number one, I keep focusing on Section 202 because it is a clear

exemption for the offering of what would otherwise be securities, including language, and let me read you the language. By the way, I know the majority understand that this is a sensitive issue because in a week, we went from \$150 million of offering to \$75 million in offering. Thank you, but this all seems to rely on the issuer intends for the blockchain system to which the digital commodity relates to be mature. I am thinking of those guys in tuxedos that went to the dinner. I am thinking about the legal difficulty of establishing intentions.

My question to the witnesses is—I asked this question in the larger hearing—is there any compelling reason for the existence of the 4A8 carveout, Section 202? I got cutoff by the chairman because my time was up in the last hearing. I asked the witnesses in the other hearing, is there a reason to have that, and nobody jumped to the mic. My question in my remaining 2-and-a-half minutes, and I am happy to enter into a colloquy with anybody on the majority side. What is the reason for the exemption, and what are the risks associated, beyond what I just asked outlined, of trying to determine the intention of my tuxedo crowd?

Ms. FISCHER. I will jump in, Congressman Himes. That is a great question. I would say that offering exemption is extremely permissive, and not just because of the vague intentionality requiring a psychiatrist to determine the intent of the issuer, but the offering limitations are way broader than anything that exists in Reg A, A+, D, crowdfunding; so, we are tipping the scales to push issues, yes.

Mr. HIMES. Let me interrupt you very quickly there because attorneys that have been supportive of the other side on this have said that it actually mimics the liability standards and other characteristics associated with Reg A and Reg D, which, of course, as you know, allows for retail solicitation; so, be specific with me on how this is different from traditional Reg A and Reg D.

Ms. FISCHER. You can offer larger offerings in terms of monetary value, no limits on accredited investor.

Mr. HIMES. No, this is capped at \$75 million in the draft, right?

Ms. FISCHER. Per year over 4 years—

Mr. HIMES. Okay.

Ms. FISCHER [continuing]. which can be waived by the SEC to go further, you can sell to non-accredited investors. There are no limits on general solicitation, and FiT21 had limits on per-person ownership that teed to income or wealth thresholds, and that gets rid of it, but I have an important point. I do not think any issuer will even use this new exemption because there are so many ways to issue tokens and claim that they are digital commodities at the outset, claim that they are collectibles, meme coins, whatever. I do not—

Mr. HIMES. How do you do that without violating or crossing the Howey Test?

Ms. FISCHER. Coinbase in court with the SEC said that all the tokens on their platform were collectibles akin to beanie babies. It is going to require robust enforcement by the SEC. Just as in the last administration how we went whack-a-mole to try to find the unregistered investment company contracts, they will go whack-a-mole to try to fund the unregistered investment contracts because

no one will avail themselves of the new exemption because it is so easy to raise capital outside of it, and it is going to require the Enforcement Division marauding around for people that violated the exemption.

Mr. MASSAD. If I can add a few things, Congressman. I think the argument as to why it is needed was not really answered. I have heard the following explanations. One is disclosure, and there are some thoughtful provisions in here as to what type of disclosure would be appropriate for this type of sale.

Chairman HILL. The gentleman's time has expired.

Mr. MASSAD. I will come back to you on it.

Chairman HILL. The gentleman yields back. I recognize myself for 5 minutes, and first, let me say to my friend from Connecticut, of course we are very happy to engage in a constructive dialog about the exemption and the structure of the exemption. I hope you will work with us on that as we not only prepare to mark the bill up, but carry on with the discussions, even post-markup, as we prepare for working with the Senate on a bicameral basis on this legislation.

A couple of comments. The gentleman from Connecticut talked about use cases, and I think that has been an interesting thing over the evolution of the digital asset space, something that the gentleman and I have certainly talked about before. Representative Torres has a study in the bill, I think, that talks about the value of what he has seen in our stablecoin bill for stablecoins outside the United States on financial access, financial security, financial availability, and the power that he has seen outside the United States in lowering the cost, and that is one of the key things, I think, about writing applications on a blockchain is lowering the cost. My colleagues on both sides of the aisle, I think, acknowledge that blockchain operating systems and distributed ledgers definitely have value, and I have heard them all at one time or another acknowledge that as they have seen both corporate America and entrepreneurial America begin to experiment and write applications in this space.

For example, you look at Filecoin, which is a distributed token on a decentralized ledger. It has been litigated in the past, that is true, but it is deemed decentralized, the benefits to public libraries and university libraries to be able to use their excess computing system and be paid for that excess computing system by the Filecoin system, for example. Consumers benefiting from one of the biggest companies in the world, Franklin Templeton, that has offered their money market fund on a blockchain that has resulted in lower expenses for consumers and their ability to offer a money market account down at a \$500 level, offering more financial access to that savings vehicle at low cost with better fraud protections, better accuracy, lower bookkeeping costs. Franklin Templeton has demonstrated in this one experiment of taking a money market fund and putting it on a blockchain of the benefits to consumers, and there are others. As we all know, the cross-border benefits of the dollar being used on a blockchain to lower Agency costs for remittances or for business transactions.

In preparing for the hearing today, I went back and pulled the FSOC—the Financial Stability Oversight Council—report on digital

assets that was produced quite ably and under Secretary Yellen's leadership in the Biden Administration. It says, "The FSOC recommends the passage of legislation for providing rulemaking authority for Federal financial regulators over the spot market for crypto assets that are not securities; steps to address the regulatory arbitrage, including coordination legislation related to regulators' authorities to have visibility into and otherwise supervise the activities of all affiliates and subsidiaries of crypto asset entities; and appropriate service provider regulation.

I would turn to Ms. House, distinguished service in the Biden Administration. Do you agree with that statement, and is it important to fill the regulatory gap over the spot market for digital assets?

Ms. HOUSE. Yes, I support the FSOC report as well as that statement that we—

Chairman HILL. Thank you, and former Chairman Massad, do you agree with the report's assertion and the spot market regulation?

Mr. MASSAD. Yes, I do.

Chairman HILL. Thank you very much. Ms. House, in your view, could the creation of new digital asset registrants at the CFTC to oversee the trading of digital commodities also help fill this market gap?

Ms. HOUSE. I think it can as long as it is matched with enforcement—

Chairman HILL. Right.

Ms. HOUSE [continuing]. which is the concern I have.

Chairman HILL. Yes, I could not agree more, and I do not know that there is any disagreement that we have strict enforcement, and that we also remind everyone that the base law in securities and commodities exists in addition to what we are adding through clarity, meaning all the anti-manipulation, anti-fraud provisions in both markets are Federal law. They stand because I think that is good news in her point because the CLARITY Act addresses exactly those entities in the comments that were made in the FSOC report.

Related, stepping down a little further, Ms. House, do you agree that the joint rulemakings that require the CFTC and the SEC to coordinate the oversight supervision, and I will add enforcement, in the digital commodity marketplace is a step in the right direction?

Ms. HOUSE. A step in the right direction, excepting my concerns about a lot of gaps, but on the need for it to be joint, I think, is exactly where we need to go.

Chairman HILL. Good, and we welcome comments, if you have, on enforcement, and I yield back the balance of my time, and I thank the panel for being with us today. I turn to the gentleman from Illinois, Mr. Casten, for 5 minutes.

Mr. CASTEN. Thank you. I am going to either embarrass myself or my family by telling you about what a dork I was in August 1986. There was a comic bookstore down the road from my house called Fantasia. There was this guy, Danny. Picture the comic book guy from "The Simpsons." He was kind of that guy, and he convinced me that Spider-Man Issue 252—Google it—was going to be a collectible because Spider-Man, for the first time, was in a black costume, and that was going to be worth a lot of money, and he

convinced me to give him \$10 for a comic book that on the shelf was 60 cents. I do not know what it would be worth today, but I bought it, and I remember my mom screaming at me, going down and yelling at Danny, “How dare you take advantage of a 14-year-old kid convincing him to spend a couple weeks’ worth of allowance on this Spider-Man issue.”

The CLARITY Act says that meme coins are collectibles. I do not know what that is. The SEC has taken the position that meme coins are collectibles and not considered securities. Ms. Fischer, is that different from the Spider-Man comic that I have somewhere in my house? Like, if it is a collectible, I know what the Howey Test is for securities. I know what a commodity is. What is a collectible, and where does that live jurisdictionally?

Ms. FISCHER. I actually think it is easy, and I think you look at facts-and-circumstances determination based on the offering. If you look under Howey, it comes down to investment of money—yes, you are given money for the comic book or the meme coin—with the expectation of profit. Yes, the guy told you the value of the comic book would go up based on the managerial efforts of others. There is where it comes in.

Mr. CASTEN. I guess, like, I am not arguing that Danny should be subject to an SEC. I do not even know if he is still with us.

Ms. FISCHER. I do not think he should.

[Laughter.]

Mr. CASTEN. What I am asking is if we have agreed that this is a collectible——

Ms. FISCHER. Mm-hmm.

Mr. CASTEN [continuing]. by definition, it is now not a security. It is not a commodity. Does anybody have jurisdiction other than my mom?

Ms. FISCHER. I think that there is probably FTC jurisdiction over marketing and sales of collectibles, but when the proprietor of that collectible represents to you that they are going to create an ecosystem to make that collectible go up in worth and that this can be a lucrative investment to you, and there is testimonials and LinkedIn profiles, then we start looking like a security.

Mr. CASTEN. Okay. Mr. Massad——

Mr. MASSAD. Yes.

Mr. CASTEN [continuing]. if meme coins are carved out of the definition of digital commodities, does that not mean that Trump would not have to disclose any information about his meme coins that he is issuing? Trump derangement syndrome——

Mr. MASSAD. Yes.

Mr. CASTEN [continuing]. this is because I give a rat’s ass about the emoluments clause of the Constitution.

Mr. MASSAD. I think that is right. If the SEC is saying they are not securities and they are carved out of digital commodities, then there is still no regulation of them. Now, you could say these really should not be treated like a commodity product that the CFTC regulates, but the fact is what has happened in this industry is, because there has been no regulation, we have had so many things like meme coins where people are just pushing up the price and people are getting defrauded, and so we need to create a regulatory framework around that even if you then say, okay, maybe we are

going to treat these as gambling and we are going to have gambling regulation.

Mr. CASTEN. Let me just pick at this a little bit more. This dinner that Trump had at the White House—Lincoln Bedroom on steroids—there were people there from Magic Eden who trade digital trading cards, which sounds like something I could have bought at Fantasia. Earlier this week, it was reported that Trump has partnered with Magic Eden to issue a digital wallet. Section 105 of the CLARITY Act says that users' rights to self-custody and engage in peer-to-peer transactions do not have to comply with any anti-money laundering rules, which I think the issuance of this digital wallet would qualify. Ms. House, under this bill, would Trump's meme coin digital wallet be required to monitor or pay any attention to who its customers are? Just yes or no.

Ms. HOUSE. By my reading, no.

Mr. CASTEN. Would they be required to keep any records of transactions?

Ms. HOUSE. By my reading, no.

Mr. CASTEN. Would they be required to report illicit activity to FinCEN?

Ms. HOUSE. By my reading, no.

Mr. CASTEN. Okay. A question for all of you in the time we have left, is there a better way for bad actors to launder money to the President of the United States—

[Laughter.]

Mr. CASTEN [continuing]. than with the Trump meme coin stapled to the CLARITY Act?

Mr. MASSAD. No, and can I just go to this bit about self-custody? It is very simple. If I put my money in a Swiss bank account, I am entitled to do that, but I am not entitled to not report the interest on it under our tax laws. If I put the money under my mattress, I am entitled to do that, but that does not mean I can then take the money and do something illegal. It is fine to say people should be entitled to self-custody, but that does not mean that their transactions are then exempt from the laws.

Mr. CASTEN. Okay. I am out of time, but if any Chinese foreign nationals want to buy Spider-Man 252—it is \$300 million—give me a call.

[Laughter.]

Mr. HIMES. Mr. Chairman?

Chairman HILL. The—

Mr. HIMES. Mr. Chairman, point of information. Mr. Chairman, if the chairman knew that according to Go Collect, Issue Number 25 in 1961 is now worth \$3,600—

[Laughter.]

Mr. HIMES [continuing]. would he permit a second round of questioning?

[Laughter.]

Chairman HILL. While the chair would not present a second round of questions, I would say that I have gone long Casten on this, and I wish him well in collecting that.

[Laughter.]

Chairman HILL. I have already texted his mother, and we are in partnership to do that, so I want to thank the gentleman for yield-

ing back. We will now turn to the gentlewoman from Massachusetts, Ms. Pressley, for 5 minutes.

Ms. PRESSLEY. Thank you to Ranking Member Waters for convening this Minority Day hearing. Thank you to our witnesses for joining us.

Today, I would like to speak not about market structure, but actually about people, specifically women and survivors of intimate partner violence. Now, we already know financial abuse is a core component of intimate partner violence. Abusers frequently control bank accounts, restrict access to money, stalk survivors through financial transactions, or drain shared assets to leave their partner economically trapped. With traditional financial systems, there are red flags and mechanisms to detect this, such as bank alerts and flag withdrawals, but in the crypto world, these protections vanish. Abusers can stash funds in anonymous wallets, bypass court-ordered freezes, or empty crypto accounts without a trace. We have seen reports where a husband hid \$500,000 in Bitcoin during divorce proceedings, and abusers used blockchain tools to exert coercive control. Professor Allen, you have researched this issue. In your view, how does the decentralization of financial services, such as in blockchain-based wallets, make it harder to protect survivors of intimate partner violence from economic abuse, such as stalking?

Ms. ALLEN. Thank you very much for this important question. I think it helps us to talk about the things that are not in the bill that should be, right, and there are lots of them. This bill does not address conflicts of interest within exchanges, it does not address the operational risks associated with blockchain, and it does not address the privacy risks associated with using the blockchain. Public blockchains are public. Anyone can see them, so if someone knows your public identifier, they can see every transaction that you do, and that can give away information about your location. It can give away information about if you are trying to put away funds in order to leave an abusive partner. All of that is going to be visible for all the world to see, so that is before we even get to the issue of the abusers themselves using crypto for criminal purposes or abusive purposes. This publicity of the blockchain is something that this law does not grapple with at all.

Ms. PRESSLEY. You know, and certainly intimate partner violence is one of the most underreported crimes, making it challenging to quantify how many specifically have been victims of economic abuse, but it is safe to say that without those elements being added, that many could be vulnerable.

Ms. ALLEN. Of course, yes, I mean, without addressing the privacy issue. It is not just an issue for, for women, it is also an issue for immigrants who do not want their locations necessarily revealed. It is an issue for people being profiled by law enforcement officers. This kind of publicity about literally every transaction you do, being visible to the whole world, is something that just has not even scratched the surface.

Ms. PRESSLEY. Thank you, Professor. Traditional banks are subject to Know Your Customer rules and fraud monitoring, but crypto platforms, especially decentralized ones, currently operate outside that framework. Professor Allen, can you expand on this regulatory

gap and how it allows abusers to hide and move money in ways that would be impossible in the traditional banking system?

Ms. ALLEN. Yes. The thing about crypto and the blockchain is that the technology is actually very inefficient. It is slower and clunkier than your average database. Where it gets its efficiencies from is skipping regulatory requirements that apply to others, including AML and KYC checks. So, using this technology, sort of the end goal is skipping that process, and so when you have fewer barriers along the way, then there are fewer intervention points where law enforcement officers and others can crack down on illicit activity, including using funds in ways that could be used to harm women.

Ms. PRESSLEY. Right, fewer barriers, fewer intervention points. I am particularly concerned by reports where abusers access their partners' crypto wallet if they know the password and raid the account, preventing their partners from recovering lost funds since crypto transactions are irreversible.

Let me just close here and say that the promise of decentralization may be empowering for some, but for survivors of intimate partner violence, there is often no recourse due to the regulatory gaps in our system. We cannot allow blockchain tools to become safe havens for abusers and predators. Congress—Congress—in the whole, needs to close these gaps. Protecting survivors of abuse should not be a partisan issue, and it certainly should not be an afterthought in our digital financial future.

Mr. STEIL [presiding]. The gentlewoman's time has expired. The gentleman from Illinois, Mr. Foster, the Ranking Member on the Subcommittee on Financial Institutions, is now recognized for 5 minutes.

Mr. FOSTER. Thank you. It has frequently struck me in these conversations that there is a relatively straightforward way of dealing with all the abusive things we have been talking about, which is simply to have mandatory KYC on wallets. This is not a big burden on someone using crypto assets. Whether you spin it up on your hardware wallet or you go to some platform and get a new wallet, you just register it with FinCEN. This thing can take half a second to say, okay, you present a secure digital ID that proves you are who you say you are, and this is your wallet. At that point, anyone who deals with you in the future can have an assurance that the person on the other side of that transaction is, if necessary, if you prove a crime has been committed, that there is a legally traceable person at the other end of that. Ms. Fischer, you mentioned that there actually have been Republican proposals for mandatory KYC on wallets. Could you go through that for a moment?

Ms. FISCHER. That is true. When Secretary Mnuchin was at the Treasury Department, the Department did, during a different political environment that—

Mr. FOSTER. This was back when President Trump thought crypto was a scam?

Ms. FISCHER. I believe that is true, and there was significant pushback from the industry, and that proposal was never finalized, but to give them credit, I thought it was a really robust, good effort, and I would have liked to have seen it continued.

Mr. FOSTER. Yes. It seems like that would solve a bunch of problems. For example, if you could just have your software look on the blockchain, make sure that there was a continuous chain of transactions among KYC wallets, then you would know, in some sense, that this was clean money, that it had not just been used for drug smuggling or human trafficking, or all the other abuses you worry about.

Ms. FISCHER. I think that is correct, but I want to have two provisos. One is, we still have mixers that operate, and the government under the Biden Administration tried to track down on these services. They are open source code that literally lets people scramble wallet addresses so they cannot be tracked, and it is how North Korea launders a lot of money, and two is—

Mr. FOSTER. Still, if there were mixers if you had a requirement that all legitimate transactions had to have 100-percent KYC upstream of those after some date of enactment of some legislation, then anything that went into a mixer that was un-KYC'd would just pollute the entire output of that mixer as a matter of law and would seem to solve that problem.

Ms. FISCHER. I think we need to think through the consequences of that, but I was going to mention one other point, which is rules are only as good as enforcement of those rules. The Justice Department put out a memo in April saying that they were effectively ceasing enforcing the Bank Secrecy Act against a host of different crypto companies, including virtual currency exchanges. When there is an explicit policy of non-enforcement articulated by the Department of Justice, it makes me a little bit nervous about the efficacy of the rules.

Mr. FOSTER. Yes, so the idea of KYC'ing wallets solves a lot of the illicit finance problems. It does not necessarily solve market manipulation. If you are talking about an asset which has a fixed value—stablecoins, for example—the main worries are whether the backing assets are safe and sound, and you do not worry about market manipulation. If you are talking about the NFT market that collapsed, just a shower of frontrunning and wash trading and everything else, it seems like if you ever want a healthy market in that kind of asset, you need to have some regulator that sees the true identity behind people on both sides of every trade.

Ms. FISCHER. I think that is extremely true. I would add that the SEC endeavored to do this with the consolidated audit trail in the equity space and made a bunch of progress, and now there is progress rolling back on that. Again, getting the rules in place is incredibly important and then having the fortitude to enforce those rules and see them through is also important.

Mr. FOSTER. Yes. Mr. Massad?

Mr. MASSAD. Yes, I would agree with your comment, Congressman, and obviously one of the problems on the digital trading platforms has been things like wash trading that have been such a high amount of the total volume because that is a way for people to push up the price; so, the idea of regulating those platforms is good. The problem with the CLARITY Act is it does not cover all of those tokens. Again, maybe some of them ultimately should not be regulated as commodity products, but I think to start, you have to impose a regulatory framework around them to prevent the

kinds of market manipulation things you are talking about, and then decide, oh, maybe we can regulate them in a different way as gambling or something like that.

Mr. FOSTER. Yes, and so would the United States equities and commodities markets have their dominant position if we allowed anonymous trading?

Mr. MASSAD. No.

Mr. STEIL. The gentleman's time has expired. You can provide additional comments for the record.

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

Mr. STEIL. The gentleman from California, Mr. Liccardo, is now recognized for 5 minutes.

Mr. LICCARDI. Thank you, Mr. Chair. Ms. House, I am very interested in what you said in your written testimony on page 7 about DeFi and the importance of taking steps to address this regulatory perimeter. It seems as though where we are seeing the industry going, maybe a couple years ago perhaps 5 percent of transactions were DeFi. It is increasing rapidly, and I am guessing it is going to be a majority of transactions very soon. I am concerned about this bill and, essentially, launching a global naval strategy and putting all your ships on Lake Superior when you know there is an ocean out there that you are not covering.

With regard to DeFi, I understand we may not get to the place, as Mr. Foster suggested, where we have KYC for all users, but at the very least, we should probably want to create some kind of safe harbor or sandbox, as it is often called, for users. I imagine some users may want that because they do not want to be defrauded, and they want to know that if they are defrauded, they can litigate and get a subpoena and find out who just defrauded them so there could be some action. How would you address, in the DeFi context, the need to create some sandbox?

Ms. HOUSE. Thank you so much for the question, and I appreciate the point since sandboxes, of course, have boundaries and guardrails, right? When you think about most of them, like, there are the little wood pillars and then the area where kids are playing in sight, so I think that it is thinking about what those guardrails and protections should be. When I think about FinCEN, the anti-money laundering regulator, our sandbox authority was called exemptive relief. Generally that could work in a timed delimited basis where we said, great, you can operate. Tell me what obligation you want relief from and let us talk about how we can monitor whether or not this new approach, this innovative technology is mitigating that risk. Those kinds of sandboxes, I think, are the right ways to think about this, to put in place those guardrails.

I appreciate Congressman Foster's point on digital identity and his great work. I do not know that KYC for every unhosted wallet and the essential equivalent of having, like, an identity tied to your peer-to-peer transfer everywhere but also appreciate Congressman Himes' point that decentralization is unique and special. I think the work that the CFTC Technology Advisory Committee (TAC) did to outline that we need to assess the regulatory perimeter. I know we talk about that crypto is intermediary-less. That is not entirely true. It is not regulated intermediaries, but I would say that I view

that entities at the network layer. Validators and miners are intermediaries. The transactions cannot occur without their intervention.

That does not mean that I think that they are Money Service Businesses (MSBs) or regulated in another way, but that kind of consideration of other areas in the tech stack and the ecosystem and moving the regulatory perimeter is what the CFTC Tech Advisory Committee suggested really deserves a strong assessment and evaluation of the ecosystem, where the points of visibility and control are, where burden would be highest or lowest. That kind of really concerted effort has not happened. It is absent from this legislation. I feel that kind of effort jointly between the CFTC and SEC and with the other regulators as well would be beneficial to mitigate the major risks that have been highlighted on the DeFi side.

Mr. LICCARDO. I recognize there is a difference of view on the committee about the extent of regulation. This is, I know ideological and historic, and goes back many, many decades. Is there room for there to be a mandate for an Self-Regulatory Organization (SRO) here to accomplish some of these tasks, that is, industry-run mechanisms? I know that there are those who believe that National Futures Association (NFA) and Financial Industry Regulatory Authority (FINRA) are not adequate for crypto. Should there be a separate crypto SRO?

Ms. HOUSE. My general position is that I do not think that we need another one. I think that empowering the existing ones is best, but either way I will take it if the industry would start regulating itself. That was something that we, certainly when we were at FinCEN, encouraged them to do in order to drive better implementations of standards, development of reg tech solutions, cybersecurity standards and capabilities. There has been some evolution in that space, but not enough, not nearly quickly enough to deal with the risk, so I think that there is room for it.

Mr. LICCARDO. Finally, just on this question of collectibles, if we assume for a moment collectibles are not securities and they are not even commodities, how exactly do we regulate them? How should we? At this point, we think Federal Trade Commission (FTC) may have some regulatory authority. What is the right approach?

Ms. HOUSE. This is tough. I think an economic-function-based approach is the right one. Something could be called a collectible by label but may not function that way, and especially since a token can represent anything, whether a deed to a house or a piece of information, and blockchain is function neutral as a technology. We need to think about it based on that economic function, and that is the principle to use.

Mr. STEIL. The gentleman's time has expired.

Mr. LICCARDO. I yield.

Mr. STEIL. The gentlewoman from Texas, Ms. Garcia, is now recognized for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman, and thank you to all our witnesses today, and, Mr. Massad, I wanted to start with you. Does this act in any way, as currently drafted, support or hinder the goal of building a faster, cheaper, and more transparent remittance

ecosystem, especially for immigrant families that are underserved? That is something that has been a selling point from day one that, frankly, I do not buy, but now that we have this Calamity Act, do you think that it gets us there?

Mr. MASSAD. Congresswoman, I do not think the CLARITY Act goes to that. I do think stablecoin legislation can potentially help. Remittances are one of the potentially use cases of stablecoins. Of course, we have to make sure we have a proper regulatory framework, and there are a lot of issues about whether they would be as efficient if they complied with regulation, but I think more in terms of stablecoins dealing with the remittance case than this legislation.

Ms. GARCIA. Right. Professor, tell me what the profile is of the average investor.

Ms. ALLEN. Sure. I am glad you asked that question as a follow up to your previous question because what we are actually seeing is pretty low use of crypto for remittances. Right now, stablecoins make up less than—sort of less than 1 percent of people according to the Federal Reserve—

Ms. GARCIA. That does not surprise me.

Ms. ALLEN. Yes.

Ms. GARCIA. Who is using it? Is it just the people who do want to cash in, perpetuate fraud, money laundering—

Ms. ALLEN. No, there is a lot of—

Ms. GARCIA [continuing]. because I keep hearing we really need this. We need—

Ms. ALLEN. So—

Ms. GARCIA. We are not protecting the average American in this bill, are we?

Ms. ALLEN. the average American does not use crypto, so let us be clear, but this—

Ms. GARCIA. Correct. That is why it does not.

Ms. ALLEN. Yes, but the small group of Americans that use it for legal purposes are primarily using it for speculation and gambling. The question you have to ask is: as we are going into a place of increasing economic precarity, do you want to make people essentially do Hail Mary bets to try and keep their head above water, or do you want to actually take steps to make the financial system fairer for everyone, because what I see here is not investor protection. It is encouraging people to gamble, and I do not think that is a viable way of dealing with financial and economic precarity.

Ms. GARCIA. This is sort of like, let us build a bill that can make Trump richer again.

Ms. ALLEN. The crypto industry, too.

Ms. GARCIA. The crypto industry, too, but again, what is the profile of the average investor?

Ms. ALLEN. The average investor is, I think, typically a young man. You do see, according to some surveys, disproportionate use by black and Hispanic Americans, which, to me, I find concerning because I think that is predatory inclusion, much like subprime mortgages were. I think the most vulnerable people are being targeted, but also, there are young men who are less vulnerable who enjoy the gambling aspect.

Ms. GARCIA. What is the average investment that they make?

Ms. ALLEN. That I do not know. I would have to get back to on that.

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

Ms. GARCIA. Any members of the panel, can they help me here? The other side seems to be ramming this bill to protect Donald Trump's investments——

Ms. ALLEN. I can——

Ms. GARCIA [continuing]. so he could just get richer. I mean, is there anything in here for poor people, for people who——

Ms. ALLEN. No, I mean——

Ms. GARCIA. Is there anything here in this bill that is going to protect them if they do decide to gamble and take a risk?

Ms. ALLEN. No, and further, to a point that I made earlier, the thing with this technology is you cannot reverse transactions. This is a place where fraudsters have really sort of congregated because if they can induce you to send the crypto, it is gone forever. We are seeing stories of these Bitcoin ATM kiosks cropping up in places where you have check cashing and payday lending services, and they are not really ATMs because you can use cash to buy crypto, but you cannot get cash back out again. What we are seeing is stories of people walking into bodegas on a phone with a scammer, being told to put their money into the Bitcoin ATM, and then that is the end of the money. They never see it again.

Ms. GARCIA. No protection, nothing. Really, this should be called the Protect Corruption Act.

Ms. WATERS. Will the gentlelady yield?

Ms. GARCIA. Yes, ma'am.

Ms. WATERS. Thank you very much. Mr. Naylor, once more, can you describe quickly how many ways that Trump is stealing and promoting his crypto?

Mr. NAYLOR. Well, I cannot count that high——

[Laughter.]

Mr. NAYLOR [continuing]. but the Trump meme is, by his own account, worthless, and yet he has made hundreds of millions of dollars simply in trading fees. Now, it is difficult to believe, but he has something that is even worth less, and that is the World Liberty Coin, where, if you buy it, that is it. You cannot sell it. There is nothing.

Ms. WATERS. Thank you very much. Thank you.

Mr. STEIL. The gentlelady's time has expired. I would like to thank our witnesses for their testimony today.

Without objection, all members will have 5 legislative days to submit additional written questions for the witnesses to the chair. The questions will be forwarded to the witnesses for their response. The witnesses will please respond no later than July 11.

[The information referred to can be found in the appendix:]

Mr. STEIL. This hearing is adjourned.

Ms. WATERS. Thank you.

[Whereupon, at 11:10 a.m., the committee was adjourned.]

APPENDIX

MATERIALS SUBMITTED FOR THE RECORD

FRENCH HILL, AR
CHAIR

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

MAXINE WATERS, CA
RANKING MEMBER

June 4, 2025

The Honorable French Hill
Chairman
Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

*All Dems signed
- 24 signed
collection*

Dear Chairman Hill:

In accordance with Clause 2(j)(1) of Rule XI of the Rules of the House, and Clause (d)5 of Rule 3 of the Rules of the Committee on Financial Services, we, the undersigned majority of the Minority members of the Committee, write to notify you of our intent to call additional witnesses selected by Committee Democrats to testify in continuation of the Full Committee hearing entitled, "American Innovation and the Future of Digital Assets: From Blueprint to a Functional Framework." Continuing this hearing with a second panel, also known as a "Minority Day Hearing," in addition to the Wednesday, June 4, 2025, hearing panel, will provide Members of the Committee and the American public the opportunity to consider and discuss additional perspectives on President Trump's crypto conflicts of interest and corruption, including measures like H.R. 3573, the Stop TRUMP in Crypto Act to address such conflicts and corruption; the effects of H.R. 3633, the Digital Asset Market Clarity (CLARITY) Act of 2025, on consumer and investor protection, national security, and existing securities and commodity futures regulation; and the potential effects of the proposed legislation on the digital asset industry and broader financial system.

Given that the Committee may consider the CLARITY Act of 2025 as soon as next week as part of the Full Committee's Tuesday, June 10, 2025, markup, we request that this hearing be scheduled this week.

Sincerely,

Maxine Waters

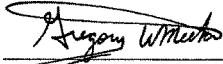
Maxine Waters
Ranking Member
Committee on Financial Services

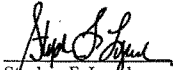
Nydia M. Velázquez

Nydia M. Velázquez
Member of Congress

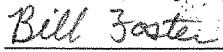
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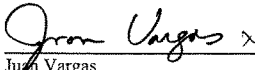
Brad Sherman
Member of Congress
Ranking Member, Subcommittee
on Capital Markets

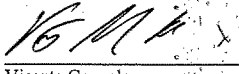

 Gregory W. Meeks
 Member of Congress

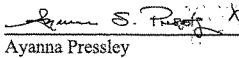

 Stephen F. Lynch
 Member of Congress

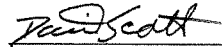

 Emanuel Cleaver, II
 Member of Congress

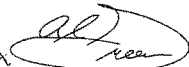

 Bill Foster
 Member of Congress

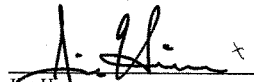

 Juan Vargas
 Member of Congress


 Vicente Gonzalez
 Member of Congress


 Ayanna Pressley
 Member of Congress

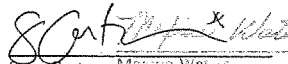

 David Scott
 Member of Congress

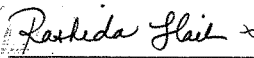

 Al Green
 Member of Congress
 Ranking Member, Subcommittee
 on Oversight and Investigations


 Jim Himes
 Member of Congress


 Joyce Beatty
 Member of Congress

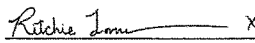

 Josh Gottheimer
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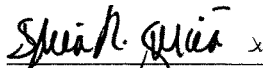

 Sean Casten
 Member of Congress

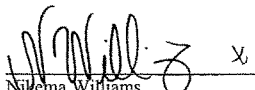

 Rashida Tlaib
 Member of Congress

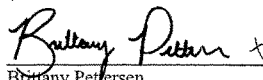
testify in continuation of the hearing entitled, "Assets: From Blueprint to a Financial Framework." Continues as a "Munro Day Hearing" in addition to the Wednesday, 11/11/2020 hearing.

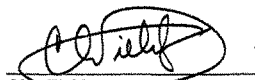
Sincerely,

 x
Ritchie Torres
Member of Congress

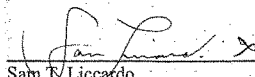
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Sylvia R. Garcia
Member of Congress

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Nikema Williams
Member of Congress

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Brittany Petersen
Member of Congress

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Cleo Fields
Member of Congress

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Janelle S. Bynum
Member of Congress

 x
Sam T. Liccardo
Member of Congress

Member of Congress


Vicente Gonzalez
Member of Congress



STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL

LETITIA JAMES
ATTORNEY GENERAL

Statement for the Record of the New York State Office of the Attorney General

**Before the
United States House Financial Services Committee
Public Hearing - American Innovation and the Future of Digital Assets: From Blueprint to
a Functional Framework**

June 6, 2025

Thank you for the opportunity to present this statement for the record to the United States House Financial Services Committee on behalf of the People of the State of New York regarding the Digital Asset Market Clarity Act ("CLARITY"). We would like to thank the Chair, the Honorable French Hill, for convening this hearing, the Ranking Member, the Honorable Maxine Waters, for inviting our office to make this submission, and all the members of the committee for holding this very important hearing.

The Office of the Attorney General is the statutory regulator for both securities and commodities in the State of New York. Among other things, it is my Office's job to protect nearly 20 million people from all manner of investment fraud. While my Office remains agnostic in the debate regarding the uses and benefits of digital assets, the last decade has made clear that this asset class subjects the public to a number of serious risks. If digital assets are to flourish and reach their potential, it is critical that they be safe and trustworthy.

All who care about this industry, including the many good actors in the industry, should share in my office's desire to protect the public and thwart bad actors. In April of this year, my Office [wrote to Congress](#) identifying certain risks to America's national interests posed by digital assets and suggested tenets of responsible regulation to guard against them.¹ We now make this submission to raise concerns that CLARITY, as currently drafted, does not do enough to protect America's interests, investors, and national security.

¹ Letitia James, *Letter to Congress on Digital Asset Regulation*, Att'y Gen. N.Y., [letter-to-congress-on-digital-asset-regulation-letter-2025.pdf](#).

United States House Financial Services Committee
 June 6, 2025
 Page 2

A. CLARITY Does Not Contain the Regulatory Guardrails Necessary to Protect America’s Investors from Bad Actors Seeking to Exploit and Defraud Them

The public is best served when Congress takes a technology-neutral approach — as my office has — and requires similar investment products which carry similar risks to follow the same laws. When an entrepreneur seeks to raise capital from the public, they are subject to the securities laws. To the extent that same entrepreneur chooses to issue cryptocurrency as a mechanism to fund their innovation, that is their choice, but that choice should be accompanied by regulations that ensure investors understand the unique risks and are protected from fraud and manipulation,² as would be the case in the traditional securities markets.

Rather than taking a technology-neutral approach, the proposed legislation creates a technology-specific loophole that upends almost one hundred years of securities laws meant to protect America and its investors. We are concerned that under the proposed law, promoters could raise money from mom-and-pop investors, senior citizens, and inexperienced investors without transparency, disclosure, or protection simply by shrouding their call for public funding in a digital asset. By contrast, our current securities laws provide numerous protections for investors in connection with capital being raised by known companies backed by major banks and other financial institutions. Such protections are all the more necessary in the digital assets space, where many of the players are anonymous, unregistered, and located overseas.

In today’s environment, cryptocurrency has become the primary tool used by scammers to defraud their victims. In some cases, such as those involving scam tokens that have no value, for example, the digital asset itself is the crux of the fraud. Other crypto frauds can involve billion-dollar pyramid schemes. And in some cases, criminals use digital assets to anonymously launder the proceeds of their schemes and hide them in locations that are outside any American law enforcement jurisdiction.² Any legislation addressing digital assets must include regulations to protect against crypto’s inherent features (such as their anonymity and purported decentralization) from being exploited by fraudsters, organized crime, and terrorists.

B. CLARITY Allows Bad Actors to Hide Behind the Façade of Decentralization

Under the proposed legislation, the distinguishing line between a commodity and a security is determined by the “maturity” or “decentralization” of a digital network. The concept of decentralization is rooted in the crypto industry’s claim that no one controls these complex financial products worth billions. And, therefore, no one can be called to account in the event of fraud, manipulation, bribery, and outright theft.

² Tonantzin Carmona, the Brookings Institute, *Protecting the American Public from Crypto Risks and Harms*, (June 2, 2025) <https://www.brookings.edu/articles/protecting-the-american-public-from-crypto-risks-and-harms/#:~:text=Principle%20%232%3A%20Protect%20retail%20investors%20from%20market%20manipulation%2C%20fraud%2C%20and%20scams%2C%20A0>

United States House Financial Services Committee
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Page 3

The concept of decentralization, however, is simply another way for bad actors to avoid accountability. The proposed law would subject American investors to more risky and complex products with little or no recourse in the event of a bug, theft, fraud, hack, or other attack. Promoters would be permitted to — and in fact encouraged — to disavow all responsibility for products and platforms that hold billions of dollars of investor funds. Should there be a malfunction in the code or a hack by criminals, implementing a fix would effectively require control over the code, which would be an admission that the digital network is not “decentralized.”³ Criminals already take advantage of decentralization because they know that stolen funds can almost never be clawed back and returned.⁴ Decentralization must not become a loophole that can be used to foster fraud.⁵

At the same time, many in the industry hold themselves out as being decentralized when in reality they are engaged in mere decentralization theater. While some may claim their applications are decentralized because they do not take custody of investor funds, these applications necessarily take control of customer funds to execute transactions. Creators of these products and platforms include a way to profit from them, which inherently signals a level of control. Nonetheless, the proposed bill carves out these applications from regulation, creating enormous risks for investors and our markets.

C. Digital Identity Must be Required to Ensure America’s National Security

Any legislation that is serious about the enforcement of our anti-money laundering laws and the Bank Secrecy Act must include a mandate for digital identity and a framework for associating real-world identities with online anonymous transactions. In today’s world, the anonymity provided by cryptocurrency has made it the medium of choice for illicit finance, bribery, sanctions evasion, and terrorism funding. North Korea has stolen more than \$6 billion in cryptocurrency to fund its

³ *When Smart Contracts are Outsmarted: The Parity Wallet “Freeze” and Software Liability in the Internet of Value*, Proskauer (December 22, 2017) [https://corpgov.law.harvard.edu/2023/05/22/anatomy-of-a-run-the-terra-luna-crash/#:~:text=The%20collapse%20of%20Terra%20in%20DeFi%29%20architecture](https://www.proskauer.com/blog/when-smart-contracts-are-outsmarted-the-parity-wallet-freeze-and-software-liability-in-the-internet-of-value#:~:text=On%20November%208%2C%20Parity%20Technologies%20A0announced%20A0that%20over%20%2430%20million%20in%20either, Jiageng Liu et al., Anatomy of a Run: The Terra Luna Crash, H.L.S. F. on Corp. Governance (May 22, 2023), <a href=).

⁴ “Victims of investment fraud, specifically those involving cryptocurrency, reported the most losses—totaling over \$6.5 billion.” *FBI Releases Annual Internet Crime Report*, <https://www.fbi.gov/news/press-releases/fbi-releases-annual-internet-crime-report>; See also *Federal Bureau of Investigation Internet Crime Report 2024* https://www.ic3.gov/AnnualReport/Reports/2024_IC3Report.pdf at 35.

⁵ Bruno Mazorra et al., *Do not rug on me: Zero-dimensional Scam Detection* (2022); Jennifer Sor, *Decentralized cryptocurrency exchanges are awash in fake trades, research report says*, *Bus. Insider* (Sep. 12, 2023 at 12:10 ET), <https://markets.businessinsider.com/news/currencies/defi-crypto-exchange-token-wash-trading-fraud-price-manipulation-2023-9>.

United States House Financial Services Committee
June 6, 2025
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nuclear program,⁶ making it the third largest holder of Bitcoin.⁷ Russia is using cryptocurrency in its oil trade with China and India to evade sanctions, following Venezuela's move to do the same in 2024.⁸ Our laws must ensure that when an investor buys Bitcoin on a platform in New York they are not unwittingly funding a terrorist organization or an enemy state's nuclear program. Indeed, enemy state actors, terrorists, and organized crime organizations use cryptocurrency to move at least \$50 billion annually in illicit money and to avoid sanctions imposed by our government.⁹

Digital identity is an exciting area of innovation that is compatible with blockchain and smart contracts and enables cost-effective compliance to meet our national security needs while preserving privacy and civil liberties. With breakthroughs in a technology called zero-knowledge proofs, it is now possible to verify key identity and transaction attributes without the need to share or expose underlying personal identifying information. The industry has been developing interoperable standards for digital identity credentials, which can be associated or attached to digital wallets. However, there is currently no impetus to adopt this technology at scale unless crypto companies and projects are required to do so. Legal requirements should also ensure a fair playing field for all actors in the U.S. to prevent compliant actors from losing market share.

Importantly, identifying information would be kept private from the general public, *e.g.*, hidden from block explorers, and revealed only to the appropriate parties under the law. Privacy is maintained by allowing verifiers to receive only the information they need without unnecessary exposure to sensitive or personally identifiable information. In most instances, verifiers only need to know that certain attributes are met *i.e.*, that a person is a U.S. person, at least 18 years old, and has a valid government-issued identification and a recent address.¹⁰

D. Market Structure Legislation Should Mandate a Closed Loop of Know-Your-Customer Rules and Price Transparency to Protect American Investors

Comprehensive regulation of the digital assets industry requires a closed loop of traceable transactions and identifiable market participants, which is the critical missing piece to crypto

⁶ Patricia Kowsmann & Timothy W. Martin, *How North Korea Cheated Its Way to Crypto Billions*, WALL STREET J. (Apr. 3, 2025), https://www.wsj.com/world/asia/north-korea-cryptocurrency-580d7d3f?mod=saved_content.

⁷ Yoon Min-Sik, *North Korea's Bitcoin Reserve Thought to be 3rd Largest in World: Report*, THE KOREA HERALD (Mar. 18, 2025), <https://www.koreaherald.com/article/10443993>.

⁸ Anna Hirtenstein & Chen Aizhu, *Russia leans on Cryptocurrencies for Oil Trade, Sources Say*, REUTERS (Mar. 14, 2025), <https://www.reuters.com/business/energy/russia-leans-cryptocurrencies-oil-trade-sources-say-2025-03-14/>.

⁹ *Id.*

¹⁰ Personal identifying data could be stored in a decentralized manner or locally with the stablecoin holder to minimize security risks and require the use of cryptographic key-pairs for access (similar to how transactions are signed on the blockchain).

United States House Financial Services Committee
June 6, 2025
Page 5

market infrastructure. In the U.S. national market system, fraud and money laundering are detectable because participating institutions must collect know-your-customer (“KYC”) information. Exchanges and dark pools are required to know the identities of their member broker-dealers and subscribers. Broker-dealers are, in turn, required to know their customers. These rules create a closed loop of regulated institutions over which regulators have investigative authority, allowing them to identify patterns of anomalous behavior and ultimately find those who engage in fraud, manipulation, and illegality. Sound cryptocurrency regulations must leverage and enforce existing anti-terrorism and money laundering laws to create a closed loop of compliance and disrupt illicit uses of cryptocurrency.

Requiring a closed loop will also allow for actual price discovery. Anonymous trading, manipulative trading, and speculation, especially by those overseas, have resulted in market manipulation to the benefit of crooks and our enemies.¹¹ Such trading has dominated as much as 60% of Bitcoin price discovery, or lack thereof.¹² In the securities markets, the national market system enforces price integrity across institutions by requiring that trades occur at or better than the national best bid and offer (“NBBO”). Most cryptocurrency platforms do not abide by rules governing the prices they quote.¹³ Further, because of the global nature of cryptocurrency, prices on certain centralized platforms where KYC information is collected are influenced by prices on anonymous decentralized and centralized platforms without adequate KYC. Without KYC information, these platforms do not know who is submitting orders and the extent to which prices are the product of wash trading¹⁴ and other manipulation. Accordingly, effective cryptocurrency legislation should include requirements that orders be filled at or better than an NBBO price that is the product of reliable order information provided by firms that know who placed those orders.

We also cannot ignore the fact that crypto prices are not based on underlying economic activity. In traditional capital markets, capital is allocated to productive activity and asset prices are ultimately rooted in fundamentals. For example, stock prices are based on factors like a company’s projected earnings and bond prices are based on assessments of risks. In contrast, the price of Bitcoin fluctuates based on speculation and supply and demand, which could be artificial or

¹¹ “Frequently the prices of securities on such exchanges and markets are susceptible to manipulation and control, and the dissemination of such prices gives rise to excessive speculation, resulting in sudden and unreasonable fluctuations in the prices of securities which (a) cause alternately unreasonable expansion and unreasonable contraction of the volume of credit available for trade, transportation, and industry in interstate commerce, (b) hinder the proper appraisal of the value of securities and thus prevent a fair calculation of taxes owing to the United States and to the several States by owners, buyers, and sellers of securities, and (c) prevent the fair valuation of collateral for bank loans and/or obstruct the effective operation of the national banking system and Federal Reserve System.” *The Securities Exchange Act of 1934, Necessity for Regulation* (15 USCS § 78b(3)).

¹² Carol Alexander & Daniel Heck, *Price Discovery in Bitcoin: The Impact of Unregulated Markets*, 50 J. OF FIN. STABILITY 2 (Oct. 2020), <https://www.sciencedirect.com/science/article/abs/pii/S1572308920300759>.

¹³ *Statement on Potentially Unlawful Online Platforms for Trading Digital Assets*, U.S. SEC. & EXCH. COMM’N (Mar. 7, 2018), <https://www.sec.gov/newsroom/speeches-statements/enforcement-tm-statement-potentially-unlawful-online-platforms-trading-digital-assets>.

¹⁴ Lin William Cong, Xi Li, Ke Tang & Yang Yang, *Crypto Wash Trading*, (Nat’l Bureau of Econ. Rsch., Working Paper No. 30783, 2022), https://www.nber.org/system/files/working_papers/w30783/w30783.pdf.

United States House Financial Services Committee
 June 6, 2025
 Page 6

manipulated. No economic activity explains why the price of Bitcoin can drop by 30% one day and increase by 30% the next.¹⁵

For the crypto industry to mature in a way that benefits America and its investors, crypto platforms need to rise to the same standard as regulated national exchanges to ensure free and fair markets where wrongdoers may be held accountable, features that make our current securities markets the envy of the world. Failure to do so will mean that American investors will not be able to tell whether the prices they see are the product of true supply and demand or the product of market manipulation.¹⁶ Rigged markets are not free markets.

E. Congress Must Not Interfere with States' Investor Protection Laws.

Congress must ensure that this legislation does not reduce the number of cops on the beat. State anti-fraud and registration laws are intended to prevent and remedy fraud and must be preserved. In order to prevent and effectively prosecute fraud, states must retain their ability to enforce state laws and registration provisions as recognized under federal securities and commodities laws today.

We call upon Congress to protect Americans and American institutions that have made this country great. While digital assets are certainly exciting, our country's markets have fostered many innovations over the last century - but have done so within the framework of our securities and banking regulations in order to protect America's investors, the economy, and national security. Failures to regulate new financial products adequately have repeatedly resulted in financial crises that required the U.S. government to spend tens, and even hundreds, of billions of dollars on bailouts, most recently in 2008 (due to subprime loans and mortgage-backed securities) and in 2023 (resulting from overexposure to digital assets). We urge Congress to ensure that market structure legislation includes appropriate guardrails to safeguard America's investors, economy, and national security. Indeed, it is such guardrails that will protect our financial system from a future crash.

¹⁵ See <https://www.google.com/finance/quote/BTC-USD?window=YTD>.

¹⁶ *Market Manipulation: Suspected Wash Trading on Select Blockchains May Account for Up To \$2.57 Billion in Trading Volume*, CHAINALYSIS (Jan. 29, 2025), <https://www.chainalysis.com/blog/crypto-market-manipulation-wash-trading-pump-and-dump-2025/>.

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Statement for the Record

On Behalf of

Americans for Financial Reform

to the

House Committee on Financial Services

and

House Committee on Agriculture

“American Innovation and the Future of Digital Assets:

From Blueprint to a Functional Framework”

June 4, 2025

Statement for the Record
On Behalf of
Americans for Financial Reform
to the
House Committee on Financial Services
 and
House Committee on Agriculture
“American Innovation and the Future of Digital Assets:
From Blueprint to a Functional Framework”
(Submitted June 9, 2025)

Dear Chairs Hill and Thompson, Ranking Members Waters and Craig, and members of the Committees,

Thank you for the opportunity to submit comments for the record regarding the Committee’s recent hearings on digital asset policy and crypto market structure legislation. Americans for Financial Reform (AFR) is a nonpartisan and nonprofit coalition of more than 200 civil rights, consumer, labor, business, investor, faith-based, and civic and community groups. Formed in the wake of the 2008 crisis, AFR continues to work towards a strong, stable, and ethical financial system. We are committed to eliminating inequity and systemic racism and fighting for a just and sustainable economy for everyone.

H.R. 3633, referred to as the CLARITY Act, fails to live up to its moniker. The bill seeks to achieve industry friendly regulatory objectives that were the hallmark of previous legislation introduced last Congression (known as FIT 21): a light-touch regulatory regime for crypto assets, actors, and activities. In some respects, it uses different terminology and policy structures, but the result is the same. Rather than taking the “same activities, same risks, same rules” approach that has guided many efforts to establish robust investor protections and oversight of financial markets, this bill creates significant carveouts for the crypto industry that provide significantly less protection for investors and consumers and threaten to undermine financial market protections more broadly.

While we have many substantive concerns about this bill, at the outset we believe that a vote for this legislation would also enable and condone ethically problematic crypto business activities by the Trump administration, organization, and family – ones that raise unprecedented concerns about presidential conflicts of interest, corruption, and the abuse of public office for private gain.

In the first one hundred days of the administration, the Trump family and organization crypto business ventures have blurred or crossed the lines between the first family’s private business interests and the administration’s responsibility to uphold the public interest. For example, the Trump administration’s special Envoy to the Middle East, Steve Witkoff, has had previous business dealings in the crypto world, including in the Middle East. His son, Zach Witkoff, is a key executive in Trump Organization’s World Liberty Financial. World Liberty Financial’s top investor is crypto mogul Justin Sun, who has faced civil and criminal charges for suspicious activity around the world.

Yet, the Trump administration's Securities and Exchange Commission (SEC) dismissed charges against Sun's platform TRON around the time Sun made a multi-million dollar investment in WLF. Changpeng Zhao (known as CZ), founder of Binance, pled guilty to anti-money laundering charges in 2023 for his platform's flagrant, widespread, and willful violations of these rules. Mr. Zhao denied any involvement in WLF's financial dealings for months, until he admitted Binance's involvement in WLF's financial dealings in late April. News reports suggest that Mr. Zhao has sought a pardon by the Trump Administration, in line with other convicted crypto criminals Trump has pardoned.

And President Trump and his family have used the issuance and sales of his memecoin to generate millions of dollars in profits from transaction fees and other measures and curry undue influence with foreign investors. This culminated in the Trump-hosted private dinner for the top buyers of the memecoin, many of whom were offshore crypto barons. This dinner occurred even as news reports suggested more than 750,000 other buyers of the Trump memecoin have lost money on their purchases.

Yet, this bill lacks the necessary tools sufficient to address or curb the unprecedented legal, ethical, and operational risks posed by the President's own crypto business ventures and business partners. And, even if the bill contained strong conflict of interest measures, it is highly unlikely that the current leadership of federal banking, securities, and exchange regulators would exert sufficient oversight — either due to complicity with or fear of the crypto industry and its allies in the Trump Administration. It is not credible that these regulators would undertake robust oversight of the crypto industry that could impact the profits of the First Family's crypto empire.

What's more, efforts to advance this bill are also taking place as the Trump administration has repeatedly undermined the independence of financial regulators by unlawfully removing commissioners and board members, purging regulatory staff, and rolling back oversight and enforcement. In March, commissioners were purged from their seats at the FTC. In April, board members were removed from their roles at the NCUA. The administration has purged CFPB staff and taken other steps to diminish the agency's efficacy and independence. The repeated threats to remove the chair of the Federal Reserve Board have roiled financial markets and undermined confidence in the stewardship of the economy.

These disruptive removals leave significant gaps in leadership at the agencies and have targeted leaders committed to advancing the public interest and taking on powerful corporate interests when it is necessary to do so. All of these expulsions are extraordinary direct blows to the independence of these agencies that were designed to be insulated from economic and political pressures that threaten to undermine key democratic pillars of U.S. society, fair and effective financial oversight, and economic stability.

And, efforts to advance legislation such as CLARITY which, despite proponents' claims, are deregulatory in nature and leave a great deal of discretion to conflicted and captured regulators, are at best wishful thinking and at worst a path towards a world that realizes much of the crypto industry's ideological vision for financial markets: where financial freedom is for those who can afford it, and where caveat emptor is the regulatory standard for financial markets.

There are many flaws with CLARITY regulatory approach to crypto oversight that fail to protect investors or the financial system. The critical shortcomings of CLARITY include:

Enshrines a crypto-industry demand to dodge the Howey test for what is a security:

CLARITY would broadly amend securities laws by exempting many crypto assets from securities laws coverage. The bill asserts that the term “investment contract” does not include an “investment contract asset,” which the legislation defines as a “digital commodity” owned or exchanged via blockchain and offered under the generous conditions of the bill. This exemption would include secondary market sales of such digital commodities (provided the secondary issuer doesn’t offer direct interest in ownership, revenues, etc.).

The bill’s language mirrors the outlying legal arguments made by the Southern District of New York’s Judge Torres in SEC v. Ripple. Many courts have ruled otherwise in crypto cases, finding that such sales can and do constitute investment contracts subject to securities laws, but the bill’s authors have decided to put their thumb on the scale in favor of the crypto industry.

The Howey Test has worked effectively as a “facts and circumstances” test that uses not just asset classification but economic analysis to determine how and whether securities-related investor rules and protections should apply.

For digital assets, CLARITY cuts that process off at the knees, meaning that a wide swathe of digital asset offerings won’t be subject to the robust investor protection under Howey and its application. This will boost crypto industry profits, but it subjects buyers to amplified potential risk, manipulation, and harm. It also creates opportunities for other non-crypto financial market actors to use CLARITY’s treatment of investment contract assets as an operational or legal roadmap for regulatory evasion.

Establishes an anemic and permissive private market oversight regime for crypto securities offerings:

CLARITY gives digital assets issuers an incredibly generous exemption framework for those that want to make offerings under securities law. Rather than make a public offering, digital “commodities” related to a “mature” blockchain system (or one that intends to be mature within several years of issuance) can seek an exemption under the 1933 Securities Act, as long the issuer keeps sales of the commodity under \$75 million within a 12-month period.

Under the exemption, rather than meeting public Initial Public Offering disclosure requirements, an issuer must merely provide some information on the issuer’s financial condition, the source code for the commodity’s related blockchain, transaction history, digital commodity economics (or “tokenomics”), risk factors, and development plans — which amounts to the pitiful disclosure crypto issuers are currently offering under unregulated issuances. These details fall far short of the types of disclosures issuers are required to provide for public offerings. Yet, unlike similar exemptions under existing law that limit comparable private offerings to accredited investors, this bill allows these exempt offerings to be made directly to retail investors, despite the fact that such limited information increases the potential risk for such investors.

Gives major exemptions and carve-outs for decentralized finance (DeFi): CLARITY excludes a long list of DeFi-related activities from core market regulatory oversight and obligations. The exempted activities include, but are not limited to, operating nodes on blockchain; creating user interfaces for crypto investors; developing and maintaining a blockchain system; operating liquidity pools that executes sales of digital commodities; creating and maintaining tools that facilitates communications about DeFi platform operations, data, financial activities, and more.

The rationale for these exemptions relies on a core aspiration of DeFi proponents: that somehow, by creating, deploying and operating software used to facilitate financial market activity and calling it “decentralized,” the people and entities using, managing, governing and administering such tools and activities are magically exempt from most, if not all, financial market regulatory requirements.

Yet, many of the activities facilitated by DeFi developers and admins constitute financial market intermediation in ways that are comparable to existing financial markets, and many DeFi platforms and systems demonstrate high degrees of concentration or common control, undermining the contention that “no one” is in charge or managing these systems. These factors contradict the aspirational promotions and claims of the DeFi industry and highlight the need for market regulation.

And, while DeFi proponents claim technological solutions can supplant or substitute for the types of compliance activities traditional financial market intermediaries must undertake, even by its own standards, the industry has largely failed to demonstrate that’s the case.

As such, the bill’s regulatory exemptions for DeFi platforms and activities have the potential to further legitimize risky, speculative, and predatory activity that are widespread in DeFi markets, leaving investors to largely fend for themselves while providing the DeFi industry with a government seal of approval.

Creates a definition of digital commodity that leaves out more than it includes: The purported rationale of this bill is to create a regulatory framework for the spot market in digital commodities. Yet, this bill’s definition of digital commodity, as House Financial Services Committee witness Timothy Massad conveyed in last week’s CLARITY hearing, would likely refer only to a subset of tokens. Non-fungible tokens, memecoins, rewards points, game tokens, various “utility tokens” would not be considered digital commodities, or, presumably, securities. Platforms, registered under the CFTC or SEC, would still be allowed to list these products that are unregulated or unsupervised under the bill, and intermediaries would be allowed to trade them or trade on behalf of clients. DeFi platforms listing these tokens, because of exemptions in this bill, would have even fewer obligations to their customers with respect to how these assets could be introduced or traded online. Instead of creating the promised rules of the road for crypto customers, this bill would only regulate a few drivers on the congested crypto roadway. Most crypto cars (memecoins, NFTs, etc.) would be traded on government sanctioned platforms but would be exempt from rules of the road and could ignore traffic signals or speed limits that would pose real risks to crypto customers.

Creates lax obligations for digital commodity brokers and dealers: The bill establishes a weak regulatory framework for digital commodity brokers and dealers that only requires these intermediaries to meet certain, minimalist business conduct requirements, disclose information about the material risks and characteristics of the digital commodities they offer, and to have policies intended to mitigate conflicts of interests. However, these measures pale in comparison to the standards SEC-registered broker-dealers must meet, including Regulation BI (Best Interest), which requires broker-dealers to act in the best interest of their retail customers when recommending investments or products. In practice, this means that crypto customers will be more vulnerable to exploitative or manipulative practices by these newly established intermediaries.

Legitimizes many crypto platform's conflicted and vertically integrated business models.

Current investor protections for securities markets require financial market intermediaries — such as brokers, exchanges and clearing agencies — to be kept separate, to mitigate or avoid conflicts of interest that would create financial incentives to cheat or mislead their clients or customers.

However, many crypto platforms operating today provide all of these services under one roof. This gives crypto platform operators leverage over their customers regarding asset pricing information, access to trading activity, how and when trades are executed and more. This sort of leverage gives platforms the ability to front-run their clients, which is a documented practice in the industry. Rather than offer crypto investors similar safeguards found in securities markets against such unfair practices, CLARITY largely endorses this type of business organization.

These are just some of our concerns about this bill. We believe this bill is structurally flawed; attempts to address smaller details in the bill during Committee or Congressional floor activity, however well intentioned, are unlikely to address the bill's major problems. Instead, if this bill is enacted in its current form, crypto investors and investors as a whole are likely to be worse off. Conflicted crypto business models, extractive industry practices, and unstable, unsecure platforms will receive a government imprimatur and find legitimacy under a weak and permissive regulatory regime. The ensuing bubble of economic activity fostered by this bill's seal of approval will attract retail and institutional investors alike, lured by a fear of missing out and a false sense of security. Ultimately, when crypto platforms and markets fail, more investors, companies, and communities will be harmed as a result.

We urge Committee members to oppose the advancement of this bill. Instead, Committee members should work to empower regulators to use their existing authorities to conduct robust regulatory oversight of the crypto industry in a manner comparable to that of other financial market actors and provide investors with comparable levels of protection and remedy. Any legislation Congress advances to address regulatory gaps should be narrowly tailored and built upon existing standards.

August 11, 2025

Dear Chairman Hill:

Thank you again for the opportunity to testify before the House Committee on Financial Services on June 4, 2025, at the hearing titled "American Innovation and the Future of Digital Assets: From Blueprint to a Functional Framework." I understand several Members have submitted additional questions. Please find my responses attached.

If I can be of any further assistance to the Committee, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Vivek Raman".

Vivek Raman
CEO
Etherealize, Inc.

Answers for the Record

From Rep. Wagner:

1. Mr. Raman, in your testimony you describe how the lack of clarity with current digital asset regulation not only hurts companies but also hurts investors. As the Chair of the Capital Markets Subcommittee, one of my top priorities is ensuring that retail investors in Missouri's Second District and across the country have the tools they need to save for retirement and grow their nest eggs. Can you explain how the CLARITY Act will not only address gaps in investor protections but also expand opportunities for everyday investors to save for the future?

Answer: By providing regulatory clarity, the Act will ensure that everyday Americans will have opportunities to invest and participate in the financial innovations powered by blockchains. Blockchains have the power to return more value to end users, rather than being lost to intermediaries charging high transaction fees. But the current confusion has pushed a number of crypto companies offshore, and many services specifically exclude customers in the United States. The CLARITY Act can change this, ensuring that American investors can use the next generation of financial infrastructure to earn, save, and plan for the future.

From Ranking Member Waters:

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)

Answer: d. Asian

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)

Answer: b. Man

Questions for the Record from Ranking Member Waters

Committee on Financial Services Hearing, titled:

American Innovation & the Future of Digital Assets: From Blueprint to a Functional Framework

June 4, 2025

Responses from:

The Honorable Rostin Behnam
Distinguished Fellow
Psaros Center for Financial Markets & Policy, Georgetown University
Former Chairman, U.S. CFTC

1. Which of the following options best describes your self-identified race?

- 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)

Timothy Massad

Responses to QFRs from Ranking Member Waters:

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)

Answer: a

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)

Answer: b

Timothy Massad
Responses to QFR from Rep. Beatty:

Anti-Money Laundering and Illicit Finance Protections

1. Mr. Massad, as Ranking Member of the Subcommittee on National Security, Illicit Finance, and International Financial Institutions, one of my priorities in any market structure framework is the inclusion of strong illicit finance provisions that would protect our financial system from bad actors and criminals. Crypto is increasingly the transacting method of choice for cybercriminals, transnational criminal organizations, and scammers. We also saw last week that the SEC formally dropped its lawsuit against the crypto exchange Binance, which admitted to violating U.S. anti-money laundering and sanctions laws.

In your view, what kind of safeguards against foreign corruption and money laundering must be included in any market structure legislation, and does the CLARITY Act sufficiently incorporate these safeguards?

Answer:

While it is important to apply the anti-money laundering and illicit finance controls that now apply to banks to digital asset service providers such as trading platforms, brokers and dealers, that is not sufficient. Those traditional requirements work when transactions are effectuated through intermediaries that are subject to and that comply with such requirements. But digital assets can be transferred on decentralized blockchains from and to unhosted or non-custodial wallets, without the involvement of an intermediary such as a bank or digital asset service provider. Therefore Congress needs to create additional tools and enforcement powers.

The Clarity Act currently applies the traditional requirements and calls for studies of what else might be appropriate, but it does not create any new authorities or tools.

In 2023, the Treasury Department proposed several ways in which its authority should be expanded, which could be included in legislation. Among other things, Congress should make clear that Treasury has the authority to create a new sanctions tools, analogous to Correspondent Account or Payable-Through Account (CAPTA) sanctions, to deploy in the cryptocurrency space. Treasury's existing CAPTA authorities enable Treasury to prohibit U.S. correspondent accounts and transaction processing for certain financial institutions that have operated in the financial services sectors of certain economies or facilitated transactions for a designated entity, without requiring that all property and interests of the institution be blocked. Congress should make clear that these tailored authorities can be extended to foreign crypto exchanges and other crypto intermediaries.

In addition, Congress should give OFAC the ability to block stablecoin transactions to the same extent as its existing power to block US dollar transactions, and extend BSA and IEEPA jurisdiction to foreign crypto intermediaries with U.S. touchpoints (though with possible provision for substituted compliance in the case of BSA obligations). Treasury should also have flexible authority to require domestic crypto actors that are not registered as money service

businesses to comply with the BSA and IEEPA where such actors have the necessary control or authority to achieve regulatory objectives, such as custodial wallet providers. The White House Report (see above) similarly recommends that Congress “consider creating a bespoke digital-asset specific financial institution types or sub-types” that would have AML/CFT obligations (p. 105).

Treasury should also have authority to address the role of mixers, tumblers and other devices used to disguise identity. That can be coupled with a recognition that rules must strike a balance between preventing illicit finance and respecting individuals’ privacy.

Congress should also not create overly broad exemptions from securities, commodities and other laws for decentralized finance or DeFi activities. Exemptions for DeFi are typically justified on the basis that autonomous software protocols do not involve an administrator capable of implementing administering KYC, AML or CFT requirements. But the exemptions often cover much more. For example, Sections 309 and 409 of the Clarity Act contain exemptions not only for the development, publication or operation of autonomous software protocols and transaction validation activities, but also for a wide range of activities consisting of “administering or maintaining” such protocols or other activities that may facilitate or encourage the use of such protocols. Those activities are often offered by businesses that exercise some degree of control over value or the transaction and therefore could be touchpoints for regulation. We should therefore develop regulatory requirements proportionate to the degree of control, discretion or other authority exercised by such actors, which could include responsibilities related to AML and CFT.

The White House Report similarly suggests that we must define what is “true” DeFi and determine “how obligations apply to entities that utilize smart contracts or have some characteristics of DeFi but do not meet all elements of a decentralized protocol.” As part of this effort, Congress should consider codifying language expressing which portions, if any, of the DeFi ecosystem should have AML/CFT obligations and the kinds of obligations actors should have by constructing the parameters of an AML/CFT framework appropriate to the class of activity.” (pp. 106-107)

We should also encourage the development of digital identity tools that can strike the appropriate balance between verifying identity and preserving privacy, and ensuring that transactions are not processed except in accordance with AML and CFT requirements. (This is also supported by the White House Report at page 112.)

The passage of the GENIUS Act illustrates how we must do more. Although it made clear that stablecoin issuers are subject to traditional responsibilities of banks, these obligations only work where the stablecoin issuer has privity with a customer. But most people who use stablecoins do not obtain them from or redeem them with the stablecoin issuer. Stablecoin issuers should therefore be obligated to monitor all blockchains on which their stablecoins are transferred and engage in blockchain analytics or risk analysis of wallets holding their stablecoins to identify suspicious behavior. They should use that information to make reports to authorities and freeze stablecoins as appropriate.

You and your staff may also be interested in my analysis of the risks that stablecoins pose to our national security and the implementation of sanctions in my 2024 paper: “Stablecoins and National Security: Learning the Lessons of Eurodollars.” This was published by Brookings and is available [here](#).

119TH CONGRESS
1ST SESSION

H. R. 3633

To provide for a system of regulation of the offer and sale of digital commodities by the Securities and Exchange Commission and the Commodity Futures Trading Commission, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 29, 2025

Mr. HILL of Arkansas (for himself, Mr. THOMPSON of Pennsylvania, Ms. CRAIG, Mr. EMMER, Mr. JOHNSON of South Dakota, Mr. DAVIS of North Carolina, Mr. STEIL, Mr. TORRES of New York, and Mr. DAVIDSON) 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 provide for a system of regulation of the offer and sale of digital commodities by the Securities and Exchange Commission and 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,*

1 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

2 (a) **SHORT TITLE.**—This Act may be cited as the
 3 “Digital Asset Market Clarity Act of 2025” or the
 4 “CLARITY Act of 2025”.

5 (b) **TABLE OF CONTENTS.**—The table of contents for
 6 this Act is as follows:

Sec. 1. Short title; table of contents.

**TITLE I—DEFINITIONS; RULEMAKING; PROVISIONAL
 REGISTRATION**

- Sec. 101. Definitions under the Securities Act of 1933.
- Sec. 102. Definitions under the Securities Exchange Act of 1934.
- Sec. 103. Definitions under the Commodity Exchange Act.
- Sec. 104. Definitions under this Act.
- Sec. 105. Rulemakings.
- Sec. 106. Provisional registration for digital commodity exchanges, brokers, and dealers.
- Sec. 107. Commodity Exchange Act and securities laws savings provisions.
- Sec. 108. Administrative requirements.
- Sec. 109. International cooperation.
- Sec. 110. Implementation.
- Sec. 111. Application of the Bank Secrecy Act.

TITLE II—OFFERS AND SALES OF DIGITAL COMMODITIES

- Sec. 201. Treatment of investment contract assets.
- Sec. 202. Exempted primary transactions in digital commodities.
- Sec. 203. Treatment of secondary transactions in digital commodities that originally involved investment contracts.
- Sec. 204. Requirements for offers and sales of digital commodities by digital commodity related persons and digital commodity affiliated persons.
- Sec. 205. Mature blockchain system requirements.
- Sec. 206. Effective date.

**TITLE III—REGISTRATION FOR INTERMEDIARIES AT THE
 SECURITIES AND EXCHANGE COMMISSION**

- Sec. 301. Treatment of digital commodities and permitted payment stablecoins.
- Sec. 302. Anti-fraud authority over permitted payment stablecoins and certain digital commodity transactions.
- Sec. 303. Eligibility of alternative trading systems.
- Sec. 304. Operation of alternative trading systems.
- Sec. 305. Modernization of recordkeeping requirements.
- Sec. 306. Exemptive authority.
- Sec. 307. Additional registrations with the Commodity Futures Trading Commission.
- Sec. 308. Exempting digital commodities from State securities laws.
- Sec. 309. Exclusion for decentralized finance activities.

- Sec. 310. Treatment of custody activities by banking institutions.
- Sec. 311. Digital commodity activities that are financial in nature.
- Sec. 312. Effective date; administration.
- Sec. 313. Studies on foreign adversary participation.

TITLE IV—REGISTRATION FOR DIGITAL COMMODITY INTERMEDIARIES AT THE COMMODITY FUTURES TRADING COMMISSION

- Sec. 401. Commission jurisdiction over digital commodity transactions.
- Sec. 402. Requiring futures commission merchants to use qualified digital asset custodians.
- Sec. 403. Trading certification and approval for digital commodities.
- Sec. 404. Registration of digital commodity exchanges.
- Sec. 405. Qualified digital asset custodians.
- Sec. 406. Registration and regulation of digital commodity brokers and dealers.
- Sec. 407. Registration of associated persons.
- Sec. 408. Registration of commodity pool operators and commodity trading advisors.
- Sec. 409. Exclusion for decentralized finance activities.
- Sec. 410. Resources for implementation and enforcement.
- Sec. 411. Digital commodity activities by SEC-registered entities.
- Sec. 412. Requirements related to control persons.
- Sec. 413. Effective date.
- Sec. 414. Sense of Congress.

TITLE V—INNOVATION AND TECHNOLOGY IMPROVEMENTS

- Sec. 501. Findings; sense of Congress.
- Sec. 502. Modernization of the Securities and Exchange Commission mission.
- Sec. 503. Strategic Hub for Innovation and Financial Technology.
- Sec. 504. Codification of LabCF*TC.
- Sec. 505. Study on decentralized finance.
- Sec. 506. Study on non-fungible tokens.
- Sec. 507. Study on expanding financial literacy amongst digital commodity holders.
- Sec. 508. Study on financial market infrastructure improvements.

1 **TITLE I—DEFINITIONS; RULE-** 2 **MAKING; PROVISIONAL REG-** 3 **ISTRATION**

4 **SEC. 101. DEFINITIONS UNDER THE SECURITIES ACT OF** 5 **1933.**

6 Section 2(a) of the Securities Act of 1933 (15 U.S.C.
7 77b(a)) is amended by adding at the end the following:

1 “(20) BLOCKCHAIN.—The term ‘blockchain’
2 means—

3 “(A) any technology—

4 “(i) where data is—

5 “(I) shared across a network to
6 create a distributed ledger of inde-
7 pendently verifiable transactions or in-
8 formation among network partici-
9 pants;

10 “(II) linked using cryptography
11 to maintain the integrity of the dis-
12 tributed ledger and to execute other
13 functions; and

14 “(III) propagated among network
15 participants to reach consensus on the
16 state of the distributed ledger and any
17 other functions; and

18 “(ii) composed of source code that is
19 publicly available; and

20 “(B) any similar technology to the tech-
21 nology described in subparagraph (A).

22 “(21) BLOCKCHAIN APPLICATION.—The term
23 ‘blockchain application’ means any executable soft-
24 ware deployed to a blockchain composed of source
25 code that is publicly available, including a smart

1 contract or any network of smart contracts, or other
2 similar technology.

3 “(22) BLOCKCHAIN PROTOCOL.—The term
4 ‘blockchain protocol’ means the freely and publicly
5 available source code of a blockchain that is executed
6 by the network participants of a blockchain to facili-
7 tate its functioning, or other similar technology.

8 “(23) BLOCKCHAIN SYSTEM.—The term
9 ‘blockchain system’ means any blockchain, together
10 with its blockchain protocol or any blockchain appli-
11 cation or network of blockchain applications.

12 “(24) DECENTRALIZED GOVERNANCE SYS-
13 TEM.—

14 “(A) IN GENERAL.—The term ‘decentral-
15 ized governance system’ means, with respect to
16 a blockchain system, any transparent, rules-
17 based system permitting persons to form con-
18 sensus or reach agreement in the development,
19 provision, publication, management, or adminis-
20 tration of such blockchain system, where par-
21 ticipation is not limited to, or under the effec-
22 tive control of, any person or group of persons
23 under common control.

24 “(B) RELATIONSHIP OF PERSONS TO DE-
25 CENTRALIZED GOVERNANCE SYSTEMS.—With

1 respect to a decentralized governance system,
2 the decentralized governance system and any
3 persons participating in the decentralized gov-
4 ernance system shall be treated as separate per-
5 sons unless such persons are under common
6 control.

7 “(C) LEGAL ENTITIES FOR DECENTRAL-
8 IZED GOVERNANCE SYSTEMS.—The term ‘de-
9 centralized governance system’ shall include a
10 legal entity used to implement the rules-based
11 system described in subparagraph (A), provided
12 that the organizing and governing laws of such
13 legal entity do not create or require centralized
14 and hierarchical management of such legal enti-
15 ty. For the purposes of this subparagraph, the
16 delegation of ministerial or administrative au-
17 thority at the direction of the participants in a
18 decentralized governance system shall not be
19 construed to be centralized and hierarchical
20 management.

21 “(25) DIGITAL ASSET.—The term ‘digital asset’
22 means any digital representation of value which is
23 recorded on a cryptographically-secured distributed
24 ledger or other similar technology.

1 “(26) DIGITAL COMMODITY.—The term ‘digital
2 commodity’ has the meaning given that term under
3 section 1a of the Commodity Exchange Act (7
4 U.S.C. 1a).

5 “(27) DIGITAL COMMODITY AFFILIATED PER-
6 SON.—The term ‘digital commodity affiliated person’
7 means a person (including a digital commodity re-
8 lated person) that, with respect to any digital com-
9 modity—

10 “(A) acquires 5 percent or more of the
11 total outstanding units of such digital com-
12 modity from a digital commodity issuer;

13 “(B) is a founder of the digital commodity
14 issuer; or

15 “(C) is an executive director, director,
16 trustee, or general partner of the digital com-
17 modity issuer or held such role at any point in
18 the previous 12-month period.

19 “(28) DIGITAL COMMODITY ISSUER.—With re-
20 spect to a digital commodity, the term ‘digital com-
21 modity issuer’ means any person that—

22 “(A) proposes, issues, or causes to be
23 issued a unit of such digital commodity to a
24 person; or

1 “(B) offers or sells a right to a future
2 issuance of a unit of such digital commodity to
3 a person.

4 “(29) DIGITAL COMMODITY RELATED PER-
5 SON.—

6 “(A) IN GENERAL.—With respect to a dig-
7 ital commodity issuer, the term ‘digital com-
8 modity related person’ means—

9 “(i) a person that is or was in the
10 previous 6-month period a promoter, senior
11 employee, advisory board member, consult-
12 ant, advisor, or person serving in a similar
13 capacity; and

14 “(ii) a person that acquires 1 percent
15 or more of the total outstanding units of
16 such digital commodity from a digital com-
17 modity issuer.

18 “(B) SENIOR EMPLOYEE DEFINED.—In
19 this paragraph and with respect to a digital
20 commodity issuer, the term ‘senior employee’
21 means any employee materially involved in the
22 management or planning of the digital com-
23 modity issuer or the development of the
24 blockchain system to which the digital com-
25 modity relates.

1 “(30) END USER DISTRIBUTION.—The term
2 ‘end user distribution’ means a distribution of a unit
3 of a digital commodity that—

4 “(A) does not involve an exchange of more
5 than a nominal value of cash, property, or other
6 assets; and

7 “(B) is distributed in a broad and equi-
8 table manner based on conditions capable of
9 being satisfied by any participant in the
10 blockchain system, including, as incentive-based
11 rewards—

12 “(i) to users of the digital commodity
13 or any blockchain system to which the dig-
14 ital commodity relates;

15 “(ii) for activities directly related to
16 the operation of the blockchain system,
17 such as mining, validating, staking, or
18 other activity directly tied to the operation
19 of the blockchain system; or

20 “(iii) to the existing holders of an-
21 other digital commodity, in proportion to
22 the total units of such other digital com-
23 modity as are held by each person.

24 “(31) MATURE BLOCKCHAIN SYSTEM.—The
25 term ‘mature blockchain system’ means a blockchain

1 system, together with its related digital commodity,
2 that is not controlled by any person or group of per-
3 sons under common control.

4 “(32) PERMITTED PAYMENT STABLECOIN.—

5 “(A) IN GENERAL.—The term ‘permitted
6 payment stablecoin’ means a digital asset—

7 “(i) that is or is designed to be used
8 as a means of payment or settlement;

9 “(ii) that is denominated in a national
10 currency;

11 “(iii) the issuer of which is subject to
12 the regulatory and supervisory authority of
13 a State or Federal agency;

14 “(iv) the issuer of which—

15 “(I) is obligated to convert, re-
16 deem, or repurchase for a fixed
17 amount of monetary value; or

18 “(II) represents that the digital
19 asset will maintain or creates the rea-
20 sonable expectation that the digital
21 asset will maintain a stable value rel-
22 ative to the value of a fixed amount of
23 monetary value; and

24 “(v) that is not—

25 “(I) a national currency;

1 “(II) a security issued by—

2 “(aa) an investment com-
3 pany registered under section
4 8(a) of the Investment Company
5 Act of 1940 (15 U.S.C. 80a–
6 8(a)); or

7 “(bb) a person that would
8 be an investment company under
9 the Investment Company Act of
10 1940 but for paragraphs (1) and
11 (7) of section 3(c) of that Act
12 (15 U.S.C. 80a–3(c));

13 “(III) a deposit (as defined under
14 section 3 of the Federal Deposit In-
15 surance Act (12 U.S.C. 1813)), re-
16 gardless of the technology used to
17 record such deposit; or

18 “(IV) an account (as defined in
19 section 101 of the Federal Credit
20 Union Act (12 U.S.C. 1752)), regard-
21 less of the technology used to record
22 such account.

23 “(B) MONETARY VALUE DEFINED.—The
24 term ‘monetary value’—

25 “(i) means—

1 “(I) a national currency;
 2 “(II) a deposit (as defined in sec-
 3 tion 3 of the Federal Deposit Insur-
 4 ance Act (12 U.S.C. 1813)) that is
 5 denominated in a national currency;
 6 or
 7 “(III) an account (as defined in
 8 section 101 of the Federal Credit
 9 Union Act (12 U.S.C. 1752)); and
 10 “(ii) does not include any agricultural
 11 or other physical commodity (as defined in
 12 section 1a of the Commodity Exchange Act
 13 (7 U.S.C. 1a)).

14 “(33) SECURITIES LAWS.—The term ‘securities
 15 laws’ has the meaning given that term under section
 16 3(a) of the Securities Exchange Act of 1934 (15
 17 U.S.C. 78c(a)).”.

18 **SEC. 102. DEFINITIONS UNDER THE SECURITIES EX-**
 19 **CHANGE ACT OF 1934.**

20 Section 3(a) of the Securities Exchange Act of 1934
 21 (15 U.S.C. 78c(a)) is amended—

- 22 (1) by redesignating the second paragraph (80)
 23 (relating to funding portals) as paragraph (81); and
 24 (2) by adding at the end the following:

1 “(82) BANK SECRECY ACT.—The term ‘Bank
2 Secrecy 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
8 31, United States Code.

9 “(83) ADDITIONAL DIGITAL COMMODITY-RE-
10 LATED TERMS.—

11 “(A) SECURITIES ACT OF 1933.—The
12 terms ‘blockchain system’, ‘decentralized gov-
13 ernance system’, ‘digital asset’, ‘digital com-
14 modity affiliated person’, ‘digital commodity
15 issuer’, ‘digital commodity related person’, ‘end
16 user distribution’, ‘mature blockchain system’,
17 and ‘permitted payment stablecoin’, have the
18 meaning given those terms, respectively, under
19 section 2(a) of the Securities Act of 1933 (15
20 U.S.C. 77b(a)).

21 “(B) COMMODITY EXCHANGE ACT.—The
22 terms ‘digital commodity’, ‘digital commodity
23 broker’, ‘digital commodity dealer’, ‘digital com-
24 modity exchange’, ‘decentralized finance mes-
25 saging system’, and ‘decentralized finance trad-

1 ing protocol' have the meaning given those
2 terms, respectively, under section 1a of the
3 Commodity Exchange Act (7 U.S.C. 1a).”.

4 **SEC. 103. DEFINITIONS UNDER THE COMMODITY EX-**
5 **CHANGE ACT.**

6 (a) IN GENERAL.—Section 1a of the Commodity Ex-
7 change Act (7 U.S.C. 1a) is amended—

8 (1) in paragraph (10)—

9 (A) in subparagraph (A)—

10 (i) by redesignating clauses (iii) and

11 (iv) as clauses (iv) and (v), respectively;

12 and

13 (ii) by inserting after clause (ii) the

14 following:

15 “(iii) digital commodity;” and

16 (B) by redesignating subparagraph (B) as

17 subparagraph (C) and inserting after subpara-

18 graph (A) the following:

19 “(B) EXCLUSION.—For purposes of this

20 paragraph, the term ‘trading in commodity in-

21 terests’ shall not include transacting in digital

22 commodities for the purpose of—

23 “(i) acting as a digital commodity

24 custodian;

1 “(ii) establishing, maintaining, or
2 managing inventory or payment instru-
3 ments for commercial purposes; or

4 “(iii) maintaining or supporting the
5 operation of, or validating transactions on,
6 a blockchain system.”;

7 (2) in paragraph (11)—

8 (A) in subparagraph (A)(i)—

9 (i) by redesignating subclauses (III)
10 and (IV) as subclauses (IV) and (V), re-
11 spectively; and

12 (ii) by inserting after subclause (II)
13 the following:

14 “(III) digital commodity;”; and

15 (B) by redesignating subparagraph (B) as
16 subparagraph (C) and inserting after subpara-
17 graph (A) the following:

18 “(B) EXCLUSION.—For purposes of this
19 paragraph, the term ‘trading in commodity in-
20 terests’ shall not include transacting in digital
21 commodities for the purpose of—

22 “(i) acting as a digital commodity
23 custodian;

1 “(ii) establishing, maintaining, or
2 managing inventory or payment instru-
3 ments for commercial purposes; or

4 “(iii) maintaining or supporting the
5 operation of, or validating transactions on,
6 a blockchain system.”;

7 (3) in paragraph (12)(A)(i)—

8 (A) in subclause (II), by adding at the end
9 a semicolon;

10 (B) by redesignating subclauses (III) and
11 (IV) as subclauses (IV) and (V), respectively;
12 and

13 (C) by inserting after subclause (II) the
14 following:

15 “(III) a digital commodity;”;

16 (4) by redesignating paragraphs (16) through
17 (51) as paragraphs (17) through (52), respectively,
18 and inserting after paragraph (15) the following:

19 “(16) TERMS RELATED TO DIGITAL COMMOD-
20 ITIES.—

21 “(A) ASSOCIATED PERSON OF A DIGITAL
22 COMMODITY BROKER.—

23 “(i) IN GENERAL.—Except as pro-
24 vided in clause (ii), the term ‘associated
25 person of a digital commodity broker’

1 means a person who is associated with a
2 digital commodity broker as a partner, of-
3 ficer, employee, or agent (or any person oc-
4 cupying a similar status or performing
5 similar functions) in any capacity that in-
6 volves—

7 “(I) the solicitation or acceptance
8 of an order for the purchase or sale of
9 a digital commodity; or

10 “(II) the supervision of any per-
11 son engaged in the solicitation or ac-
12 ceptance of an order for the purchase
13 or sale of a digital commodity.

14 “(ii) EXCLUSION.—The term ‘associ-
15 ated person of a digital commodity broker’
16 does not include any person associated
17 with a digital commodity broker the func-
18 tions of which are solely clerical or ministe-
19 rial.

20 “(B) ASSOCIATED PERSON OF A DIGITAL
21 COMMODITY DEALER.—

22 “(i) IN GENERAL.—Except as pro-
23 vided in clause (ii), the term ‘associated
24 person of a digital commodity dealer’
25 means a person who is associated with a

1 digital commodity dealer as a partner, offi-
2 cer, employee, or agent (or any person oc-
3 cupying a similar status or performing
4 similar functions) in any capacity that in-
5 volves—

6 “(I) the solicitation or acceptance
7 of a contract for the purchase or sale
8 of a digital commodity; or

9 “(II) the supervision of any per-
10 son engaged in the solicitation or ac-
11 ceptance of a contract for the pur-
12 chase or sale of a digital commodity.

13 “(ii) EXCLUSION.—The term ‘associ-
14 ated person of a digital commodity dealer’
15 does not include any person associated
16 with a digital commodity dealer the func-
17 tions of which are solely clerical or ministe-
18 rial.

19 “(C) BANK SECRECY ACT.—The term
20 ‘Bank Secrecy Act’ means—

21 “(i) section 21 of the Federal Deposit
22 Insurance Act (12 U.S.C. 1829b);

23 “(ii) chapter 2 of title I of Public Law
24 91–508 (12 U.S.C. 1951 et seq.); and

1 “(iii) subchapter II of chapter 53 of
2 title 31, United States Code.

3 “(D) DECENTRALIZED FINANCE MES-
4 SAGING SYSTEM.—

5 “(i) IN GENERAL.—The term ‘decen-
6 tralized finance messaging system’ means
7 a software application that provides a user
8 with the ability to create or submit an in-
9 struction, communication, or message to a
10 decentralized finance trading protocol for
11 the purpose of executing a transaction by
12 the user.

13 “(ii) ADDITIONAL REQUIREMENTS.—
14 The term ‘decentralized finance messaging
15 system’ does not include any system that
16 provides any person other than the user
17 with control over—

18 “(I) the funds of the user; or

19 “(II) the execution of the trans-
20 action of the user.

21 “(E) DECENTRALIZED FINANCE TRADING
22 PROTOCOL.—

23 “(i) IN GENERAL.—The term ‘decen-
24 tralized finance trading protocol’ means a
25 blockchain system through which multiple

1 participants can execute a financial trans-
2 action—

3 “(I) in accordance with an auto-
4 mated rule or algorithm that is pre-
5 determined and non-discretionary; and

6 “(II) without reliance on any
7 other person to maintain control of
8 the digital assets of the user during
9 any part of the financial transaction.

10 “(ii) EXCLUSIONS.—

11 “(I) IN GENERAL.—The term
12 ‘decentralized finance trading pro-
13 tocol’ does not include a blockchain
14 system if—

15 “(aa) a person or group of
16 persons under common control
17 has the unilateral authority, di-
18 rectly or indirectly, through any
19 contract, arrangement, under-
20 standing, relationship, or other-
21 wise, to control or materially
22 alter the functionality, operation,
23 or rules of consensus or agree-
24 ment of the blockchain system; or

1 “(bb) the blockchain system
2 does not operate, execute and en-
3 force its operations and trans-
4 actions based solely on pre-estab-
5 lished, transparent rules encoded
6 directly within the source code of
7 the blockchain system.

8 “(II) SPECIAL RULE.—For pur-
9 poses of subclause (I), a decentralized
10 governance system shall not be consid-
11 ered to be a person or a group of per-
12 sons under common control.

13 “(F) DIGITAL COMMODITY.—

14 “(i) IN GENERAL.—The term ‘digital
15 commodity’ means a digital asset that is
16 intrinsically linked to a blockchain system,
17 and the value of which is derived from or
18 is reasonably expected to be derived from
19 the use of the blockchain system.

20 “(ii) RELATIONSHIP TO A
21 BLOCKCHAIN SYSTEM.—For purposes of
22 this subparagraph, a digital asset is intrin-
23 sically linked to a blockchain system if the
24 digital asset is directly related to the
25 functionality or operation of the blockchain

1 system or to the activities or services for
2 which the blockchain system is created or
3 utilized, including where the digital asset
4 is—

5 “(I) issued or generated by the
6 programmatic functioning of the
7 blockchain system;

8 “(II) used to transfer value be-
9 tween participants in the blockchain
10 system;

11 “(III) used to access the activi-
12 ties or services of the blockchain sys-
13 tem;

14 “(IV) used to participate in the
15 decentralized governance system of
16 the blockchain system;

17 “(V) used or removed from cir-
18 culation in whole or in part to pay
19 fees or otherwise verify or validate
20 transactions on the blockchain system;

21 “(VI) used as payment or incen-
22 tive to participants in the blockchain
23 system to engage in the activities of
24 the blockchain system, provide serv-
25 ices to other participants in the

1 blockchain system, or otherwise par-
2 ticipate in the functionality of the
3 blockchain system; or

4 “(VII) used as payment or incen-
5 tive to participants in the blockchain
6 system to validate transactions, secure
7 the blockchain system, provide com-
8 putational services, maintain or dis-
9 tribute information, or otherwise par-
10 ticipate in the operations of the
11 blockchain system.

12 “(iii) EXCLUSION.—The term ‘digital
13 commodity’ does not include any of the fol-
14 lowing:

15 “(I) SECURITY.—

16 “(aa) Any security, other
17 than a note, an investment con-
18 tract, or a certificate of interest
19 or participation in any profit-
20 sharing agreement.

21 “(bb) A note, an investment
22 contract, or a certificate of inter-
23 est or participation in any profit-
24 sharing agreement that rep-
25 resents or gives the holder an

1 ownership interest or other inter-
2 est in the revenues, profits, obli-
3 gations, debts, assets, or assets
4 or debts to be acquired of the
5 issuer of the digital asset or an-
6 other person (other than a decen-
7 tralized governance system).

8 “(II) SECURITY DERIVATIVE.—A
9 digital asset that, based on its terms
10 and other characteristics, is, rep-
11 resents, or is functionally equivalent
12 to an agreement, contract, or trans-
13 action that is—

14 “(aa) a security future, as
15 defined in section 2a of the Secu-
16 rities Act of 1933;

17 “(bb) a security-based swap,
18 as defined in section 2a of the
19 Securities Act of 1933;

20 “(cc) a put, call, straddle,
21 option, or privilege on any secu-
22 rity, certificate of deposit, or
23 group or index of securities (in-
24 cluding any interest therein or
25 based on the value thereof), as

1 defined in section 2a of the Secu-
2 rities Act of 1933; or

3 “(dd) a put, call, straddle,
4 option, or privilege on any secu-
5 rity, as defined in section 2a of
6 the Securities Act of 1933.

7 “(III) PERMITTED PAYMENT
8 STABLECOIN.—A digital asset that is
9 a permitted payment stablecoin.

10 “(IV) BANKING DEPOSIT.—

11 “(aa) A deposit (as defined
12 under section 3 of the Federal
13 Deposit Insurance Act (12
14 U.S.C. 1813)), regardless of the
15 technology used to record the de-
16 posit.

17 “(bb) An account (as de-
18 fined in section 101 of the Fed-
19 eral Credit Union Act (12 U.S.C.
20 1752)), regardless of the tech-
21 nology used to record the ac-
22 count.

23 “(V) COMMODITY.—A digital
24 asset that references, represents an

1 interest in, or is functionally equiva-
2 lent to—

3 “(aa) an agricultural com-
4 modity;

5 “(bb) an excluded com-
6 modity, other than a security; or

7 “(cc) an exempt commodity,
8 other than the digital commodity
9 itself, as shall be further defined
10 by the Commission.

11 “(VI) COMMODITY DERIVA-
12 TIVE.—A digital asset that, based on
13 its terms and other characteristics, is,
14 represents, or is functionally equiva-
15 lent to an agreement, contract, or
16 transaction that is—

17 “(aa) a contract of sale of a
18 commodity for future delivery or
19 an option thereon;

20 “(bb) a security futures
21 product;

22 “(cc) a swap;

23 “(dd) an agreement, con-
24 tract, or transaction described in

1 section 2(c)(2)(C)(i) or
 2 2(c)(2)(D)(i);

3 “(ee) a commodity option
 4 authorized under section 4e; or

5 “(ff) a leverage transaction
 6 authorized under section 19.

7 “(VII) POOLED INVESTMENT VE-
 8 HICLE.—

9 “(aa) IN GENERAL.—A dig-
 10 ital asset that, based on its terms
 11 and other characteristics, is, rep-
 12 resents, or is functionally equiva-
 13 lent to—

14 “(AA) a commodity
 15 pool, as defined in this Act;
 16 or

17 “(BB) a pooled invest-
 18 ment vehicle.

19 “(bb) POOLED INVESTMENT
 20 VEHICLE DEFINED.—In this sub-
 21 clause, the term ‘pooled invest-
 22 ment vehicle’ means any invest-
 23 ment company as defined in sec-
 24 tion 3(a) of the Investment Com-
 25 pany Act of 1940 (15 U.S.C.

1 80a–3(a)) or any company that
2 would be an investment company
3 under section 3(a) of such Act
4 but for the exclusion provided
5 from that definition by para-
6 graph (1), (7), or (9) of section
7 3(e) of such Act (15 U.S.C. 80a–
8 3(e)(1), (7), or (9)).

9 “(VIII) GOOD, COLLECTIBLE,
10 AND OTHER NON-COMMODITY
11 ASSET.—A digital asset that has in-
12herent value, utility, or significance
13 beyond its mere existence as a digital
14 asset, including the digital equivalent
15 of a tangible or intangible good, such
16 as—

17 “(aa) a work of art, a musi-
18 cal composition, a literary work,
19 or other intellectual property;

20 “(bb) collectibles, merchan-
21 dise, virtual land, and video game
22 assets;

23 “(cc) affinity, rewards, or
24 loyalty points, including airline
25 miles or credit card points, that

1 are not primarily speculative in
2 nature; or

3 “(dd) rights, licenses, and
4 tickets.

5 “(iv) RULE OF CONSTRUCTION.—No
6 presumption shall exist that a digital asset
7 is a security, nor shall a digital asset be
8 excluded from being a digital commodity
9 pursuant to clause (iii)(I), solely due to—

10 “(I) the digital asset providing
11 voting or economic rights with respect
12 to the blockchain system to which the
13 digital asset relates or the decentral-
14 ized governance system of the
15 blockchain system;

16 “(II) the value of the digital
17 asset having the potential to appre-
18 ciate or depreciate in response to the
19 efforts, operations, or financial per-
20 formance of the decentralized govern-
21 ance system of the blockchain system
22 to which the digital asset relates; or

23 “(III) the value of the digital
24 asset appreciating or depreciating due
25 to the adoption and use of the

1 blockchain system to which the digital
2 asset relates or the decentralized gov-
3 ernance system of the blockchain sys-
4 tem.

5 “(G) DIGITAL COMMODITY BROKER.—

6 “(i) IN GENERAL.—The term ‘digital
7 commodity broker’ means any person who,
8 as a regular business—

9 “(I) is engaged in—

10 “(aa) soliciting or accepting
11 an order from a customer for—

12 “(AA) the purchase or
13 sale of a digital commodity;
14 or

15 “(BB) an agreement,
16 contract, or transaction de-
17 scribed in section
18 2(c)(2)(D)(iv); and

19 “(bb) in conjunction with
20 the activities in item (aa), ac-
21 cepts or maintains control over—

22 “(AA) the funds of any
23 customer; or

1 “(BB) the execution of
2 any transaction of a cus-
3 tomer;

4 “(II) is engaged in soliciting or
5 accepting orders from a customer for
6 the purchase or sale of a unit of a
7 digital commodity on or subject to the
8 rules of a registered entity; or

9 “(III) is registered with the Com-
10 mission as a digital commodity
11 broker.

12 “(ii) EXCEPTIONS.—The term ‘digital
13 commodity broker’ does not include a per-
14 son solely because the person—

15 “(I) solicits or accepts an order
16 described in clause (i)(I)(aa)(AA)
17 from a customer who is an eligible
18 contract participant;

19 “(II) enters into a digital com-
20 modity transaction the primary pur-
21 pose of which is to make, send, re-
22 ceive, or facilitate payments, whether
23 involving a payment service provider
24 or on a peer-to-peer basis; or

1 “(III) is a bank (as defined
2 under section 3(a) of the Securities
3 Exchange Act of 1934) engaging in
4 certain banking activities with respect
5 to a digital commodity in the same or
6 a similar manner as a bank is ex-
7 cluded from the definition of a broker
8 under such section, as determined by
9 the Commission.

10 “(iii) FURTHER DEFINITION.—The
11 Commission, by rule or regulation, may ex-
12 clude from the term ‘digital commodity
13 broker’ any person or class of persons if
14 the Commission determines that the rule
15 or regulation will effectuate the purposes
16 of this Act.

17 “(H) DIGITAL COMMODITY DEALER.—

18 “(i) IN GENERAL.—The term ‘digital
19 commodity dealer’ means any person who,
20 as a regular business—

21 “(I) is, or offers to be a
22 counterparty to a person for the pur-
23 chase or sale of a digital commodity
24 as a regular business, and in conjunc-
25 tion with the activities, accepts or

1 maintains control over the funds of
2 any counterparty; or

3 “(II) is registered with the Com-
4 mission as a digital commodity dealer.

5 “(ii) EXCEPTION.—The term ‘digital
6 commodity dealer’ does not include a per-
7 son solely because the person—

8 “(I) is or offers to be a
9 counterparty to a person who is an el-
10 igible contract participant;

11 “(II) enters into a digital com-
12 modity transaction with an eligible
13 contract participant;

14 “(III) enters into a digital com-
15 modity transaction on or through a
16 registered digital commodity ex-
17 change, with a registered digital com-
18 modity broker, or through a decentral-
19 ized finance trading protocol;

20 “(IV) enters into a digital com-
21 modity transaction for the person’s
22 own account, either individually or in
23 a fiduciary capacity, but not as a part
24 of a regular business;

1 “(V) enters into a digital com-
2 modity transaction the primary pur-
3 pose of which is to make, send, re-
4 ceive, or facilitate payments, whether
5 involving a payment service provider
6 or on a peer-to-peer basis; or

7 “(VI) is a bank (as defined under
8 section 3(a) of the Securities Ex-
9 change Act of 1934) engaging in cer-
10 tain banking activities with respect to
11 a digital commodity in the same or a
12 similar manner as a bank is excluded
13 from the definition of a dealer under
14 section 3(a)(5) of such Act, as deter-
15 mined by the Commission.

16 “(iii) FURTHER DEFINITION.—The
17 Commission, by rule or regulation, may ex-
18 clude from the term ‘digital commodity
19 dealer’ any person or class of persons if
20 the Commission determines that the rule
21 or regulation will effectuate the purposes
22 of this Act.

23 “(I) DIGITAL COMMODITY EXCHANGE.—
24 The term ‘digital commodity exchange’ means a
25 trading facility that offers or seeks to offer a

1 cash or spot market in at least 1 digital com-
2 modity.

3 “(J) MIXED DIGITAL ASSET TRANS-
4 ACTION.—The term ‘mixed digital asset trans-
5 action’ means a transaction in which a digital
6 commodity is traded for a security.

7 “(K) TERMS DEFINED UNDER THE SECU-
8 RITIES ACT OF 1933.—The terms ‘blockchain
9 system’, ‘decentralized governance system’, ‘dig-
10 ital asset’, ‘digital commodity issuer’, ‘digital
11 commodity affiliated person’, ‘digital commodity
12 related person’, ‘end user distribution’, ‘mature
13 blockchain system’, and ‘permitted payment
14 stablecoin’ have the meaning given those terms,
15 respectively, under section 2(a) of the Securities
16 Act of 1933 (15 U.S.C. 77b(a)).”; and
17 (5) in paragraph (41) (as so redesignated by
18 paragraph (4) of this subsection)—

19 (A) by striking “and” at the end of sub-
20 paragraph (E);

21 (B) by striking the period at the end of
22 subparagraph (F) and inserting “; and”; and

23 (C) by adding at the end the following:

24 “(G) a digital commodity exchange reg-
25 istered under section 5i.”.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Each of the following provisions of law is
3 amended by striking “1a(18)” and inserting
4 “1a(19)”:

5 (A) Section 4s(h)(5)(A)(i) of the Com-
6modity Exchange Act (7 U.S.C. 6s(h)(5)(A)(i)).

7 (B) Section 5(e) of the Securities Act of
8 1933 (15 U.S.C. 77e(e)).

9 (C) Section 6(g)(5)(B) of the Securities
10 Exchange Act of 1934 (15 U.S.C.
11 78f(g)(5)(B)).

12 (D) Section 15F(h)(5)(A)(i) of the Securi-
13ties Exchange Act of 1934 (15 U.S.C. 78o-
14 10(h)(5)(A)(i)).

15 (2) Section 752 of the Wall Street Trans-
16 parency and Accountability Act of 2010 (15 U.S.C.
17 8325) is amended by striking “1a(39)” and insert-
18 ing “1a(40)”.

19 (3) Section 4s(f)(1)(D) of the Commodity Ex-
20 change Act (7 U.S.C. 6s(f)(1)(D)) is amended by
21 striking “1a(47)(A)” and inserting “1a(48)(A)”.

22 (4) Each of the following provisions of the
23 Commodity Exchange Act is amended by striking
24 “1a(47)(A)(v)” and inserting “1a(48)(A)(v)”:

1 (A) Section 4t(b)(1)(C) (7 U.S.C.
2 6t(b)(1)(C)).

3 (B) Section 5(d)(23) (7 U.S.C. 7(d)(23)).

4 (C) Section 5b(k)(3) (7 U.S.C. 7a-
5 1(k)(3)).

6 (D) Section 5h(f)(10)(A)(iii) (7 U.S.C. 7b-
7 3(f)(10)(A)(iii)).

8 (5) Section 21(f)(4)(C) of the Commodity Ex-
9 change Act (7 U.S.C. 24a(f)(4)(C)) is amended by
10 striking “1a(48)” and inserting “1a(49)”.

11 (6) Section 403 of the Legal Certainty for
12 Bank Products Act of 2000 (7 U.S.C. 27a) is
13 amended—

14 (A) in subsection (a)(2), by striking
15 “1a(47)(A)(v)” and inserting “1a(48)(A)(v)”;
16 and

17 (B) in each of subsections (b)(1) and
18 (c)(2), by striking “1a(47)” and inserting
19 “1a(48)”.

20 (7) Section 712 of the Wall Street Trans-
21 parency and Accountability Act of 2010 (15 U.S.C.
22 8302) is amended—

23 (A) in subsection (a)(8), by striking
24 “1a(47)(D)” and inserting “1a(48)(D)”; and

1 (B) in subsection (d)(1), by striking
2 “1a(47)(A)(v)” each place it appears and in-
3 serting “1a(48)(A)(v)”.

4 **SEC. 104. DEFINITIONS UNDER THIS ACT.**

5 In this Act:

6 (1) **DEFINITIONS UNDER THE COMMODITY EX-**
7 **CHANGE ACT.**—The terms “decentralized finance
8 messaging system”, “decentralized finance trading
9 protocol”, “digital commodity”, “digital commodity
10 broker”, “digital commodity dealer”, “digital com-
11 modity exchange”, and “mixed digital asset trans-
12 action” have the meaning given those terms, respec-
13 tively, under section 1a of the Commodity Exchange
14 Act (7 U.S.C. 1a).

15 (2) **DEFINITIONS UNDER THE SECURITIES ACT**
16 **OF 1933.**—The terms “blockchain”, “blockchain sys-
17 tem”, “blockchain protocol”, “decentralized govern-
18 ance system”, “digital asset”, “digital commodity
19 issuer”, “end user distribution”, “mature blockchain
20 system”, “permitted payment stablecoin”, and “se-
21 curities laws” have the meaning given those terms,
22 respectively, under section 2(a) of the Securities Act
23 of 1933 (15 U.S.C. 77b(a)).

24 (3) **DEFINITIONS UNDER THE SECURITIES EX-**
25 **CHANGE ACT OF 1934.**—The terms “Bank Secrecy

1 Act”, “securities laws”, and “self-regulatory organi-
2 zation” have the meaning given those terms, respec-
3 tively, under section 3(a) of the Securities Exchange
4 Act of 1934 (15 U.S.C. 78c(a)).

5 **SEC. 105. RULEMAKINGS.**

6 (a) DEFINITIONS.—The Commodity Futures Trading
7 Commission and the Securities and Exchange Commission
8 shall jointly issue rules to further define the following
9 terms:

10 (1) The terms—

11 (A) “blockchain”, “blockchain applica-
12 tion”, “blockchain system”, “blockchain pro-
13 tocol”, “decentralized governance system”,
14 “digital commodity affiliated person”, “digital
15 commodity issuer”, “digital commodity related
16 person”, “end user distribution”, and “mature
17 blockchain system”, as defined under section
18 2(a) of the Securities Act of 1933;

19 (B) “unilateral authority”, as such term is
20 used in section 42 of the Securities Exchange
21 Act of 1934 and section 1a of the Commodity
22 Exchange Act; and

23 (C) “programmatic functioning”, as such
24 term is used in sections 4C of the Securities
25 Act of 1933, section 42 of the Securities Ex-

1 change Act of 1934, and section 1a of the Com-
2 modity Exchange Act.

3 (2) The terms “digital commodity”, “decentral-
4 ized finance messaging system”, and “decentralized
5 finance trading protocol” as defined under section
6 1a of the Commodity Exchange Act.

7 (b) JOINT RULEMAKING FOR MIXED DIGITAL ASSET
8 TRANSACTIONS.—The Securities and Exchange Commis-
9 sion and the Commodity Futures Trading Commission
10 shall jointly issue rules applicable to mixed digital asset
11 transactions under this Act and the amendments made by
12 this Act, including by further defining such term.

13 (c) PROTECTION OF SELF-CUSTODY.—

14 (1) IN GENERAL.—A United States individual
15 shall retain the right to—

16 (A) maintain a hardware wallet or software
17 wallet for the purpose of facilitating the individ-
18 ual’s own lawful custody of digital assets; and

19 (B) engage in direct, peer-to-peer trans-
20 actions in digital assets with another individual
21 or entity for the individual’s own lawful pur-
22 poses using a hardware wallet or software wal-
23 let, if—

24 (i) such other individual or entity is
25 not a financial institution (as defined in

1 section 5312 of title 31, United States
2 Code); and

3 (ii) the transactions do not involve
4 any property or interests in property that
5 are blocked pursuant to, or are otherwise
6 prohibited by, United States sanctions.

7 (2) APPLICATION.—This subsection—

8 (A) applies solely to personal use by indi-
9 viduals; and

10 (B) does not apply to individuals acting in
11 a custodial or fiduciary capacity for others.

12 (3) RULE OF CONSTRUCTION.—Nothing in this
13 subsection shall be construed to limit the authority
14 of the Secretary of the Treasury, the Securities and
15 Exchange Commission, the Commodity Futures
16 Trading Commission, or the primary Federal pay-
17 ment stablecoin regulators to carry out any enforce-
18 ment action or special measure authorized under ap-
19 plicable law, including—

20 (A) the Bank Secrecy Act, section 9714 of
21 the Combating Russian Money Laundering Act
22 (31 U.S.C. 5318A note), and section 7213A of
23 the Fentanyl Sanctions Act (21 U.S.C. 2313a);
24 or

1 (B) any other law relating to illicit finance,
2 money laundering, terrorism financing, or
3 United States sanctions.

4 (d) JOINT RULEMAKING, PROCEDURES, OR GUID-
5 ANCE FOR DELISTING.—Not later than 180 days after the
6 date of the enactment of this Act, the Commodity Futures
7 Trading Commission and the Securities and Exchange
8 Commission shall jointly issue rules, procedures, or guid-
9 ance (as determined appropriate by the Commissions) re-
10 garding the process to delist an asset for trading under
11 section 106 of this Act if the Commissions determine that
12 the listing is inconsistent with the Commodity Exchange
13 Act, the securities laws (including regulations under those
14 laws), or this Act.

15 (e) JOINT RULES FOR PORTFOLIO MARGINING DE-
16 TERMINATIONS.—

17 (1) IN GENERAL.—Not later than 360 days
18 after the date of the enactment of this Act, the
19 Commodity Futures Trading Commission and the
20 Securities and Exchange Commission shall jointly
21 issue rules describing the process for persons reg-
22 istered with either such Commission to seek a joint
23 order or determination with respect to margin, cus-
24 tomer protection, segregation, or other requirements
25 as necessary to facilitate portfolio margining of secu-

1 rities (including related extensions of credit), secu-
2 rity-based swaps, futures contracts, options on fu-
3 tures contracts, swaps, and digital commodities, or
4 any subset thereof, in—

5 (A) a securities account carried by a reg-
6 istered broker or dealer or a security-based
7 swap account carried by a registered security-
8 based swap dealer;

9 (B) a futures or cleared swap account car-
10 ried by a registered futures commission mer-
11 chant;

12 (C) a swap account carried by a swap deal-
13 er; or

14 (D) a digital commodity account carried by
15 a registered digital commodity broker or digital
16 commodity dealer that is also registered in such
17 other capacity as is necessary to also carry the
18 other customer or counterparty positions being
19 held in the account.

20 (2) PROCESS.—With respect to a joint order or
21 determination described in paragraph (1), the rules
22 required to be issued pursuant to paragraph (1)
23 shall require—

24 (A) the joint order or determination to be
25 issued only if the order or determination is in

1 the public interest and provides for the appro-
2 priate protection of customers;

3 (B) applicants to file a standard applica-
4 tion, in a form and manner determined by the
5 Securities and Exchange Commission and the
6 Commodity Futures Trading Commission,
7 which shall include the information necessary to
8 make the joint order or determination;

9 (C) the Securities and Exchange Commis-
10 sion and the Commodity Futures Trading Com-
11 mission to make a final determination not later
12 than 270 days after the filing of a completed
13 application;

14 (D) the Securities and Exchange Commis-
15 sion and the Commodity Futures Trading Com-
16 mission to consider the public interest of the
17 joint order or determination through the solici-
18 tation of public comments; and

19 (E) the Securities and Exchange Commis-
20 sion and the Commodity Futures Trading Com-
21 mission to consult with other relevant foreign or
22 domestic regulators, including the Board of
23 Governors of the Federal Reserve System, the
24 Federal Deposit Insurance Corporation, and the
25 Office of the Comptroller of the Currency.

1 **SEC. 106. PROVISIONAL REGISTRATION FOR DIGITAL COM-**
2 **MODITY EXCHANGES, BROKERS, AND DEAL-**
3 **ERS.**

4 (a) IN GENERAL.—

5 (1) PROVISIONAL REGISTRATION.—Within 180
6 days after the date of the enactment of this Act, a
7 person acting as a digital commodity exchange, dig-
8 ital commodity broker, or digital commodity dealer
9 shall file a statement of provisional registration with
10 the Commodity Futures Trading Commission (in
11 this subsection referred to as the “Commission”),
12 unless exempted from registration under section 5k
13 of the Commodity Exchange Act, as a—

14 (A) digital commodity exchange, for a per-
15 son acting as a digital commodity exchange;

16 (B) digital commodity broker, for a person
17 acting as a digital commodity broker; or

18 (C) digital commodity dealer, for a person
19 acting as a digital commodity dealer.

20 (2) CONDITIONS.—

21 (A) NON-REGISTERED ENTITIES.—A per-
22 son, other than a registered entity, who files a
23 statement of provisional registration under
24 paragraph (1) shall be considered to be in com-
25 pliance with this section if the person—

1 (i) is a member of a futures associa-
2 tion registered under section 17 of the
3 Commodity Exchange Act, and complies
4 with the rules of the association, including
5 the rules of the association pertaining to
6 customer disclosures and protection of cus-
7 tomer assets;

8 (ii) submits to the Commission, in the
9 form and manner determined by the Com-
10 mission, and continues to materially up-
11 date, as necessary or required by the Com-
12 mission, a statement of the nature of the
13 digital commodity-related activities the per-
14 son is pursuing or intends to pursue;

15 (iii) submits to the Commission and
16 continues to materially update the infor-
17 mation required by this subsection;

18 (iv) complies with subsection (c) of
19 this section; and

20 (v) pays all fees and penalties imposed
21 on the person under section 410 of this
22 Act.

23 (B) REGISTERED ENTITY.—

24 (i) IN GENERAL.—A registered entity
25 who files a statement of provisional reg-

1 istration under paragraph (1) shall be con-
2 sidered to be in compliance with this sec-
3 tion if the person—

4 (I) submits to the Commission
5 and continues to materially update, a
6 statement of the nature of the digital
7 commodity-related activities the per-
8 son is pursuing or intends to pursue;

9 (II) submits, and continues to
10 materially update, the information re-
11 quired by this subsection and sub-
12 section (b);

13 (III) complies with subsection
14 (c); and

15 (IV) pays all fees and penalties
16 imposed on the person under section
17 410.

18 (ii) DEFINITION.—In this paragraph,
19 the term “registered entity” means a per-
20 son who is designated by the Commodity
21 Futures Trading Commission as a contract
22 market or registered with the Commodity
23 Futures Trading Commission as a swap
24 execution facility.

1 (b) DISCLOSURE OF GENERAL INFORMATION.—A
2 person who files a statement of provisional registration
3 under subsection (a) shall disclose to the Commission, un-
4 less already known to the Commission, the following:

5 (1) MANAGEMENT.—Information concerning
6 the management of the person, including informa-
7 tion describing—

8 (A) the ownership and management of the
9 person;

10 (B) the financial condition of the person;

11 (C) affiliated entities;

12 (D) potential conflicts of interest;

13 (E) the address of the person, including—

14 (i) the place of incorporation;

15 (ii) principal place of business; and

16 (iii) an address for service of process;

17 and

18 (F) a list of the States in which the person
19 has operations.

20 (2) DIGITAL COMMODITY OPERATIONS.—Infor-
21 mation concerning the digital commodity operations
22 of the person, including—

23 (A) a general description of the person's
24 business and the terms of service for United
25 States customers;

- 1 (B) a description of the person's account
2 approval process;
- 3 (C) any rulebook or other customer order
4 fulfillment rules or procedures;
- 5 (D) risk management procedures;
- 6 (E) a description of the product listing
7 process; and
- 8 (F) policies and procedures for compliance
9 with the Bank Secrecy Act.

10 (c) REQUIREMENTS.—A person who files a statement
11 of provisional registration under subsection (a) shall com-
12 ply with the following requirements:

13 (1) STATUTORY DISQUALIFICATIONS.—Except
14 to the extent otherwise specifically provided by the
15 Commission or any registered futures association
16 rule, regulation, or order, the person shall not per-
17 mit an individual who is subject to a statutory dis-
18 qualification under paragraph (2) or (3) of section
19 8a of the Commodity Exchange Act or subject to a
20 statutory disqualification as defined in section 3(a)
21 of the Securities Exchange Act of 1934 (15 U.S.C.
22 78c(a)) to effect or be involved in effecting trans-
23 actions on behalf of the person, if the person knew,
24 or in the exercise of reasonable care should have
25 known, of the statutory disqualification.

1 (2) BOOKS AND RECORDS.—The person shall
2 keep their books and records open to inspection and
3 examination by the Commission and by any reg-
4 istered futures association or national securities as-
5 sociation of which the person is a member.

6 (3) CUSTOMER DISCLOSURES.—The person
7 shall disclose to customers—

8 (A) information about the material risks
9 and characteristics of the assets listed for trad-
10 ing on the person;

11 (B) information about the legal entity that
12 custodies customer assets and the general man-
13 ner in which the digital assets of the customer
14 will be and are custodied;

15 (C) information concerning the policies and
16 procedures of the person that are related to the
17 protection of customers of the person, including
18 information regarding any conflicts of interest
19 or material affiliates; and

20 (D) in their disclosure documents, offering
21 documents, and promotional material—

22 (i) in a prominent manner, that they
23 are not registered with or regulated by the
24 Commission; and

1 (ii) the contact information for the
2 whistleblower, complaint, and reparation
3 programs of the Commission.

4 (d) AUTHORITY.—

5 (1) IN GENERAL.—

6 (A) DEEMED REGISTRATION.—A person
7 who remains in compliance with the require-
8 ments of this section is deemed to be—

9 (i) a registered digital commodity ex-
10 change, pursuant to section 5i, if the per-
11 son filed a statement of provisional reg-
12 istration as a digital commodity exchange;
13 or

14 (ii) a registered digital commodity
15 broker or dealer, pursuant to section 4u, if
16 the person filed a statement of provisional
17 registration as a digital commodity broker
18 or dealer, as the case may be.

19 (B) SUNSET.—The applicability of sub-
20 paragraph (A) shall expire—

21 (i) in the case of a digital commodity
22 exchange deemed registered pursuant to
23 subparagraph (A)(i), 180 days after the
24 final effective date of the rulemakings re-
25 quired under 5i; or

1 (ii) in the case of a digital commodity
2 broker or dealer deemed registered pursu-
3 ant to subparagraph (A)(ii), 180 days
4 after the final effective date of the
5 rulemakings required under 4u.

6 (2) SUPERIORITY OF COMMISSION-ADOPTED RE-
7 QUIREMENTS.—The requirements of the preceding
8 provisions of this section shall not supersede any re-
9 quirements applicable to registered persons adopted
10 by the Commission under the Commodity Exchange
11 Act.

12 (e) DELISTING.—This section shall not be construed
13 to limit the authority of the Commission and the Securi-
14 ties and Exchange Commission to jointly require a person
15 to delist an asset for trading if the Commission and the
16 Securities and Exchange Commission determine, in ac-
17 cordance with rules, procedures or guidance jointly issued
18 by the Commission and the Securities and Exchange Com-
19 mission to delist an asset for trading, that the listing is
20 inconsistent with the Commodity Exchange Act, the secu-
21 rities laws (including regulations under those laws), or this
22 Act.

23 (f) REGISTRATION.—A person may not file a state-
24 ment of provisional registration with the Commission after
25 the Commission has finalized its rules for the registration

1 of digital commodity exchanges, digital commodity bro-
2 kers, or digital commodity dealers, as appropriate.

3 (g) RULEMAKING.—

4 (1) IN GENERAL.—Within 180 days after the
5 date of the enactment of this Act, a registered fu-
6 tures association shall adopt and enforce rules appli-
7 cable to persons required by subsection (a)(2) to be
8 members of the association.

9 (2) FEES.—The rules adopted under subpara-
10 graph (A) of this paragraph may provide for dues in
11 accordance with section 17(b)(6) of the Commodity
12 Exchange Act.

13 (3) EFFECT.—A registered futures association
14 shall submit to the Commission any rule adopted
15 under subparagraph (A) of this paragraph, which
16 shall take effect pursuant to the requirements of sec-
17 tion 17(j) of the Commodity Exchange Act.

18 (h) LIABILITY OF THE FILER.—It shall be unlawful
19 for any person to provide false information in support of
20 a filing under this section if the person knew or reasonably
21 should have known that the information was false.

22 (i) WHISTLEBLOWER ENFORCEMENT.—For purposes
23 of section 23 of the Commodity Exchange Act, the term
24 “this Act” includes this section.

25 (j) FEDERAL PREEMPTION.—

1 (1) This section shall supersede any State or
2 local law (other than antifraud provisions of general
3 applicability) that regulates the offer or sale of dig-
4 ital assets in the case of a transaction conducted in
5 compliance with this section and conducted on or
6 through a person who files a statement of provi-
7 sional registration under subsection (a) and complies
8 with the requirements of this section.

9 (2) Notwithstanding any other provision of law,
10 the Commission shall have exclusive jurisdiction over
11 the digital asset activities of a person who—

12 (A) files a statement of provisional reg-
13 istration under subsection (a); and

14 (B) complies with the requirements of this
15 section.

16 **SEC. 107. COMMODITY EXCHANGE ACT AND SECURITIES**
17 **LAWS SAVINGS PROVISIONS.**

18 (a) IN GENERAL.—Nothing in this Act shall affect
19 or apply to, or be interpreted to affect or apply to—

20 (1) any agreement, contract, or transaction that
21 is subject to the Commodity Exchange Act as—

22 (A) a contract of sale of a commodity for
23 future delivery or an option on such a contract;

24 (B) a swap;

25 (C) a security futures product;

1 (D) an option authorized under section 4c
2 of such Act;

3 (E) an agreement, contract, or transaction
4 described in section 2(c)(2)(C)(i) of such Act;
5 or

6 (F) a leverage transaction authorized
7 under section 19 of such Act;

8 (2) any agreement, contract, or transaction that
9 is subject to the securities laws as—

10 (A) a security-based swap;

11 (B) a security futures product; or

12 (C) an option on or based on the value of
13 a security; or

14 (3) the activities of any person with respect to
15 any such agreement, contract, or transaction.

16 (b) PROHIBITIONS ON SPOT DIGITAL COMMODITY
17 ENTITIES.—Nothing in this Act authorizes, or shall be in-
18 terpreted to authorize, a digital commodity exchange, dig-
19 ital commodity broker, or digital commodity dealer to en-
20 gage in any activities involving any transaction, contract,
21 or agreement described in subsection (a)(1), solely by vir-
22 tue of being registered or filing a statement of provisional
23 registration as a digital commodity exchange, digital com-
24 modity broker, or digital commodity dealer.

1 (c) DEFINITIONS.—In this section, each term shall
2 have the meaning provided in the Commodity Exchange
3 Act or the regulations prescribed under such Act.

4 **SEC. 108. ADMINISTRATIVE REQUIREMENTS.**

5 Section 4c(a) of the Commodity Exchange Act (7
6 U.S.C. 6c(a)) is amended—

7 (1) in paragraph (3)—

8 (A) in subparagraph (B), by striking “or”
9 at the end;

10 (B) in subparagraph (C), by striking the
11 period and inserting “; or”; and

12 (C) by adding at the end the following:

13 “(D) a contract of sale of a digital com-
14 modity.”;

15 (2) in paragraph (4)—

16 (A) in subparagraph (A)—

17 (i) in clause (ii), by striking “or” at
18 the end;

19 (ii) in clause (iii), by striking the pe-
20 riod and inserting “; or”; and

21 (iii) by adding at the end the fol-
22 lowing:

23 “(iv) a contract of sale of a digital
24 commodity.”;

25 (B) in subparagraph (B)—

1 (i) in clause (ii), by striking “or” at
2 the end;

3 (ii) in clause (iii), by striking the pe-
4 riod and inserting “; or”; and

5 (iii) by adding at the end the fol-
6 lowing:

7 “(iv) a contract of sale of a digital
8 commodity.”; and

9 (C) in subparagraph (C)—

10 (i) in clause (ii), by striking “or” at
11 the end;

12 (ii) by striking “(iii) a swap, provided
13 however,” and inserting the following:

14 “(iii) a swap; or

15 “(iv) a contract of sale of a digital
16 commodity,

17 provided, however,”; and

18 (iii) by striking “clauses (i), (ii), or
19 (iii)” and insert “any of clauses (i)
20 through (iv)”.

21 **SEC. 109. INTERNATIONAL COOPERATION.**

22 In order to promote greater consistency in effective
23 and consistent global regulation of digital assets, the Com-
24 modity Futures Trading Commission and the Securities
25 and Exchange Commission, as appropriate—

1 (1) shall consult and coordinate with foreign
2 regulatory authorities on the application of con-
3 sistent international standards with respect to the
4 regulation of digital assets; and

5 (2) may enter into such information-sharing ar-
6 rangements as may be deemed to be necessary or
7 appropriate in the public interest or for the protec-
8 tion of investors, customers, and users of digital as-
9 sets.

10 **SEC. 110. IMPLEMENTATION.**

11 (a) GLOBAL RULEMAKING TIMEFRAME.—Unless oth-
12 erwise provided in this Act or an amendment made by this
13 Act, the Commodity Futures Trading Commission and the
14 Securities and Exchange Commission, or both, shall indi-
15 vidually, and jointly where required, promulgate rules and
16 regulations required of each Commission under this Act
17 or an amendment made by this Act not later than 360
18 days after the date of enactment of this Act.

19 (b) RULES AND REGISTRATION BEFORE FINAL EF-
20 FECTIVE DATES.—

21 (1) IN GENERAL.—In order to prepare for the
22 implementation of this Act, the Commodity Futures
23 Trading Commission and the Securities and Ex-
24 change Commission may, before any effective date
25 provided in this Act—

1 (A) promulgate rules, regulations, or or-
2 ders permitted or required by this Act;

3 (B) conduct studies and prepare reports
4 and recommendations required by this Act;

5 (C) register persons under this Act; and

6 (D) exempt persons, agreements, contracts,
7 or transactions from provisions of this Act,
8 under the terms contained in this Act.

9 (2) LIMITATION ON EFFECTIVENESS.—An ac-
10 tion by the Commodity Futures Trading Commission
11 or the Securities and Exchange Commission under
12 paragraph (1) shall not become effective before the
13 effective date otherwise applicable to the action
14 under this Act.

15 **SEC. 111. APPLICATION OF THE BANK SECRECY ACT.**

16 (a) IN GENERAL.—Section 5312(c)(1)(A) of title 31,
17 United States Code, is amended—

18 (1) by inserting “digital commodity broker, dig-
19 ital commodity dealer,” after “futures commission
20 merchant,”; and

21 (2) by inserting before the period the following:
22 “and any digital commodity exchange registered, or
23 required to register, under the Commodity Exchange
24 Act which permits direct customer access”.

25 (b) GAO STUDY.—

1 (1) IN GENERAL.—The Comptroller General of
2 the United States, in consultation with the Secretary
3 of the Treasury, shall conduct a study to—

4 (A) assess the risks posed by centralized
5 intermediaries that are primarily located in for-
6 eign jurisdictions that provide services to U.S.
7 persons without regulatory requirements that
8 are substantially similar to the requirements of
9 the Bank Secrecy Act; and

10 (B) provide any regulatory or legislative
11 recommendations to address these risks under
12 subparagraph (A).

13 (2) REPORT.—Not later than 1 year after the
14 date of enactment of this Act, the Comptroller Gen-
15 eral shall issue a report to Congress containing all
16 findings and determinations made in carrying out
17 the study required under paragraph (1).

18 **TITLE II—OFFERS AND SALES OF**
19 **DIGITAL COMMODITIES**

20 **SEC. 201. TREATMENT OF INVESTMENT CONTRACT ASSETS.**

21 (a) SECURITIES ACT OF 1933.—Section 2(a) of the
22 Securities Act of 1933 (15 U.S.C. 77b(a)), as amended
23 by section 101, is further amended—

1 (1) in paragraph (1), by adding at the end the
2 following: “The term ‘investment contract’ does not
3 include an investment contract asset.”; and

4 (2) by adding at the end the following:

5 “(36) The term ‘investment contract asset’
6 means a digital commodity—

7 “(A) that can be exclusively possessed and
8 transferred, person to person, without necessary
9 reliance on an intermediary, and is recorded on
10 a blockchain; and

11 “(B) sold or otherwise transferred, or in-
12 tended to be sold or otherwise transferred, pur-
13 suant to an investment contract.”.

14 (b) INVESTMENT ADVISERS ACT OF 1940.—Section
15 202(a)(18) of the Investment Advisers Act of 1940 (15
16 U.S.C. 80b-2(a)(18)) is amended by adding at the end
17 the following: “The term ‘investment contract’ does not
18 include an investment contract asset (as such term is de-
19 fined under section 2(a) of the Securities Act of 1933).”.

20 (c) INVESTMENT COMPANY ACT OF 1940.—Section
21 2(a)(36) of the Investment Company Act of 1940 (15
22 U.S.C. 80a-2(a)(36)) is amended by adding at the end
23 the following: “The term ‘investment contract’ does not
24 include an investment contract asset (as such term is de-
25 fined under section 2(a) of the Securities Act of 1933).”.

1 (d) SECURITIES EXCHANGE ACT OF 1934.—Section
2 3(a)(10) of the Securities Exchange Act of 1934 (15
3 U.S.C. 78c(a)(10)) is amended by adding at the end the
4 following: “The term ‘investment contract’ does not in-
5 clude an investment contract asset (as such term is de-
6 fined under section 2(a) of the Securities Act of 1933).”.

7 (e) SECURITIES INVESTOR PROTECTION ACT OF
8 1970.—Section 16(14) of the Securities Investor Protec-
9 tion Act of 1970 (15 U.S.C. 78lll(14)) is amended by add-
10 ing at the end the following: “The term ‘investment con-
11 tract’ does not include an investment contract asset (as
12 such term is defined under section 2(a) of the Securities
13 Act of 1933).”.

14 **SEC. 202. EXEMPTED PRIMARY TRANSACTIONS IN DIGITAL**
15 **COMMODITIES.**

16 (a) IN GENERAL.—The Securities Act of 1933 (15
17 U.S.C. 77a et seq.) is amended—

18 (1) in section 4(a), by adding at the end the
19 following:

20 “(8) the offer or sale of an investment contract
21 involving units of a digital commodity by its digital
22 commodity issuer (including all entities controlled by
23 or under common control with the issuer), if—

24 “(A) the blockchain system to which the
25 digital commodity relates, together with the dig-

1 ital commodity, is certified as a mature
2 blockchain system under section 42 of the Secu-
3 rities Exchange Act of 1934 or the issuer in-
4 tends for the blockchain system to which the
5 digital commodity relates to be a mature
6 blockchain system by the later of—

7 “(i) the date that is four years after
8 the first sale of the investment contract in-
9 volving such digital commodity; or

10 “(ii) the date that is four years after
11 the effective date of this paragraph;

12 “(B) the sum of all cash and other consid-
13 eration to be received by the digital commodity
14 issuer in reliance on the exemption provided
15 under this paragraph, during the 12-month pe-
16 riod preceding the date of such offering, includ-
17 ing the amount received in such offering, is not
18 more than \$75,000,000 (as such amount is an-
19 nually adjusted by the Commission to reflect
20 the change in the Consumer Price Index for All
21 Urban Consumers published by the Bureau of
22 Labor Statistics of the Department of Labor);

23 “(C) after the completion of the trans-
24 action, a purchaser does not own more than 10

1 percent of the total amount of the outstanding
2 units of the digital commodity;

3 “(D) the transaction does not involve the
4 offer or sale of an investment contract involving
5 units of a digital commodity by its digital com-
6 modity issuer that—

7 “(i) is not organized under the laws of
8 a State, a territory of the United States,
9 or the District of Columbia;

10 “(ii) is a development stage company
11 that either—

12 “(I) has no specific business plan
13 or purpose; or

14 “(II) has indicated that the busi-
15 ness plan of the company is to merge
16 with or acquire an unidentified com-
17 pany;

18 “(iii) is an investment company, as
19 defined in section 3 of the Investment
20 Company Act of 1940 (15 U.S.C. 80a-3),
21 or is excluded from the definition of invest-
22 ment company by section 3(b) or section
23 3(c) of that Act (15 U.S.C. 80a-3(b) or
24 80a-3(c));

1 “(iv) is issuing fractional undivided
2 interests in oil or gas rights, or a similar
3 interest in other mineral rights;

4 “(v) is, or has been, subject to any
5 order of the Commission entered pursuant
6 to section 12(j) of the Securities Exchange
7 Act of 1934 during the 5-year period be-
8 fore the filing of the offering statement; or

9 “(vi) is disqualified pursuant to sec-
10 tion 230.262 of title 17, Code of Federal
11 Regulations; and

12 “(E) the issuer meets the requirements of
13 section 4B(b).”; and

14 (2) by inserting after section 4A the following:

15 **“SEC. 4B. REQUIREMENTS WITH RESPECT TO CERTAIN DIG-**
16 **ITAL COMMODITY TRANSACTIONS.**

17 “(a) COMMISSION JURISDICTION.—For the purposes
18 of this section:

19 “(1) The Commission shall have jurisdiction
20 and enforcement authority with respect to disclo-
21 sures described in this section.

22 “(2) Section 17 shall apply to a statement
23 made in an offering statement, disclosure, or report
24 filed under this section to the same extent as such
25 section 17 applies to a statement made in any other

1 offering statement, disclosure, or report filed under
2 this Act.

3 “(b) REQUIREMENTS FOR DIGITAL COMMODITY
4 ISSUERS.—

5 “(1) TERMS AND CONDITIONS.—A digital com-
6 modity issuer offering or selling an investment con-
7 tract involving units of a digital commodity in reli-
8 ance on section 4(a)(8) shall file with the Commis-
9 sion an offering statement and any related docu-
10 ments, in such form and with such content as pre-
11 scribed by the Commission, including financial infor-
12 mation, a description of the issuer and the oper-
13 ations of the issuer, the financial condition of the
14 issuer, a description of the plan of distribution of
15 any unit of a digital commodity that is to be offered
16 as well as the intended use of the offering proceeds,
17 and a description of the development plan for the
18 blockchain system, and the related digital com-
19 modity, to become a mature blockchain system, if
20 such blockchain system is not already certified as a
21 mature blockchain system pursuant to section 42 of
22 the Securities Exchange Act of 1934 (15 U.S.C. 78a
23 et seq.).

24 “(2) INFORMATION REQUIRED FOR PUR-
25 CHASERS.—A digital commodity issuer that has filed

1 a statement under paragraph (1) to offer and sell an
2 investment contract involving a unit of a digital
3 commodity in reliance on section 4(a)(8) shall in-
4 clude in such statement the following information:

5 “(A) MATURITY STATUS.—Whether the
6 blockchain system to which the digital com-
7 modity relates has been certified as a mature
8 blockchain system pursuant to section 42 of the
9 Securities Exchange Act of 1934 (15 U.S.C.
10 78a et seq.) and, where such blockchain system
11 is not so certified, a statement of the digital
12 commodity issuer’s intent for the blockchain
13 system to which the digital commodity relates
14 to be a mature blockchain system within the
15 time period described in section 4(a)(8)(A).

16 “(B) SOURCE CODE.—The source code, or
17 a publicly accessible webpage displaying such
18 source code, for any blockchain system to which
19 the digital commodity relates, and whether the
20 source code was sourced from an external third
21 party, whether there are any existing external
22 dependencies, and whether the code underwent
23 a third-party security audit.

24 “(C) TRANSACTION HISTORY.—A descrip-
25 tion of the steps necessary to independently ac-

1 cess, search, and verify the transaction history
2 of any blockchain system to which the digital
3 commodity relates, to the extent any such inde-
4 pendent access, search, and verification activi-
5 ties are technically feasible with respect to such
6 blockchain system.

7 “(D) DIGITAL COMMODITY ECONOMICS.—
8 A description of the purpose of any blockchain
9 system to which the digital commodity relates
10 and the operation of any such blockchain sys-
11 tem, including—

12 “(i) information explaining the launch
13 and supply process, including the number
14 of units of the digital commodity to be
15 issued in an initial allocation, the total
16 number of units of the digital commodity
17 to be created, the release schedule for the
18 units of the digital commodity, and the
19 total number of units of the digital com-
20 modity outstanding;

21 “(ii) information explaining the tech-
22 nical requirements for holding, accessing,
23 and transferring the digital commodity;

24 “(iii) information on any applicable
25 consensus mechanism or process for vali-

1 dating transactions, method of generating
2 or mining digital commodities, and any
3 process for burning or destroying units of
4 the digital commodity on the blockchain
5 system;

6 “(iv) an explanation of any mecha-
7 nism for driving value to the digital com-
8 modity of such blockchain system; and

9 “(v) an explanation of governance
10 mechanisms for implementing changes to
11 the blockchain system or forming con-
12 sensus among holders of units of such dig-
13 ital commodity.

14 “(E) PLAN OF DEVELOPMENT.—The cur-
15 rent state and timeline for the development of
16 any blockchain system to which the digital com-
17 modity relates, detailing how and when the
18 blockchain system is intended to be a mature
19 blockchain system, if the blockchain system is
20 not yet certified as a mature blockchain system,
21 and the various roles that exist or are intended
22 to exist in connection with the blockchain sys-
23 tem, such as users, service providers, devel-
24 opers, transaction validators, and governance
25 participants, including a discussion of any

1 mechanisms by which control or authority are
2 exerted with respect to the blockchain system or
3 its related digital commodity, and any critical
4 operational dependencies of the blockchain sys-
5 tem or its related digital commodity.

6 “(F) OWNERSHIP DISCLOSURES.—

7 “(i) IN GENERAL.—A list of all per-
8 sons who are digital commodity related
9 persons or digital commodity affiliated per-
10 sons who have been issued a unit of the
11 digital commodity by the digital commodity
12 issuer or have a right to a unit of the dig-
13 ital commodity from the digital commodity
14 issuer.

15 “(ii) CONFIDENTIALITY.—The Com-
16 mission shall keep each list described
17 under clause (i) confidential, consistent
18 with what is necessary or appropriate in
19 the public interest or for the protection of
20 investors.

21 “(G) RISK FACTOR DISCLOSURES.—A de-
22 scription of the material risks surrounding own-
23 ership of a unit of a digital commodity.

24 “(3) ONGOING DISCLOSURE REQUIREMENTS
25 FOR MATURING BLOCKCHAIN SYSTEMS.—Subject to

1 paragraph (5), the issuer of a digital commodity re-
2 lated to a blockchain system that is not yet certified
3 as a mature blockchain system that has filed a state-
4 ment under paragraph (1) to offer and sell an in-
5 vestment contract involving a unit of a digital com-
6 modity in reliance on section 4(a)(8) shall file the
7 following with the Commission:

8 “(A) SEMIANNUAL REPORTS.—Every 6
9 months, a report containing—

10 “(i) an updated description of the cur-
11 rent state and timeline for the development
12 of the blockchain system to which the dig-
13 ital commodity relates, showing how and
14 when the blockchain is intended to be a
15 mature blockchain system;

16 “(ii) a description of the efforts of the
17 issuer and digital commodity related per-
18 sons in developing the blockchain system to
19 which the digital commodity relates; and

20 “(iii) the amount of money raised by
21 the digital commodity issuer in reliance on
22 section 4(a)(8), how much of that money
23 has been spent, and the general categories
24 of activities for which that money has been
25 spent and amounts spent per category.

1 “(B) CURRENT REPORTS.—A current re-
2 port reflecting any material changes relevant to
3 the information previously reported to the Com-
4 mission by the digital commodity issuer, which
5 shall be filed as soon as practicable after the
6 material change occurred, in accordance with
7 such rules as the Commission may prescribe as
8 necessary or appropriate in the public interest
9 or for the protection of investors.

10 “(4) RULEMAKING.—Not later than 360 days
11 after the date of the enactment of this section, the
12 Commission shall prescribe rules on requirements
13 applicable to issuers of digital commodities in reli-
14 ance on section 4(a)(8).

15 “(5) TERMINATION OF CERTAIN REPORTING
16 REQUIREMENTS; POST-MATURITY REPORTING RE-
17 QUIREMENTS.—

18 “(A) IN GENERAL.—The ongoing reporting
19 requirements under paragraph (3) shall not
20 apply to a digital commodity issuer 180 days
21 after the end of the covered fiscal year, if the
22 information with respect to the digital com-
23 modity and the blockchain system to which it
24 relates described in subparagraphs (A) through
25 (C) of paragraph (2) is made publicly available

1 and the disclosure requirements under subpara-
2 graph (C) of this paragraph are satisfied.

3 “(B) COVERED FISCAL YEAR DEFINED.—

4 In this paragraph, the term ‘covered fiscal year’
5 means, with respect to a digital commodity, the
6 first fiscal year of a digital commodity issuer in
7 which the blockchain system to which such dig-
8 ital commodity relates is certified as a mature
9 blockchain system under section 42 of the Secu-
10 rities Exchange Act of 1934.

11 “(C) POST-MATURITY REPORTING RE-
12 QUIREMENTS.—After the blockchain system to
13 which a digital commodity relates is certified as
14 a mature blockchain system under section 42 of
15 the Securities Exchange Act of 1934, any dig-
16 ital commodity issuer that has filed a statement
17 under paragraph (1) to offer and sell an invest-
18 ment contract involving a unit of a digital com-
19 modity in reliance on section 4(a)(8) and is en-
20 gaged in material ongoing efforts related to the
21 mature blockchain system shall disclose, in a
22 manner reasonably calculated to inform the
23 public, and at such frequency as the Commis-
24 sion may prescribe, by rule, a description of
25 such efforts, including—

1 “(i) any participation in a decentral-
2 ized governance system of such blockchain
3 system;

4 “(ii) any participation in alterations
5 or proposed alterations to the functionality
6 or operation of such blockchain system;

7 “(iii) the use or planned use of any
8 funds raised in reliance on section 4(a)(8)
9 or any rulemaking pursuant to section
10 202(d) of the CLARITY Act of 2025 in
11 such efforts;

12 “(iv) the amount of units of the dig-
13 ital commodity, or rights thereto, owned
14 and controlled by such issuer and any use,
15 sale, trading, or other disposition thereof;
16 and

17 “(v) any affiliations of such issuer
18 material to the efforts of such issuer.

19 “(D) RULE OF CONSTRUCTION.—Nothing
20 in subparagraph (C) may be construed to make
21 any digital commodity described in such sub-
22 paragraph a security.

23 “(c) REQUIREMENTS FOR INTERMEDIARIES.—A per-
24 son acting as an intermediary in connection with the offer

1 or sale of an investment contract involving units of a dig-
2 ital commodity in reliance on section 4(a)(8) shall—

3 “(1) register with the Commission as a broker
4 or dealer; and

5 “(2) be a member of a national securities asso-
6 ciation registered under section 15A of the Securi-
7 ties Exchange Act of 1934 (15 U.S.C. 78o–3).

8 “(d) DISQUALIFICATION PROVISIONS.—The Commis-
9 sion shall issue rules to apply the disqualification provi-
10 sions under section 230.262 of title 17, Code of Federal
11 Regulations, to the exemption provided under section
12 4(a)(8).

13 “(e) FAILURE TO MATURE.—

14 “(1) IN GENERAL.—Not later than 270 days
15 after the date of the enactment of this section, the
16 Commission shall issue rules applying such addi-
17 tional obligations and disclosures for the digital com-
18 modity issuers, digital commodity related persons,
19 and digital commodity affiliated persons of a
20 blockchain system described under subsection (b)(1)
21 that does not become a mature blockchain system
22 within the time period described in section
23 4(a)(8)(A) as are necessary or appropriate in the
24 public interest or for the protection of investors.

1 Such obligations and disclosures shall include the
2 following:

3 “(A) DISCLOSURES.—Disclosures regard-
4 ing the following:

5 “(i) FAILURE TO MATURE.—The ma-
6 terial reasons that the blockchain system
7 has not become a mature blockchain sys-
8 tem within the time period described in
9 section 4(a)(8)(A).

10 “(ii) DEVELOPMENT PLANS.—The fu-
11 ture plans of development of the
12 blockchain system, including information
13 required under subsection (b)(3).

14 “(iii) RISK FACTOR DISCLOSURES.—
15 The material risks surrounding ownership
16 of a unit of a digital commodity that re-
17 lates to a blockchain system described
18 under subsection (b)(1) that has not be-
19 come a mature blockchain system within
20 the time period described in section
21 4(a)(8)(A).

22 “(B) OBLIGATIONS.—Transaction report-
23 ing and beneficial ownership disclosure obliga-
24 tions applicable to digital commodity related

1 persons and digital commodity affiliated per-
2 sons of such blockchain system.

3 “(2) QUALIFICATION REQUIRED.—The Com-
4 mission may not permit any additional raising of
5 capital by the issuer of a digital commodity related
6 to a blockchain system described under subsection
7 (a)(1) that has not become a mature blockchain sys-
8 tem within the time period described in section
9 4(a)(8)(A) unless the Commission has qualified any
10 offering statement related to such additional raising
11 of capital.”.

12 (b) ADDITIONAL EXEMPTIONS.—

13 (1) CERTAIN REGISTRATION REQUIREMENTS.—
14 Section 12(g)(6) of the Securities Exchange Act of
15 1934 (15 U.S.C. 78l(g)(6)) is amended by striking
16 “under section 4(6)” and inserting “under section
17 4(a)(6) or 4(a)(8)”.

18 (2) EXEMPTION FROM STATE REGULATION.—
19 Section 18(b)(4) of the Securities Act of 1933 (15
20 U.S.C. 77r(b)(4)) is amended—

21 (A) in section (B), by striking “section
22 4(4)” and inserting “section 4(a)(4)”;

23 (B) in section (C), by striking “section
24 4(6)” and inserting “section 4(a)(6)”;

25 (C) in subparagraph (F)—

1 (i) by striking “section 4(2)” each
2 place such term appears and inserting
3 “section 4(a)(2)”; and

4 (ii) by striking “or” at the end;
5 (D) in subparagraph (G), by striking the
6 period and inserting “; or”; and

7 (E) by adding at the end the following:
8 “(H) section 4(a)(8).”.

9 (c) PRIOR ISSUERS.—

10 (1) REPORTING EXCEPTION.—With respect to a
11 digital commodity, the digital commodity issuer shall
12 not be required to file the reports otherwise required
13 under section 4B(b)(3) of the Securities Act of 1933
14 (or, with respect to a digital commodity not issued
15 in reliance on section 4(a)(8) of the Securities Act
16 of 1933, a comparable set of reports specified by the
17 Securities and Exchange Commission), if the digital
18 commodity issuer—

19 (A) last offered or sold an investment con-
20 tract involving a unit of the digital commodity
21 prior to January 1, 2020; or

22 (B) both—

23 (i) last offered or sold an investment
24 contract involving a unit of the digital

1 commodity between January 1, 2020, and
2 June 1, 2025; and

3 (ii) is no longer engaged in material
4 ongoing efforts related to the blockchain
5 system to which the digital commodity re-
6 lates.

7 (2) REPORTING APPLICATION DATE FOR CER-
8 TAIN PRIOR ISSUERS.—With respect to a digital
9 commodity, if the digital commodity issuer is en-
10 gaged in material ongoing efforts related to the
11 blockchain system to which the digital commodity re-
12 lates and last offered and sold an investment con-
13 tract involving a unit of the digital commodity be-
14 tween January 1, 2020, and June 1, 2025, the dig-
15 ital commodity issuer shall file with the Commission
16 a comparable set of reports to the reports described
17 under, as applicable, section 4B(b)(3) or
18 4B(b)(5)(C) of the Securities Act of 1933, where re-
19 quired by the Commission, not later than one year
20 after the effective date of this section.

21 (d) USE OF OTHER EXEMPTIONS.—

22 (1) RULE OF CONSTRUCTION.—Nothing in this
23 section or the amendments made by this section may
24 be construed as prohibiting the offer or sale of an
25 investment contract involving units of a digital com-

1 modity in reliance on an exemption provided under
2 section 3, 4(a), or 19 of the Securities Act of 1933
3 other than that provided under section 4(a)(8) of the
4 Securities Act of 1933.

5 (2) RULEMAKING.—The Securities and Ex-
6 change Commission may issue rules—

7 (A) to permit the issuer of a digital com-
8 modity related to a blockchain system described
9 under section 4B(b)(1) of the Securities Act of
10 1933 that has not become a mature blockchain
11 system within the time period described in sec-
12 tion 4(a)(8)(A) of such Act to raise capital pur-
13 suant to an exempt offering, if the Commission
14 qualifies any offering statement related to such
15 raising of capital; and

16 (B) for the offer and sale of investment
17 contracts involving units of a digital commodity
18 by issuers that are not organized under the
19 laws of a State, a territory of the United
20 States, or the District of Columbia.

21 **SEC. 203. TREATMENT OF SECONDARY TRANSACTIONS IN**
22 **DIGITAL COMMODITIES THAT ORIGINALLY**
23 **INVOLVED INVESTMENT CONTRACTS.**

24 (a) SECONDARY MARKET TREATMENT.—Notwith-
25 standing any other provision of law, the offer or sale of

1 a digital commodity that originally involved an investment
2 contract by a person other than the issuer of such digital
3 commodity, or an agent or underwriter thereof, shall be
4 deemed not to be an offer or sale of the investment con-
5 tract originally involving the digital commodity between
6 the issuer of the investment contract involving the digital
7 commodity, or an agent or underwriter thereof, and the
8 purchaser of such digital commodity under—

9 (1) the Securities Act of 1933 (15 U.S.C. 77a
10 et seq.);

11 (2) the Investment Advisers Act of 1940 (15
12 U.S.C. 80b–1 et seq.);

13 (3) the Investment Company Act of 1940 (15
14 U.S.C. 80a–1 et seq.);

15 (4) the Securities Exchange Act of 1934 (15
16 U.S.C. 78a et seq.);

17 (5) the Securities Investor Protection Act of
18 1970 (15 U.S.C. 78aaa et seq.); and

19 (6) any applicable provisions of State law.

20 (b) END USER DISTRIBUTIONS NOT AN OFFER OR
21 SALE OF A SECURITY.—An end user distribution does not
22 involve the offer or sale of a security.

23 (c) AGENT DEFINED.—In this section and with re-
24 spect to a digital commodity issuer, the term “agent”
25 means any person directly or indirectly controlled by the

1 issuer or under direct or indirect common control with the
2 issuer.

3 **SEC. 204. REQUIREMENTS FOR OFFERS AND SALES OF DIG-**
4 **ITAL COMMODITIES BY DIGITAL COMMODITY**
5 **RELATED PERSONS AND DIGITAL COM-**
6 **MODITY AFFILIATED PERSONS.**

7 The Securities Act of 1933 (15 U.S.C. 77a et seq.),
8 as amended by section 202, is further amended by insert-
9 ing after section 4B the following:

10 **“SEC. 4C. REQUIREMENTS FOR OFFERS AND SALES OF DIG-**
11 **ITAL COMMODITIES BY DIGITAL COMMODITY**
12 **RELATED PERSONS AND DIGITAL COM-**
13 **MODITY AFFILIATED PERSONS.**

14 “(a) IN GENERAL.—It shall be a violation of this Act
15 for a digital commodity affiliated person or a digital com-
16 modity related person to offer or sell a digital commodity
17 acquired directly from its issuer, or an agent or under-
18 writer thereof, pursuant to an investment contract in reli-
19 ance on section 4(a)(8) or another exemption under this
20 Act, other than as provided in this section.

21 “(b) COMMISSION JURISDICTION.—

22 “(1) Where a digital commodity affiliated per-
23 son or a digital commodity related person offers or
24 sells a digital commodity acquired directly from its
25 issuer, or an agent or underwriter thereof, pursuant

1 to an investment contract in reliance on section
2 4(a)(8), or another exemption under this Act, other
3 than as provided in this section, such digital com-
4 modity affiliated person or digital commodity related
5 person shall be considered an issuer of such invest-
6 ment contract.

7 “(2) For the purposes of this section, the Com-
8 mission shall have jurisdiction and enforcement au-
9 thority with respect to an offer or sale of a digital
10 commodity described in subsection (a).

11 “(c) RESTRICTIONS ON DIGITAL COMMODITY RE-
12 LATED PERSONS AND DIGITAL COMMODITY AFFILIATED
13 PERSONS.—

14 “(1) PRIOR TO BEING A MATURE BLOCKCHAIN
15 SYSTEM.—Prior to the blockchain system to which a
16 digital commodity relates being certified as a mature
17 blockchain system under section 42 of the Securities
18 Exchange Act of 1934, units of the digital com-
19 modity acquired by a digital commodity related per-
20 son or digital commodity affiliated person directly
21 from its issuer, or an agent or underwriter thereof,
22 pursuant to an investment contract in reliance on
23 section 4(a)(8), or another exemption under this
24 Act, may be offered or sold by such digital com-

1 modity related person or digital commodity affiliated
2 person if—

3 “(A) reports with respect to such digital
4 commodity, where required under section
5 4B(b)(3) (or, with respect to a digital com-
6 modity not issued in reliance on section 4(a)(8),
7 a comparable set of reports where required by
8 the Commission) have been filed with the Com-
9 mission;

10 “(B) the digital commodity related person
11 or digital commodity affiliated person has held
12 the units for not less than 12 months from the
13 date the units were delivered; and

14 “(C) the aggregate amount of the units of
15 the digital commodity offered or sold by the
16 digital commodity related person or digital com-
17 modity affiliated person is—

18 “(i) in any 12-month period, not
19 greater than 15 percent of the total units
20 of the digital commodity acquired directly
21 from its issuer by the digital commodity
22 related person or digital commodity affili-
23 ated person; and

24 “(ii) not greater than 50 percent of
25 the total units of the digital commodity ac-

1 quired directly from its issuer by the dig-
2 ital commodity related person or digital
3 commodity affiliated person.

4 “(2) AFTER BECOMING A MATURE BLOCKCHAIN
5 SYSTEM.—After the blockchain system to which a
6 digital commodity relates is certified as a mature
7 blockchain system under section 42 of the Securities
8 Exchange Act of 1934, units of the digital com-
9 modity acquired by a digital commodity related per-
10 son or digital commodity affiliated person directly
11 from its issuer, or the issuer’s agent or underwriter,
12 pursuant to an investment contract in reliance on
13 section 4(a)(8) or another exemption under this Act,
14 may be—

15 “(A) offered or sold by a digital commodity
16 related person; or

17 “(B) offered or sold by a digital com-
18 modity affiliated person if—

19 “(i) information described in section
20 4B(b)(5)(C), where required (or, with re-
21 spect to a digital commodity not issued in
22 reliance on section 4(a)(8), a comparable
23 set of information, where required) is pub-
24 licly available;

1 “(ii) the digital commodity affiliated
2 person has held the units for not less than
3 the earlier of—

4 “(I) 12 months from the date the
5 units were delivered; or

6 “(II) 3 months following the date
7 on which the blockchain system is cer-
8 tified as a mature blockchain system
9 under section 42 of the Securities Ex-
10 change Act of 1934; and

11 “(iii) the aggregate amount of the
12 units of the digital commodity offered or
13 sold by the digital commodity affiliated
14 person in any 12-month period does not
15 exceed the greater of—

16 “(I) 8 percent of the total out-
17 standing amount of the digital com-
18 modity; or

19 “(II) 25 percent of the total
20 units of the digital commodity ac-
21 quired directly from its issuer by the
22 digital commodity affiliated person.

23 “(d) USE OF A DIGITAL COMMODITY IN THE PRO-
24 GRAMMATIC FUNCTIONING OF THE BLOCKCHAIN SYS-
25 TEM.—For purposes of this section, the use of a digital

1 commodity in the programmatic functioning of the
2 blockchain system to which it relates is not an offer or
3 sale of a digital commodity.

4 “(e) MANIPULATIVE AND DECEPTIVE DEVICES; RE-
5 PORTING.—

6 “(1) IN GENERAL.—It shall be unlawful for any
7 digital commodity issuer, digital commodity related
8 person, or digital commodity affiliated person, di-
9 rectly or indirectly, by the use of any means or in-
10 strumentality of interstate commerce or of the mails,
11 to use or employ, in connection with the purchase or
12 sale of any digital commodity, any manipulative or
13 deceptive device or contrivance in contravention of
14 such rules and regulations as the Commission may
15 prescribe as necessary or appropriate in the public
16 interest or for the protection of investors.

17 “(2) AFFIRMATIVE DEFENSE.—Not later than
18 270 days after the date of the enactment of this sec-
19 tion, the Commission shall issue rules to implement
20 paragraph (1), including by providing any affirma-
21 tive defenses to an enforcement action thereunder as
22 the Commission may prescribe as necessary or ap-
23 propriate in the public interest or for the protection
24 of investors.

1 “(3) REPORTING.—Not later than 270 days
2 after the date of the enactment of this section, the
3 Commission shall issue rules to prescribe such trans-
4 action reporting and beneficial ownership disclosure
5 obligations applicable to digital commodity related
6 persons and digital commodity affiliated persons, as
7 necessary or appropriate in the public interest or for
8 the protection of investors.

9 “(4) DIFFERENTIATION BETWEEN PERSONS.—
10 In issuing rules required under paragraphs (2) and
11 (3), the Commission shall differentiate between dig-
12 ital commodity related persons and digital com-
13 modity affiliated persons as necessary or appropriate
14 in the public interest or for the protection of inves-
15 tors.

16 “(f) RULES FOR PREVIOUSLY-ISSUED DIGITAL COM-
17 MODITIES.—

18 “(1) UNITS RECEIVED PRIOR TO JANUARY 1,
19 2020.—If a unit of a digital commodity was received
20 by a digital commodity related person or digital com-
21 modity affiliated person prior to January 1, 2020,
22 the unit of the digital commodity may be offered or
23 sold by the digital commodity related person or dig-
24 ital commodity affiliated person without condition.

1 “(2) CERTAIN UNITS RELATED TO A NON-MA-
2 TURE BLOCKCHAIN SYSTEM.—If a unit of a digital
3 commodity was received by a digital commodity re-
4 lated person or digital commodity affiliated person
5 between January 1, 2020, and June 1, 2025, and
6 the blockchain system to which the digital com-
7 modity relates is not certified as a mature
8 blockchain system under section 42 of the Securities
9 Exchange Act of 1934, the unit of the digital asset
10 may be offered or sold by a digital commodity re-
11 lated person or digital commodity affiliated person
12 if—

13 “(A) reports with respect to such digital
14 commodity comparable to the reports described
15 under section 4B(b)(3), where required by the
16 Commission, have been filed with the Commis-
17 sion;

18 “(B) the digital commodity related person
19 or digital commodity affiliated person meets
20 any requirements pursuant to subsection (e)(3);
21 and

22 “(C) the digital commodity related person
23 or digital commodity affiliated person has held
24 the units for not less than 12 months from the
25 date the units were delivered.

1 “(3) CERTAIN UNITS RELATED TO A MATURE
2 BLOCKCHAIN SYSTEM.—If a unit of a digital com-
3 modity was received by a digital commodity related
4 person or digital commodity affiliated person be-
5 tween January 1, 2020, and June 1, 2025, and the
6 blockchain system to which the digital commodity re-
7 lates is certified as a mature blockchain system
8 under section 42 of the Securities Exchange Act of
9 1934, it may be offered or sold by a digital com-
10 modity related person or digital commodity affiliated
11 person if—

12 “(A) information described in section
13 4B(b)(5)(C) or comparable thereto, where re-
14 quired by the Commission, is publicly available;
15 and

16 “(B) the digital commodity related person
17 or digital commodity affiliated person has held
18 the units for not less than 12 months from the
19 date the units were delivered.

20 “(g) RULEMAKING ON FURTHER USAGE OF DIGITAL
21 COMMODITIES.—Not later than 270 days after the date
22 of enactment of this section, the Commission may issue
23 rules to exempt, unconditionally or on stated terms or con-
24 ditions, a digital commodity related person or a digital
25 commodity affiliated person from the requirements of this

1 section for the offer or sale of a digital commodity in order
2 to foster the development of mature blockchain systems
3 and fair and orderly markets.”.

4 **SEC. 205. MATURE BLOCKCHAIN SYSTEM REQUIREMENTS.**

5 Title I of the Securities Exchange Act of 1934 (15
6 U.S.C. 78a et seq.) is amended by adding at the end the
7 following:

8 **“SEC. 42. MATURE BLOCKCHAIN SYSTEMS.**

9 “(a) CERTIFICATION OF BLOCKCHAIN SYSTEMS.—

10 “(1) CERTIFICATION.—For purposes of sections
11 4(a)(8), 4B, and 4C of the Securities Act of 1933
12 any digital commodity issuer, digital commodity re-
13 lated person, digital commodity affiliated person, or
14 decentralized governance system of the blockchain
15 system may certify to the Securities and Exchange
16 Commission that the blockchain system to which a
17 digital commodity relates is a mature blockchain sys-
18 tem.

19 “(2) FILING REQUIREMENTS.—A certification
20 described under paragraph (1) shall be filed with the
21 Commission, and include such information that is
22 reasonably necessary to establish that the blockchain
23 system is not controlled by any person or group of
24 persons under common control, which may include
25 information regarding—

1 “(A) the operation of the blockchain sys-
2 tem;

3 “(B) the functionality of the related digital
4 commodity;

5 “(C) how the market value of the digital
6 commodity is substantially derived from the
7 programmatic functioning of such blockchain
8 system;

9 “(D) any decentralized governance system
10 which relates to the blockchain system; and

11 “(E) the current roles, if any, of the digital
12 commodity issuer, digital commodity affiliated
13 persons, and digital commodity related persons
14 where such roles are material to the develop-
15 ment or operation of such blockchain system or
16 the decentralized governance system of such
17 blockchain system.

18 “(3) REBUTTABLE PRESUMPTION.—The Com-
19 mission may rebut a certification described under
20 paragraph (1) with respect to a blockchain system if
21 the Commission, within 60 days of receiving such
22 certification, determines that the blockchain system
23 is not a mature blockchain system.

24 “(4) CERTIFICATION REVIEW.—

1 “(A) IN GENERAL.—Any blockchain sys-
2 tem that relates to a digital commodity for
3 which a certification has been made under para-
4 graph (1) shall be considered a mature
5 blockchain system 60 days after the date on
6 which the Commission receives a certification
7 under paragraph (1), unless the Commission
8 notifies the person who made the certification
9 within such time that the Commission is stay-
10 ing the certification due to—

11 “(i) an inadequate explanation by the
12 person making the certification; or

13 “(ii) any novel or complex issues
14 which require additional time to consider.

15 “(B) PUBLIC NOTICE.—The Commission
16 shall make the following available to the public
17 and provide a copy to the Commodity Futures
18 Trading Commission:

19 “(i) Each certification received under
20 paragraph (1).

21 “(ii) Each stay of the Commission
22 under this subsection, and the reasons
23 therefor.

24 “(iii) Any response from a person
25 making a certification under paragraph (1)

1 to a stay of the certification by the Com-
2 mission.

3 “(C) CONSOLIDATION.—The Commission
4 may consolidate and treat as one submission
5 multiple certifications made under paragraph
6 (1) for the same blockchain system which re-
7 lates to a digital commodity which are received
8 during the review period provided under this
9 paragraph.

10 “(5) STAY OF CERTIFICATION.—

11 “(A) IN GENERAL.—A notification by the
12 Commission pursuant to paragraph (4)(A) shall
13 stay the certification once for up to an addi-
14 tional 120 days from the date of the notifica-
15 tion.

16 “(B) PUBLIC COMMENT PERIOD.—Before
17 the end of the 60-day period described under
18 paragraph (4)(A), the Commission may begin a
19 public comment period of at least 30 days in
20 conjunction with a stay under this subsection.

21 “(6) DISPOSITION OF CERTIFICATION.—A cer-
22 tification made under paragraph (1) shall—

23 “(A) become effective—

24 “(i) upon the publication of a notifica-
25 tion from the Commission to the person

1 who made the certification that the Com-
2 mission does not object to the certification;
3 or

4 “(ii) at the expiration of the certifi-
5 cation review period; and

6 “(B) not become effective upon the publi-
7 cation of a notification from the Commission to
8 the person who made the certification that the
9 Commission has rebutted the certification.

10 “(7) RECERTIFICATION.—With respect to a
11 blockchain system for which a certification has been
12 rebutted under this subsection, no person may make
13 a certification under paragraph (1) with respect to
14 such blockchain system during the 90-day period be-
15 ginning on the date of such rebuttal.

16 “(8) APPEAL OF REBUTTAL.—

17 “(A) IN GENERAL.—If a certification is re-
18 butted under this section, the person making
19 such certification may appeal the decision to
20 the United States Court of Appeals for the Dis-
21 trict of Columbia, not later than 60 days after
22 the notice of rebuttal is made.

23 “(B) REVIEW.—In an appeal under sub-
24 paragraph (A), the court shall have de novo re-

1 view of the determination to rebut the certifi-
2 cation.

3 “(b) MATURITY CRITERIA.—

4 “(1) SENSE OF CONGRESS.—It is the sense of
5 the Congress that protecting investors, maintaining
6 fair, orderly, and efficient markets, and facilitating
7 capital formation necessitates establishing clear cri-
8 teria for blockchain systems to be deemed mature,
9 as well as enabling the Commission to develop, with-
10 out prejudice to any such criteria codified in statute,
11 alternative criteria by which blockchain systems may
12 be considered not to be controlled by any person or
13 group of persons under common control in order to
14 accommodate changes in markets and technology.

15 “(2) IN GENERAL.—The Commission may issue
16 rules identifying conditions by which a blockchain
17 system, together with its related digital commodity,
18 shall be considered a mature blockchain system, con-
19 sistent with the protection of investors, maintenance
20 of fair, orderly, and efficient markets, and the facili-
21 tation of capital formation.

22 “(3) RULES OF CONSTRUCTION.—

23 “(A) Nothing in this subsection may be
24 construed to permit the Commission to impose
25 additional criteria to the criteria in subsection

1 (c) for certifying that a blockchain system is a
2 mature blockchain system pursuant to sub-
3 section (e).

4 “(B) Nothing in this subsection or sub-
5 section (e) may be construed to limit the Com-
6 mission’s ability to identify alternative condi-
7 tions and criteria by which a blockchain system
8 may be considered a mature blockchain system.

9 “(c) DEEMED MATURE.—

10 “(1) IN GENERAL.—Notwithstanding subsection
11 (b), for the purposes of subsection (a), a digital com-
12 modity issuer, digital commodity related person, dig-
13 ital commodity affiliated person, or decentralized
14 governance system of the blockchain system may es-
15 tablish that a blockchain system, together with its
16 related digital commodity, is not controlled by any
17 person or group of persons under common control,
18 if the blockchain system, together with its related
19 digital asset, meets the requirements described in
20 paragraph (2) or (3).

21 “(2) CRITERIA FOR ANY BLOCKCHAIN SYS-
22 TEM.—The requirements described in this paragraph
23 are the following:

24 “(A) SYSTEM VALUE.—

1 “(i) MARKET VALUE.—The digital
2 commodity has a value that is substantially
3 derived from the adoption, use, and func-
4 tioning of the blockchain system.

5 “(ii) DEVELOPMENT OF VALUE MECH-
6 ANISM SUBSTANTIALLY COMPLETED.—
7 Where the digital commodity issuer has
8 made public a development plan describing
9 how the digital commodity’s value is rea-
10 sonably expected to be derived from the
11 programmatic functioning of the
12 blockchain system, the development of such
13 mechanisms has been substantially com-
14 pleted.

15 “(B) FUNCTIONAL SYSTEM.—The
16 blockchain system allows network participants
17 to engage in the activities the blockchain system
18 is intended to provide, including—

19 “(i) using, transmitting, or storing
20 value, or otherwise executing transactions,
21 on the blockchain system;

22 “(ii) deploying, executing, or accessing
23 software or services, or otherwise offering
24 or participating in services, deployed on or
25 integrated with the blockchain system;

1 “(iii) participating in the consensus
2 mechanism, transaction validation process,
3 or decentralized governance system of the
4 blockchain system; or

5 “(iv) operating any client, node,
6 validator, sequencer, or other form of com-
7 putational infrastructure with respect to
8 the blockchain system.

9 “(C) OPEN AND INTEROPERABLE SYS-
10 TEM.—The blockchain system—

11 “(i) is composed of source code that is
12 open source; and

13 “(ii) does not restrict or prohibit
14 based on the exercise of unilateral author-
15 ity any person, other than a digital com-
16 modity issuer, digital commodity related
17 person, or a digital commodity affiliated
18 person from engaging in the activities the
19 blockchain system is intended to provide,
20 including the activities described in sub-
21 paragraph (B).

22 “(D) PROGRAMMATIC SYSTEM.—The
23 blockchain system operates, executes, and en-
24 forces its operations and transactions based
25 solely on pre-established, transparent rules en-

1 coded directly within the source code of the
2 blockchain system.

3 “(E) SYSTEM GOVERNANCE.—No person
4 or group of persons under common control—

5 “(i) has the unilateral authority, di-
6 rectly or indirectly, through any contract,
7 arrangement, understanding, relationship,
8 or otherwise, to control or materially alter
9 the functionality, operation, or rules of
10 consensus or agreement of the blockchain
11 system or its related digital commodity; or

12 “(ii) has the unilateral authority to di-
13 rect the voting, in the aggregate, of 20
14 percent or more of the outstanding voting
15 power of such blockchain system by means
16 of a related digital commodity, nodes or
17 validators, a decentralized governance sys-
18 tem, or otherwise, in a blockchain system
19 which can be altered by a voting system.

20 “(F) IMPARTIAL SYSTEM.—No person or
21 group of persons under common control pos-
22 sesses a unique permission or privilege to alter
23 the functionality, operation, or rules of con-
24 sensus or agreement of the blockchain system

1 or its related digital commodity, unless such al-
2 teration—

3 “(i) addresses errors, regular mainte-
4 nance, or cybersecurity risks of the
5 blockchain system that affect the pro-
6 grammatic functioning of the blockchain
7 system; and

8 “(ii) is adopted through the consensus
9 or agreement of a decentralized governance
10 system.

11 “(G) DISTRIBUTED OWNERSHIP.—No dig-
12 ital commodity issuer, digital commodity related
13 person, or digital commodity affiliated person
14 beneficially owns, in the aggregate, 20 percent
15 or more of the total amount of units of the dig-
16 ital commodity.

17 “(3) OPTIONAL CRITERIA FOR PREEXISTING
18 BLOCKCHAIN SYSTEMS.—The requirements described
19 in this paragraph are that the blockchain system—

20 “(A) was created prior to the date of en-
21 actment of this section;

22 “(B) met the requirements of subpara-
23 graphs (A) through (F) of paragraph (2) prior
24 to January 1, 2020; and

1 “(C) at least 50 percent of the units of the
2 digital commodity related to the blockchain sys-
3 tem are held by persons other than the digital
4 commodity issuer, a digital commodity related
5 person, or a digital commodity affiliated person.

6 “(d) DECENTRALIZED GOVERNANCE SYSTEM.—

7 “(1) For the purposes of this section, a decen-
8 tralized governance system is not a ‘person’ or a
9 ‘group of persons under common control’.

10 “(2) A blockchain system, together with its dig-
11 ital commodity, shall not be precluded from being
12 considered a mature blockchain system solely based
13 on a functional, administrative, clerical, or ministe-
14 rial action of a decentralized governance system, in-
15 cluding any such action taken by a person acting on
16 behalf of and at the direction of the decentralized
17 governance system, as determined by the Commis-
18 sion and consistent with the protection of investors,
19 maintenance of fair, orderly, and efficient markets,
20 and the facilitation of capital formation.

21 “(e) RULEMAKING.—Not more than 270 days after
22 the date of enactment of this section, the Commission
23 shall issue rules to carry out this section.”.

1 **SEC. 206. EFFECTIVE DATE.**

2 Unless otherwise provided in this title, this title and
3 the amendments made by this title shall take effect 360
4 days after the date of enactment of this Act, except that,
5 to the extent a provision of this title requires a rule-
6 making, the provision shall take effect on the later of—

7 (1) 360 days after the date of enactment of this
8 Act; or

9 (2) 60 days after the publication in the Federal
10 Register of the final rule implementing the provision.

11 **TITLE III—REGISTRATION FOR**
12 **INTERMEDIARIES AT THE SE-**
13 **CURITIES AND EXCHANGE**
14 **COMMISSION**

15 **SEC. 301. TREATMENT OF DIGITAL COMMODITIES AND PER-**
16 **MITTED PAYMENT STABLECOINS.**

17 (a) SECURITIES ACT OF 1933.—Section 2(a)(1) of
18 the Securities Act of 1933 (15 U.S.C. 77b(a)(1)) is
19 amended by adding at the end the following: “The term
20 does not include a digital commodity or permitted pay-
21 ment stablecoin.”.

22 (b) SECURITIES EXCHANGE ACT OF 1934.—Section
23 3(a)(10) of the Securities Exchange Act of 1934 (15
24 U.S.C. 78c(a)) is amended by adding at the end the fol-
25 lowing: “The term does not include a digital commodity
26 or permitted payment stablecoin.”

1 (c) INVESTMENT ADVISERS ACT OF 1940.—Section
2 202(a) of the Investment Advisers Act of 1940 (15 U.S.C.
3 80b-2(a)) is amended—

4 (1) in paragraph (18), by adding at the end the
5 following: “The term does not include a digital com-
6 modity or permitted payment stablecoin.”;

7 (2) by redesignating the second paragraph (29)
8 (relating to commodity pools) as paragraph (31);
9 and

10 (3) by adding at the end, the following:

11 “(32) DIGITAL COMMODITY-RELATED TERMS.—
12 The terms ‘digital commodity’ and ‘permitted pay-
13 ment stablecoin’ have the meaning given those
14 terms, respectively, under section 2(a) of the Securi-
15 ties Act of 1933 (15 U.S.C. 77b(a)).”.

16 (d) INVESTMENT COMPANY ACT OF 1940.—Section
17 2(a) of the Investment Company Act of 1940 (15 U.S.C.
18 80a-2) is amended—

19 (1) in paragraph (36), by adding at the end the
20 following: “The term does not include a digital com-
21 modity or permitted payment stablecoin.”; and

22 (2) by adding at the end, the following:

23 “(55) DIGITAL COMMODITY-RELATED TERMS.—
24 The terms ‘digital commodity’ and ‘permitted pay-
25 ment stablecoin’ have the meaning given those

1 terms, respectively, under section 2(a) of the Securi-
 2 ties Act of 1933 (15 U.S.C. 77b(a)).”.

3 (e) SECURITIES INVESTOR PROTECTION ACT OF
 4 1970.—Section 16(14) of the Securities Investor Protec-
 5 tion Act of 1970 (15 U.S.C. 78lll(14)) is amended by add-
 6 ing at the end the following: “The term does not include
 7 a digital commodity or permitted payment stablecoin, as
 8 such terms are defined, respectively, under section 2(a)
 9 of the Securities Act of 1933 (15 U.S.C. 77b(a))”.

10 **SEC. 302. ANTI-FRAUD AUTHORITY OVER PERMITTED PAY-**
 11 **MENT STABLECOINS AND CERTAIN DIGITAL**
 12 **COMMODITY TRANSACTIONS.**

13 (a) IN GENERAL.—Section 10 of the Securities Ex-
 14 change Act of 1934 (15 U.S.C. 78j) is amended—

15 (1) by moving subsection (c) so as to appear
 16 after subsection (b);

17 (2) by designating the undesignated matter at
 18 the end of that section as subsection (d); and

19 (3) by adding at the end the following:

20 “(e)(1) Rules promulgated under subsection (b) that
 21 prohibit fraud, manipulation, or insider trading (but not
 22 rules imposing or specifying reporting or recordkeeping re-
 23 quirements, procedures, or standards as prophylactic
 24 measures against fraud, manipulation, or insider trading),
 25 and judicial precedents decided under subsection (b) and

1 rules promulgated thereunder that prohibit fraud, manip-
2 ulation, or insider trading, shall apply with respect to per-
3 mitted payment stablecoin and digital commodity trans-
4 actions engaged in by a broker or dealer or through an
5 alternative trading system or, as applicable, a national se-
6 curities exchange to the same extent as they apply to secu-
7 rities transactions.

8 “(2) Judicial precedents decided under section 17(a)
9 of the Securities Act of 1933 and sections 9, 15, 16, 20,
10 and 21A of this title, and judicial precedents decided
11 under applicable rules promulgated under such sections,
12 shall apply to permitted payment stablecoins and digital
13 commodities with respect to those circumstances in which
14 the permitted payment stablecoins and digital commodities
15 are brokered, traded, or custodied by a broker or dealer
16 or through an alternative trading system or, as applicable,
17 a national securities exchange to the same extent as they
18 apply to securities.”.

19 (b) TREATMENT OF PERMITTED PAYMENT
20 STABLECOINS.—Title I of the Securities Exchange Act of
21 1934 (15 U.S.C. 78a et seq.) is amended by inserting after
22 section 6 the following:

1 **“SEC. 6A. TREATMENT OF TRANSACTIONS IN PERMITTED**
2 **PAYMENT STABLECOINS.**

3 “(a) **AUTHORITY TO BROKER, TRADE, AND CUSTODY**
4 **PERMITTED PAYMENT STABLECOINS.**—Permitted pay-
5 ment stablecoins may be brokered, traded, or custodied by
6 a broker, dealer or through an alternative trading system
7 or national securities exchange.

8 “(b) **COMMISSION JURISDICTION.**—The Commission
9 shall only have jurisdiction over a transaction in a per-
10 mitted payment stablecoin with respect to those cir-
11 cumstances in which a permitted payment stablecoin is
12 brokered, traded, or custodied—

13 “(1) by a broker or dealer;

14 “(2) through a national securities exchange; or

15 “(3) through an alternative trading system.

16 “(c) **LIMITATION.**—Subsection (b) shall only apply to
17 a transaction described in subsection (b) for the purposes
18 of regulating the offer, execution, solicitation, or accept-
19 ance of a permitted payment stablecoin in those cir-
20 cumstances in which the permitted payment stablecoin is
21 brokered, traded, or custodied—

22 “(1) by a broker or dealer;

23 “(2) through a national securities exchange; or

24 “(3) through an alternative trading system.

25 “(d) **RULE OF CONSTRUCTION.**—Nothing in this sec-
26 tion may be construed to prohibit permitted payment

1 stablecoins from being custodied by any person or entity
2 that is not a broker, dealer, alternative trading system,
3 or national securities exchange.”.

4 **SEC. 303. ELIGIBILITY OF ALTERNATIVE TRADING SYS-**
5 **TEMS.**

6 (a) IN GENERAL.—Section 5 of the Securities Ex-
7 change Act of 1934 (15 U.S.C. 78e) is amended—

8 (1) by striking “It” and inserting the following:

9 “(a) IN GENERAL.—It”;

10 (2) by adding at the end the following:

11 “(b) DIGITAL COMMODITY PROTECTIONS.—

12 “(1) IN GENERAL.—The Commission may not
13 preclude a trading platform from operating pursuant
14 to a covered exemption on the basis that the assets
15 traded or to be traded on such platform include—

16 “(A) digital commodities or permitted pay-
17 ment stablecoins; and

18 “(B) securities.

19 “(2) COVERED EXEMPTION.—In this sub-
20 section, the term ‘covered exemption’ means an ex-
21 emption—

22 “(A) described in subsection (a)(2); or

23 “(B) with respect to any other rule of the
24 Commission relating to the definition of ‘ex-
25 change’.”.

1 (b) SECURITIES EXCHANGE ACT OF 1934.—Section
2 3(a)(2) of the Securities Exchange Act of 1934 (15 U.S.C.
3 78c(a)(2)) is amended by adding at the end the following:

4 “An alternative trading system primarily facilitating the
5 trading of digital commodities, permitted payment
6 stablecoins, or both, is not a ‘facility’ of an exchange.”.

7 (c) RULE OF CONSTRUCTION.—Nothing in this sec-
8 tion, the amendments made by this section, or section 304
9 may be construed to—

10 (1) prohibit a national securities exchange from
11 owning or operating any other type of alternative
12 trading system; or

13 (2) create a presumption that any other type of
14 alternative trading system owned or operated by a
15 national securities exchange is a facility of that ex-
16 change.

17 **SEC. 304. OPERATION OF ALTERNATIVE TRADING SYSTEMS.**

18 (a) COMMISSION AUTHORITY.—The Securities and
19 Exchange Commission shall have jurisdiction over digital
20 commodity activities and transactions engaged in by—

21 (1) a registered broker or registered dealer ex-
22 empt from registration with the Commodity Futures
23 Trading Commission pursuant to section 5k of the
24 Commodity Exchange Act; and

25 (2) a national securities exchange.

1 (b) RULEMAKING AUTHORITY.—The Securities and
2 Exchange Commission shall have authority to issue rules
3 governing any digital commodity activities and trans-
4 actions engaged in by a broker, dealer, or national securi-
5 ties exchange registered with the Securities and Exchange
6 Commission and exempt from registration with the Com-
7modity Futures Trading Commission pursuant to section
8 5k of the Commodity Exchange Act, consistent with this
9 section and what is necessary or appropriate in the public
10 interest or for the protection of investors.

11 (c) NATIONAL SECURITIES EXCHANGES.—Not later
12 than 270 days after the date of the enactment of this Act,
13 the Securities and Exchange Commission shall revise the
14 covered regulations to permit a national securities ex-
15 change or affiliate thereof to operate an alternative trad-
16 ing system that permits the trading of digital commod-
17 ities, permitted payment stablecoins, or both by registered
18 brokers or registered dealers that are exempt from reg-
19 istration with the Commodity Futures Trading Commis-
20 sion pursuant section 5k of the Commodity Exchange Act,
21 consistent with this section and what is necessary or ap-
22 propriate in the public interest or for the protection of
23 investors.

24 (d) REGISTERED BROKERS AND REGISTERED DEAL-
25 ERS.—Not later than 270 days after the date of the enact-

1 ment of this Act, the Securities and Exchange Commission
2 shall revise the covered regulations to permit a registered
3 broker or registered dealer that is exempt from registra-
4 tion with the Commodity Futures Trading Commission
5 pursuant to section 5k of the Commodity Exchange Act
6 to operate an alternative trading system that permits the
7 trading of digital commodities, permitted payment
8 stablecoins, or both, consistent with this section and what
9 is necessary or appropriate in the public interest or for
10 the protection of investors.

11 (e) PERMITTED TRADING.—

12 (1) IN GENERAL.—An alternative trading sys-
13 tem operated pursuant to this section and the regu-
14 lations promulgated hereunder shall be permitted to
15 trade upon notice to the Securities and Exchange
16 Commission in a manner prescribed by the Securi-
17 ties and Exchange Commission any digital com-
18 modity that has been listed by a digital commodity
19 exchange in compliance with section 5i(c)(3) of the
20 Commodity Exchange Act.

21 (2) COMMISSION AUTHORITY.—Digital com-
22 modity transactions offered on an alternative trading
23 system operating pursuant to this section shall be
24 subject to the jurisdiction of the Securities and Ex-
25 change Commission. The Securities and Exchange

1 Commission shall have authority to promulgate rules
2 governing such digital commodity transactions of al-
3 ternative trading systems, consistent with this sec-
4 tion and what is necessary or appropriate in the
5 public interest or for the protection of investors.

6 (3) SUSPENSION OF TRADING.—The Securities
7 and Exchange Commission may suspend the trading
8 of a digital commodity by an alternative trading sys-
9 tem operating pursuant to this section as is nec-
10 essary or appropriate in the public interest and is
11 consistent with the protection of investors.

12 (f) ORDER DISPLAY AND EXECUTION REPORTING.—
13 Not later than 270 days after the date of the enactment
14 of this Act, the Securities and Exchange Commission shall
15 issue and revise rules, as necessary or appropriate in the
16 public interest or for the protection of investors, regarding
17 whether alternative trading systems operating pursuant to
18 subsections (c) and (d) have an obligation to provide the
19 prices and sizes of orders displayed to more than one per-
20 son in such alternative trading system of digital commod-
21 ities to self-regulatory organizations with members who
22 trade in digital commodities or permitted payment
23 stablecoins.

24 (g) PRINCIPLES OF TRADE.—Not later than 270
25 days after the date of the enactment of this Act, the Secu-

1 rities and Exchange Commission shall issue and revise
2 rules, as necessary or appropriate in the public interest
3 or for the protection of investors, to—

4 (1) apply the rules and standards promulgated
5 pursuant to paragraph (2) to the appropriate mar-
6 ket participants, including—

7 (A) national securities exchanges operating
8 an alternative trading system described in sub-
9 section (c); and

10 (B) registered brokers and registered deal-
11 ers operating or subscribing to an alternative
12 trading system described in subsection (d); and

13 (2) apply, as appropriate to the market partici-
14 pants described in subparagraph (1) and customers
15 thereof rules and standards to—

16 (A) prevent fraudulent and manipulative
17 acts and practices;

18 (B) foster cooperation and coordination
19 with persons engaged in regulating, settling,
20 processing information with respect to, and fa-
21 cilitating transactions in digital commodities or
22 permitted payment stablecoins traded, as appli-
23 cable, on or by any alternative trading system
24 operating pursuant to subsection (c) or (d), or
25 any registered broker or registered dealer;

1 (C) remove impediments to and perfect the
2 mechanism of a free and open market in digital
3 commodities or permitted payment stablecoins
4 traded, as applicable, on or by any alternative
5 trading system operating pursuant to sub-
6 section (c) or (d), or any registered broker or
7 registered dealer;

8 (D) in general, protect investors and the
9 public interest; and

10 (E) prohibit any unfair discrimination be-
11 tween—

12 (i) customers;

13 (ii) any market participants described
14 in subparagraphs (A) and (B) of para-
15 graph (1); or

16 (iii) issuers of digital commodities.

17 (h) IMPLEMENTING ORGANIZATIONS.—The Securi-
18 ties and Exchange Commission shall require any reg-
19 istered national securities association that has as a mem-
20 ber a registered broker or registered dealer that operates
21 an alternative trading system pursuant to subsection (d)
22 or otherwise transacts in digital commodities or permitted
23 payment stablecoins to adopt such rules as may be nec-
24 essary to further compliance with this section, including

1 subsection (g)(2), protect investors, maintain fair, orderly,
2 and efficient markets, and facilitate capital formation.

3 (i) RULE OF CONSTRUCTION.—The enumeration of
4 any category of rules or regulations in this section shall
5 not be construed to limit the authority of the Securities
6 and Exchange Commission to promulgate such rules as
7 may be necessary or appropriate to implement this section
8 and the purposes of this Act, including over—

9 (1) system capacity, integrity, and security;

10 (2) examinations, inspections, and investiga-
11 tions;

12 (3) trade reporting; or

13 (4) written procedures for the confidential
14 treatment of trading information.

15 (j) MEMORANDUM OF UNDERSTANDING.—Consistent
16 with section 5k of the Commodity Exchange Act and to
17 carry out this Act, the Securities and Exchange Commis-
18 sion shall enter into a memorandum of understanding with
19 the Commodity Futures Trading Commission to ensure—

20 (1) requirements imposed on registered brokers
21 or registered dealers operating an alternative trading
22 system pursuant to subsection (c) or otherwise
23 transacting in digital commodities or permitted pay-
24 ment stablecoins are consistent with the substantive

1 requirements under section 4u of the Commodity
2 Exchange Act;

3 (2) requirements imposed on alternative trading
4 systems operating pursuant to subsection (c) or (d)
5 are not inconsistent with core principles of and are
6 consistent with the other substantive requirements
7 under section 5i of the Commodity Exchange Act;
8 and

9 (3) non-duplicative supervision and enforcement
10 with respect to registrants of the Securities and Ex-
11 change Commission notice registered with the Com-
12modity Futures Trading Commission.

13 (k) COVERED REGULATIONS DEFINED.—In this sec-
14 tion, the term “covered regulations” means sections
15 242.300, 242.301, 242.302, 242.303, 242.304, and
16 242.1000 through 242.1007 of title 17, Code of Federal
17 Regulations.

18 (l) RULE OF CONSTRUCTION.—Nothing in this sec-
19 tion shall be construed to limit the anti-fraud, anti-manip-
20 ulation, or false reporting enforcement authorities of the
21 Commodity Futures Trading Commission with respect to
22 a contract of sale of a commodity and persons effecting
23 such contracts.

1 **SEC. 305. MODERNIZATION OF RECORDKEEPING REQUIRE-**
2 **MENTS.**

3 (a) IN GENERAL.—For purposes of books and
4 records requirements for brokers, dealers, and exchanges
5 under the Securities and Exchange Act of 1934 (15
6 U.S.C. 78a et seq.), a person may consider records from
7 a blockchain system.

8 (b) REVISION OF RULES.—Not later than 180 days
9 after the date of enactment of this Act, the Securities and
10 Exchange Commission shall issue and revise such rules as
11 may be necessary to implement this section.

12 **SEC. 306. EXEMPTIVE AUTHORITY.**

13 Section 28 of the Securities Act of 1933 (15 U.S.C.
14 77z–3) is amended by striking “by rule or regulation” and
15 inserting “by rule, regulation, or order”.

16 **SEC. 307. ADDITIONAL REGISTRATIONS WITH THE COM-**
17 **MODITY FUTURES TRADING COMMISSION.**

18 Section 15 of the Securities Exchange Act of 1934
19 (15 U.S.C. 78o) is amended by adding at the end the fol-
20 lowing:

21 “(p) ADDITIONAL REGISTRATIONS WITH THE COM-
22 MODITY FUTURES TRADING COMMISSION.—A registered
23 broker or registered dealer shall be permitted to maintain
24 a registration with the Commodity Futures Trading Com-
25 mission as a digital commodity broker or digital com-

1 modity dealer, to list or trade contracts of sale for digital
2 commodities.”.

3 **SEC. 308. EXEMPTING DIGITAL COMMODITIES FROM STATE**
4 **SECURITIES LAWS.**

5 Section 18(b) of the Securities Act of 1933 (15
6 U.S.C. 77r(b)) is amended by adding at the end the fol-
7 lowing:

8 “(5) EXEMPTION IN CONNECTION WITH DIG-
9 ITAL COMMODITIES.—A digital commodity shall be
10 treated as a covered security.”.

11 **SEC. 309. EXCLUSION FOR DECENTRALIZED FINANCE AC-**
12 **TIVITIES.**

13 The Securities Exchange Act of 1934 (15 U.S.C. 78a
14 et seq.) is amended by inserting after section 15G the fol-
15 lowing:

16 **“SEC. 15H. DECENTRALIZED FINANCE ACTIVITIES NOT SUB-**
17 **JECT TO THIS ACT.**

18 “(a) IN GENERAL.—Notwithstanding any other pro-
19 vision of this Act, a person shall not be subject to this
20 Act and the regulations promulgated under this Act based
21 on the person directly or indirectly engaging in any of the
22 following activities, whether singly or in combination, in
23 relation to the operation of a blockchain system or in rela-
24 tion to a decentralized finance trading protocol:

1 “(1) Compiling network transactions or relay-
2 ing, searching, sequencing, validating, or acting in a
3 similar capacity.

4 “(2) Providing computational work, operating a
5 node or oracle service, or procuring, offering, or uti-
6 lizing network bandwidth, or providing other similar
7 incidental services.

8 “(3) Providing a user-interface that enables a
9 user to read and access data about a blockchain sys-
10 tem.

11 “(4) Developing, publishing, constituting, ad-
12 ministering, maintaining, or otherwise distributing a
13 blockchain system or a decentralized finance trading
14 protocol.

15 “(5) Developing, publishing, constituting, ad-
16 ministering, maintaining, or otherwise distributing a
17 decentralized finance messaging system, or operating
18 or participating in a liquidity pool, for the purpose
19 of executing a contract of sale of a digital com-
20 modity.

21 “(6) Developing, publishing, constituting, ad-
22 ministering, maintaining, or otherwise distributing
23 software or systems that create or deploy hardware
24 or software, including wallets or other systems, fa-
25 cilitating an individual user’s own personal ability to

1 keep, safeguard, or custody the user’s digital assets
2 or related private keys.

3 “(b) EXCEPTIONS.—Subsection (a) shall not apply to
4 the anti-fraud and anti-manipulation authorities of the
5 Commission.”.

6 **SEC. 310. TREATMENT OF CUSTODY ACTIVITIES BY BANK-**
7 **ING INSTITUTIONS.**

8 (a) TREATMENT OF CUSTODY ACTIVITIES.—The ap-
9 propriate Federal banking agency, the National Credit
10 Union Administration (in the case of a credit union), and
11 the Securities and Exchange Commission may not require
12 a depository institution, national bank, Federal credit
13 union, State credit union, trust company, broker, or deal-
14 er, or any affiliate thereof (the “entity”)—

15 (1) to include assets held in custody that are
16 not owned by the entity as a liability on the financial
17 statement or balance sheet of the entity, including
18 digital commodity or permitted payment stablecoin
19 custody or safekeeping services;

20 (2) to hold regulatory capital against assets, in-
21 cluding reserves backing such assets, in custody or
22 safekeeping, except as necessary to mitigate against
23 operational risks inherent with the custody or safe-
24 keeping services, as determined by—

1 (A) the appropriate Federal banking agen-
2 cy;

3 (B) the National Credit Union Administra-
4 tion (in the case of a credit union);

5 (C) a State bank supervisor;

6 (D) a State credit union supervisor (as de-
7 fined in section 6003 of the Anti-Money Laun-
8 dering Act of 2020 (31 U.S.C. 5311 note)); or

9 (E) the Securities and Exchange Commis-
10 sion (in the case of a broker or dealer); and

11 (3) to recognize a liability for any obligations
12 related to activities or services performed with re-
13 spect to digital commodities that the entity does not
14 own if that liability would exceed the expense recog-
15 nized in the income statement as a result of the cor-
16 responding obligation.

17 (b) DEFINITIONS.—In this section:

18 (1) BANKING TERMS.—The terms “appropriate
19 Federal banking agency”, “depository institution”,
20 “national bank”, and “State bank supervisor” have
21 the meaning given those terms, respectively, under
22 section 3 of the Federal Deposit Insurance Act (12
23 U.S.C. 1813).

24 (2) CREDIT UNION TERMS.—The terms “Fed-
25 eral credit union” and “State credit union” have the

1 meaning given those terms, respectively, under sec-
2 tion 101 of the Federal Credit Union Act (12 U.S.C.
3 1752).

4 **SEC. 311. DIGITAL COMMODITY ACTIVITIES THAT ARE FI-**
5 **NANCIAL IN NATURE.**

6 Section 4(k)(4) of the Bank Holding Company Act
7 of 1956 (12 U.S.C. 1843(k)(4)) is amended—

8 (1) in subparagraph (A), by striking “or securi-
9 ties” and inserting “, securities, or digital commod-
10 ities”; and

11 (2) in subparagraph (E), by inserting “or dig-
12 ital commodities” before the period at the end.

13 **SEC. 312. EFFECTIVE DATE; ADMINISTRATION.**

14 Except as otherwise provided under this title, this
15 title and the amendments made by this title shall take ef-
16 fect 360 days after the date of enactment of this Act, ex-
17 cept that, to the extent a provision of this title requires
18 a rulemaking, the provision shall take effect on the later
19 of—

20 (1) 360 days after the date of enactment of this
21 Act; or

22 (2) 60 days after the publication in the Federal
23 Register of the final rule implementing the provision.

1 **SEC. 313. STUDIES ON FOREIGN ADVERSARY PARTICIPA-**
2 **TION.**

3 (a) IN GENERAL.—The Secretary of the Treasury, in
4 consultation with the Commodity Futures Trading Com-
5 mission and the Securities and Exchange Commission,
6 shall, not later than 1 year after date of the enactment
7 of this section, conduct a study and submit a report to
8 the relevant congressional committees that—

9 (1) identifies any digital commodity registrants
10 which are owned by governments of foreign adver-
11 saries;

12 (2) determines whether any governments of for-
13 eign adversaries are collecting personal data or trad-
14 ing data about United States persons in the digital
15 commodity markets; and

16 (3) evaluates whether any proprietary intellec-
17 tual property of digital commodity registrants is
18 being misused or stolen by any governments of for-
19 eign adversaries.

20 (b) GAO STUDY AND REPORT.—

21 (1) IN GENERAL.—The Comptroller General
22 shall, not later than 1 year after date of the enact-
23 ment of this section, conduct a study and submit a
24 report to the relevant congressional committees
25 that—

1 (A) identifies any digital commodity reg-
2 istrants which are owned by governments of
3 foreign adversaries;

4 (B) determines whether any governments
5 of foreign adversaries are collecting personal
6 data or trading data about United States per-
7 sons in the digital commodity markets; and

8 (C) evaluates whether any proprietary in-
9 tellectual property of digital commodity reg-
10 istrants is being misused or stolen by any gov-
11 ernments of foreign adversaries.

12 (c) DEFINITIONS.—In this section:

13 (1) DIGITAL COMMODITY REGISTRANT.—The
14 term “digital commodity registrant” means any per-
15 son required to register as a digital commodity ex-
16 change, digital commodity broker, or digital com-
17 modity dealer under the Commodity Exchange Act.

18 (2) FOREIGN ADVERSARIES.—The term “for-
19 eign adversaries” means the foreign governments
20 and foreign non-government persons determined by
21 the Secretary of Commerce to be foreign adversaries
22 under section 7.4(a) of title 15, Code of Federal
23 Regulations.

1 (3) RELEVANT CONGRESSIONAL COMMIT-
2 TEES.—The term “relevant congressional commit-
3 tees” means—

4 (A) the Committees on Financial Services
5 and Agriculture of the House of Representa-
6 tives; and

7 (B) the Committees on Banking, Housing,
8 and Urban Affairs and Agriculture, Nutrition,
9 and Forestry of the Senate.

10 **TITLE IV—REGISTRATION FOR**
11 **DIGITAL COMMODITY INTER-**
12 **MEDIARIES AT THE COM-**
13 **MODITY FUTURES TRADING**
14 **COMMISSION**

15 **SEC. 401. COMMISSION JURISDICTION OVER DIGITAL COM-**
16 **MODITY TRANSACTIONS.**

17 (a) SAVINGS CLAUSE.—Section 2(a)(1) of the Com-
18 modity Exchange Act (7 U.S.C. 2(a)(1)) is amended by
19 adding at the end the following:

20 “(J) Except as expressly provided in this
21 Act, nothing in the CLARITY Act of 2025 shall
22 affect or apply to, or be interpreted to affect or
23 apply to—

24 “(i) any agreement, contract, or
25 transaction that is subject to this Act as—

1 “(I) a contract of sale of a com-
2 modity for future delivery or an op-
3 tion on such a contract;

4 “(II) a swap;

5 “(III) a security futures product;

6 “(IV) an option authorized under
7 section 4c of this Act;

8 “(V) an agreement, contract, or
9 transaction described in subparagraph
10 (C)(i) or (D)(i) of subsection (c)(2) of
11 this section; or

12 “(VI) a leverage transaction au-
13 thorized under section 19; or

14 “(ii) the activities of any person with
15 respect to any such an agreement, con-
16 tract, or transaction.”.

17 (b) LIMITATION ON AUTHORITY OVER PERMITTED
18 PAYMENT STABLECOINS.—Section 2(c)(1) of the Com-
19 modity Exchange Act (7 U.S.C. 2(c)(1)) is amended—

20 (1) in subparagraph (F), by striking “or” at
21 the end;

22 (2) in subparagraph (G), by striking the period
23 and inserting “; or”; and

24 (3) by adding at the end the following:

25 “(H) permitted payment stablecoins.”.

1 (c) COMMISSION JURISDICTION OVER FINANCING
2 AGREEMENTS.—Section 2(c)(2) of the Commodity Ex-
3 change Act (7 U.S.C. 2(c)(2)) is amended—

4 (1) in subparagraph (D), by redesignating
5 clause (iv) as clause (v) and inserting after clause
6 (iii) the following:

7 “(iv) Notwithstanding clause (iii), a
8 digital commodity broker may, subject to
9 the requirements of section 4u(c)(3), offer
10 to or enter into an agreement for margin
11 financing with a customer for the purchase
12 or sale of a digital commodity.”; and

13 (2) by adding at the end the following:

14 “(F) COMMISSION JURISDICTION WITH RESPECT TO
15 DIGITAL COMMODITY TRANSACTIONS.—

16 “(i) IN GENERAL.—Subject to sections 6d and
17 12(e), the Commission shall have exclusive jurisdic-
18 tion with respect to any account, agreement, con-
19 tract, or transaction involving a contract of sale of
20 a digital commodity in interstate commerce, includ-
21 ing in a digital commodity cash or spot market, that
22 is offered, solicited, traded, facilitated, executed,
23 cleared, reported, or otherwise dealt in—

1 “(I) on or subject to the rules of a reg-
2 istered entity or an entity that is required to be
3 registered as a registered entity; or

4 “(II) by any other entity registered, or re-
5 quired to be registered, with the Commission.

6 “(ii) LIMITATIONS.—Clause (i) shall not apply
7 with respect to—

8 “(I) custodial or depository activities for a
9 digital commodity of an entity regulated by an
10 appropriate Federal banking agency or a State
11 bank supervisor (within the meaning of section
12 3 of the Federal Deposit Insurance Act); or

13 “(II) an offer or sale of an investment con-
14 tract involving a digital commodity or of a secu-
15 rities offer or sale involving a digital com-
16modity.

17 “(iii) MIXED DIGITAL ASSET TRANSACTIONS.—

18 “(I) IN GENERAL.—Clause (i) shall not
19 apply to a mixed digital asset transaction.

20 “(II) REPORTS ON MIXED DIGITAL ASSET
21 TRANSACTIONS.—A digital commodity issuer,
22 digital commodity related person, digital com-
23modity affiliated person, or other person reg-
24istered with the Securities and Exchange Com-
25mission that engages in a mixed digital asset

1 transaction, shall, on request of the Commis-
2 sion, open to inspection and examination by the
3 Commission all books and records relating to
4 the mixed digital asset transaction, subject to
5 the confidentiality and disclosure requirements
6 of section 8.

7 “(G) AGREEMENTS, CONTRACTS, AND TRANS-
8 ACTIONS IN STABLECOINS.—

9 “(i) TREATMENT OF PERMITTED PAYMENT
10 STABLECOINS ON COMMISSION-REGISTERED ENTI-
11 TIES.—Subject to clauses (ii) and (iii), the Commis-
12 sion shall have jurisdiction over a cash or spot
13 agreement, contract, or transaction in a permitted
14 payment stablecoin that is offered, offered to enter
15 into, entered into, executed, confirmed the execution
16 of, solicited, or accepted—

17 “(I) on or subject to the rules of a reg-
18 istered entity; or

19 “(II) by any other entity registered with
20 the Commission.

21 “(ii) PERMITTED PAYMENT STABLECOIN
22 TRANSACTION RULES.—This Act shall apply to a
23 transaction described in clause (i) only for the pur-
24 pose of regulating the offer, execution, solicitation,
25 or acceptance of a cash or spot permitted payment

1 stablecoin transaction on a registered entity or by
2 any other entity registered with the Commission, as
3 if the permitted payment stablecoin were a digital
4 commodity.

5 “(iii) NO AUTHORITY OVER PERMITTED PAY-
6 MENT STABLECOINS.—Notwithstanding clauses (i)
7 and (ii), the Commission shall not make a rule or
8 regulation, impose a requirement or obligation on a
9 registered entity or other entity registered with the
10 Commission, or impose a requirement or obligation
11 on a permitted payment stablecoin issuer, regarding
12 the operation of a permitted payment stablecoin
13 issuer or a permitted payment stablecoin.”.

14 (d) CONFORMING AMENDMENT.—Section 2(a)(1)(A)
15 of such Act (7 U.S.C. 2(a)(1)(A)) is amended in the 1st
16 sentence by inserting “subparagraphs (F) and (G) of sub-
17 section (c)(2) of this section or” before “section 19”.

18 **SEC. 402. REQUIRING FUTURES COMMISSION MERCHANTS**
19 **TO USE QUALIFIED DIGITAL ASSET**
20 **CUSTODIANS.**

21 Section 4d of the Commodity Exchange Act (7 U.S.C.
22 6d) is amended—

23 (1) in subsection (a)(2)—

24 (A) in the 1st proviso, by striking “any
25 bank or trust company” and inserting “any

1 bank, trust company, or qualified digital asset
2 custodian, as applicable,”; and

3 (B) by inserting “: *Provided further*, That
4 any such property that is a digital asset shall
5 be held in a qualified digital asset custodian”
6 before the period at the end; and

7 (2) in subsection (f)(3)(A)(i), by striking “any
8 bank or trust company” and inserting “any bank,
9 trust company, or qualified digital asset custodian”.

10 **SEC. 403. TRADING CERTIFICATION AND APPROVAL FOR**
11 **DIGITAL COMMODITIES.**

12 Section 5c of the Commodity Exchange Act (7 U.S.C.
13 7a–2) is amended—

14 (1) in subsection (a), by striking “5(d) and
15 5b(c)(2)” and inserting “5(d), 5b(c)(2), and 5i(c)”;

16 (2) in subsection (b)—

17 (A) in each of paragraphs (1) and (2), by
18 inserting “digital commodity exchange,” before
19 “derivatives”; and

20 (B) in paragraph (3), by inserting “digital
21 commodity exchange,” before “derivatives” each
22 place it appears;

23 (3) in subsection (c)—

24 (A) in paragraph (2), by inserting “or par-
25 ticipants” before “(in”;

1 (B) in paragraph (4)(B), by striking
2 “1a(10)” and inserting “1a(9)”; and

3 (C) in paragraph (5), by adding at the end
4 the following:

5 “(D) SPECIAL RULES FOR DIGITAL COM-
6 MODITY CONTRACTS.—In certifying any new
7 rule or rule amendment, or listing any new con-
8 tract or instrument, in connection with a con-
9 tract of sale of a commodity for future delivery,
10 option, swap, or other agreement, contract, or
11 transaction, that is based on or references a
12 digital commodity, a registered entity shall
13 make or rely on a certification under subsection
14 (d) for the digital commodity.”; and

15 (4) by inserting after subsection (c) the fol-
16 lowing:

17 “(d) CERTIFICATIONS FOR DIGITAL COMMODITY
18 TRADING.—

19 “(1) IN GENERAL.—Notwithstanding subsection
20 (c), for the purposes of listing or offering a digital
21 commodity for trading in a digital commodity cash
22 or spot market, an eligible entity shall submit a
23 written certification to the Commission that the dig-
24 ital commodity meets the requirements of this Act

1 (including the regulations prescribed under this
2 Act).

3 “(2) CONTENTS OF THE CERTIFICATION.—

4 “(A) IN GENERAL.—In making a written
5 certification under this paragraph, the eligible
6 entity shall furnish to the Commission an anal-
7 ysis of how the digital commodity meets the re-
8 quirements of section 5i(c)(3).

9 “(B) RELIANCE ON PRIOR DISCLO-
10 SURES.—In making a certification under this
11 subsection, an eligible entity may rely on the
12 records and disclosures of any relevant person
13 registered with the Securities and Exchange
14 Commission or other State or Federal agency.

15 “(3) MODIFICATIONS.—

16 “(A) IN GENERAL.—An eligible entity shall
17 modify a certification made under paragraph
18 (1) to—

19 “(i) account for significant changes in
20 any information provided to the Commis-
21 sion under paragraph (2)(A)(ii); or

22 “(ii) permit or restrict trading in
23 units of a digital commodity held by a dig-
24 ital commodity related person or a digital
25 commodity affiliated person.

1 “(B) RECERTIFICATION.—Modifications
2 required by this subsection shall be subject to
3 the same disapproval and review process as a
4 new certification under paragraphs (4) and (5).

5 “(4) DISAPPROVAL.—

6 “(A) IN GENERAL.—The written certifi-
7 cation described in paragraph (1) shall become
8 effective unless the Commission finds that the
9 listing of the digital commodity is inconsistent
10 with the requirements of this Act or the rules
11 and regulations prescribed under this Act.

12 “(B) ANALYSIS REQUIRED.—The Commis-
13 sion shall include, with any findings referred to
14 in subparagraph (A), a detailed analysis of the
15 factors on which the decision was based.

16 “(C) PUBLIC FINDINGS.—The Commission
17 shall make public any disapproval decision, and
18 any related findings and analysis, made under
19 this paragraph.

20 “(5) REVIEW.—

21 “(A) IN GENERAL.—Unless the Commis-
22 sion makes a disapproval decision under para-
23 graph (4), the written certification described in
24 paragraph (1) shall become effective, pursuant
25 to the certification by the eligible entity and no-

1 tice of the certification to the public (in a man-
2 ner determined by the Commission) on the date
3 that is—

4 “(i) 20 business days after the date
5 the Commission receives the certification
6 (or such shorter period as determined by
7 the Commission by rule or regulation), in
8 the case of a digital commodity that has
9 not been certified under this section or for
10 which a certification is being modified
11 under paragraph (3); or

12 “(ii) 1 business day after the date the
13 Commission receives the certification (or
14 such shorter period as determined by the
15 Commission by rule or regulation) for any
16 digital commodity that has been certified
17 under this section.

18 “(B) EXTENSIONS.—The time for consid-
19 eration under subparagraph (A) may be ex-
20 tended through notice to the eligible entity that
21 there are novel or complex issues that require
22 additional time to analyze, that the explanation
23 by the submitting eligible entity is inadequate,
24 or of a potential inconsistency with this Act—

1 “(i) once, for 30 business days,
2 through written notice to the eligible entity
3 by the Commission; and

4 “(ii) once, for an additional 30 busi-
5 ness days, through written notice to the el-
6 igible entity from the Commission that in-
7 cludes a description of any deficiencies
8 with the certification, including any—

9 “(I) novel or complex issues
10 which require additional time to ana-
11 lyze;

12 “(II) missing information or in-
13 adequate explanations; or

14 “(III) potential inconsistencies
15 with this Act.

16 “(6) PRIOR APPROVAL BEFORE REGISTRA-
17 TION.—

18 “(A) IN GENERAL.—A person applying for
19 registration with the Commission for the pur-
20 poses of listing or offering a digital commodity
21 for trading in a digital commodity cash or spot
22 market may request that the Commission grant
23 prior approval for the person to list or offer the
24 digital commodity on being registered with the
25 Commission.

1 “(B) REQUEST FOR PRIOR APPROVAL.—A
2 person seeking prior approval under subpara-
3 graph (A) shall furnish the Commission with a
4 written certification that the digital commodity
5 meets the requirements of this Act (including
6 the regulations prescribed under this Act) and
7 the information described in paragraph (2).

8 “(C) DEADLINE.—The Commission shall
9 take final action on a request for prior approval
10 not later than 90 business days after submis-
11 sion of the request, unless the person submit-
12 ting the request agrees to an extension of the
13 time limitation established under this subpara-
14 graph.

15 “(D) DISAPPROVAL.—

16 “(i) IN GENERAL.—The Commission
17 shall approve the listing of the digital com-
18 modity unless the Commission finds that
19 the listing is inconsistent with this Act (in-
20 cluding any regulation prescribed under
21 this Act).

22 “(ii) ANALYSIS REQUIRED.—The
23 Commission shall include, with any find-
24 ings made under clause (i), a detailed anal-

1 ysis of the factors on which the decision is
2 based.

3 “(iii) PUBLIC FINDINGS.—The Com-
4 mission shall make public any disapproval
5 decision, and any related findings and
6 analysis, made under this paragraph.

7 “(7) ELIGIBLE ENTITY DEFINED.—In this sub-
8 section, the term ‘eligible entity’ means a registered
9 entity or group of registered entities acting jointly.”.

10 **SEC. 404. REGISTRATION OF DIGITAL COMMODITY EX-**
11 **CHANGES.**

12 The Commodity Exchange Act (7 U.S.C. 1 et seq.)
13 is amended by inserting after section 5h the following:

14 **“SEC. 5i. REGISTRATION OF DIGITAL COMMODITY EX-**
15 **CHANGES.**

16 “(a) IN GENERAL.—

17 “(1) REGISTRATION.—

18 “(A) IN GENERAL.—A trading facility that
19 offers or seeks to offer a cash or spot market
20 in at least 1 digital commodity shall register
21 with the Commission as a digital commodity ex-
22 change.

23 “(B) APPLICATION.—A person desiring to
24 register as a digital commodity exchange shall
25 submit to the Commission an application in

1 such form and containing such information as
2 the Commission may require for the purpose of
3 making the determinations required for ap-
4 proval.

5 “(C) EXEMPTIONS.—A trading facility
6 that offers or seeks to offer a cash or spot mar-
7 ket in at least 1 digital commodity shall not be
8 required to register under this section if the
9 trading facility—

10 “(i) permits no more than a de mini-
11 mis amount of trading activity, as the
12 Commission may determine by rule or reg-
13 ulation, in a digital commodity; or

14 “(ii) serves only customers in a single
15 State, territory, or possession of the
16 United States.

17 “(2) ADDITIONAL REGISTRATIONS.—

18 “(A) WITH THE COMMISSION.—In order to
19 foster the development of fair and orderly mar-
20 kets, protect customers, and promote respon-
21 sible innovation, the Commission—

22 “(i) shall prescribe rules to exempt an
23 entity registered with the Commission
24 under more than 1 section of this Act from
25 duplicative, conflicting, or unduly burden-

1 some provisions of this Act and the rules
2 under this Act;

3 “(ii) shall prescribe rules to address
4 conflicts of interests and activities of the
5 entity; and

6 “(iii) may, after an analysis of the
7 risks and benefits, prescribe rules to pro-
8 vide for portfolio margining.

9 “(B) WITH A REGISTERED FUTURES ASSO-
10 CIATION.—

11 “(i) IN GENERAL.—A registered dig-
12 ital commodity exchange shall also be a
13 member of a registered futures association
14 and comply with rules related to such ac-
15 tivity, if the registered digital commodity
16 exchange accepts customer funds required
17 to be segregated under subsection (d).

18 “(ii) RULEMAKING REQUIRED.—The
19 Commission shall require any registered
20 futures association with a digital com-
21 modity exchange as a member to provide
22 such rules as may be necessary to further
23 compliance with subsection (d), protect
24 customers, and promote the public interest.

1 “(C) REGISTRATION REQUIRED.—A person
2 required to be registered as a digital commodity
3 exchange under this section shall register with
4 the Commission as such regardless of whether
5 the person is registered with another State or
6 Federal regulator.

7 “(b) TRADING.—

8 “(1) PROHIBITION ON CERTAIN TRADING PRAC-
9 TICES.—

10 “(A) Section 4b shall apply to any agree-
11 ment, contract, or transaction in a digital com-
12 modity as if the agreement, contract, or trans-
13 action were a contract of sale of a commodity
14 for future delivery.

15 “(B) Section 4c shall apply to any agree-
16 ment, contract, or transaction in a digital com-
17 modity as if the agreement, contract, or trans-
18 action were a transaction involving the purchase
19 or sale of a commodity for future delivery.

20 “(C) Section 4b–1 shall apply to any
21 agreement, contract, or transaction in a digital
22 commodity as if the agreement, contract, or
23 transaction were a contract of sale of a com-
24 modity for future delivery.

1 “(2) PROHIBITION ON ACTING AS A
2 COUNTERPARTY.—

3 “(A) IN GENERAL.—A digital commodity
4 exchange or any affiliate of such an exchange
5 shall not trade on or subject to the rules of the
6 digital commodity exchange for its own account.

7 “(B) EXCEPTIONS.—The Commission
8 shall, by rule, permit a digital commodity ex-
9 change or any affiliate of a digital commodity
10 exchange to engage in trading on the exchange
11 so long as the trading is not solely for the pur-
12 pose of the profit of the exchange, including the
13 following:

14 “(i) CUSTOMER DIRECTION.—A trans-
15 action for, or entered into at the direction
16 of, or for the benefit of, an unaffiliated
17 customer.

18 “(ii) RISK MANAGEMENT.—A trans-
19 action to manage the credit, market, and
20 liquidity risks associated with the digital
21 commodity business of the exchange.

22 “(iii) OPERATIONAL NEEDS.—A
23 transaction related to the operational
24 needs of the business of the digital com-
25modity exchange or its affiliate.

1 “(iv) FUNCTIONAL USE.—A trans-
2 action related to the functional operation
3 of a blockchain system.

4 “(C) NOTICE REQUIREMENT.—In order for
5 a digital commodity exchange or any affiliate of
6 a digital commodity exchange to engage in trad-
7 ing on the affiliated exchange pursuant to sub-
8 section (B), notice must be given to the Com-
9 mission that shall enumerate how any proposed
10 activity is consistent with the exceptions in sub-
11 section (B) and the purposes of this Act.

12 “(c) CORE PRINCIPLES FOR DIGITAL COMMODITY
13 EXCHANGES.—

14 “(1) COMPLIANCE WITH CORE PRINCIPLES.—

15 “(A) IN GENERAL.—To be registered, and
16 maintain registration, as a digital commodity
17 exchange, a digital commodity exchange shall
18 comply with—

19 “(i) the core principles described in
20 this subsection; and

21 “(ii) any requirement that the Com-
22 mission may impose by rule or regulation
23 pursuant to section 8a(5).

24 “(B) REASONABLE DISCRETION OF A DIG-
25 ITAL COMMODITY EXCHANGE.—Unless other-

1 wise determined by the Commission by rule or
2 regulation, a digital commodity exchange de-
3 scribed in subparagraph (A) shall have reason-
4 able discretion in establishing the manner in
5 which the digital commodity exchange complies
6 with the core principles described in this sub-
7 section.

8 “(2) COMPLIANCE WITH RULES.—A digital
9 commodity exchange shall—

10 “(A) establish and enforce compliance with
11 any rule of the digital commodity exchange, in-
12 cluding—

13 “(i) the terms and conditions of the
14 trades traded or processed on or through
15 the digital commodity exchange; and

16 “(ii) any limitation on access to the
17 digital commodity exchange;

18 “(B) establish and enforce trading, trade
19 processing, and participation rules that will
20 deter abuses and have the capacity to detect,
21 investigate, and enforce those rules, including
22 means—

23 “(i) to provide market participants
24 with impartial access to the market; and

1 “(ii) to capture information that may
2 be used in establishing whether rule viola-
3 tions have occurred; and

4 “(C) establish rules governing the oper-
5 ation of the exchange, including rules specifying
6 trading procedures to be used in entering and
7 executing orders traded or posted on the facil-
8 ity.

9 “(3) LISTING STANDARDS FOR DIGITAL COM-
10 MODITIES.—

11 “(A) IN GENERAL.—A digital commodity
12 exchange shall not permit trading in a digital
13 commodity unless—

14 “(i) reports with respect to the digital
15 commodity required under section
16 4B(b)(3) of the Securities Act of 1933 (or,
17 with respect to a digital commodity not
18 issued in reliance on section 4(a)(8) of the
19 Securities Act of 1933, a comparable set of
20 reports, where required by the Securities
21 and Exchange Commission) have been filed
22 with the Securities and Exchange Commis-
23 sion; or

24 “(ii) the blockchain system to which
25 the digital commodity relates, together

1 with the digital commodity, is certified as
2 a mature blockchain system under section
3 42 of the Securities Exchange Act of 1934.

4 “(B) PUBLIC INFORMATION REQUIRE-
5 MENTS.—

6 “(i) IN GENERAL.—A digital com-
7 modity exchange shall permit trading only
8 in a digital commodity if the information
9 required in clause (ii) is correct, current,
10 and available to the public.

11 “(ii) REQUIRED INFORMATION.—With
12 respect to a digital commodity and each
13 blockchain system to which the digital
14 commodity relates for which the digital
15 commodity exchange will make the digital
16 commodity available to the customers of
17 the digital commodity exchange, the infor-
18 mation required in this clause is as follows:

19 “(I) SOURCE CODE.—The source
20 code for any blockchain system to
21 which the digital commodity relates.

22 “(II) TRANSACTION HISTORY.—A
23 description of the steps necessary to
24 independently access, search, and
25 verify the transaction history of any

1 blockchain system to which the digital
2 commodity relates, to the extent any
3 such independent access, search, and
4 verification activities are technically
5 feasible with respect to the blockchain
6 system.

7 “(III) DIGITAL COMMODITY ECO-
8 NOMICS.—A narrative description of
9 the purpose of any blockchain system
10 to which the digital commodity relates
11 and the operation of any such
12 blockchain system, including—

13 “(aa) information explaining
14 the launch and supply process,
15 including the number of digital
16 assets to be issued in an initial
17 allocation, the total number of
18 digital commodities to be created,
19 the release schedule for the dig-
20 ital commodities, and the total
21 number of digital commodities
22 then outstanding;

23 “(bb) information detailing
24 any applicable consensus mecha-
25 nism or process for validating

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1 transactions, method of gener-
2 ating or mining digital commod-
3 ities, and any process for burning
4 or destroying digital commodities
5 on the blockchain system;

6 “(cc) an explanation of gov-
7 ernance mechanisms for imple-
8 menting changes to the
9 blockchain system or forming
10 consensus among holders of the
11 digital commodities; and

12 “(dd) sufficient information
13 for a third party to create a tool
14 for verifying the transaction his-
15 tory of the digital asset.

16 “(IV) TRADING VOLUME AND
17 VOLATILITY.—The trading volume
18 and volatility of the digital commodity
19 on the exchange.

20 “(V) ADDITIONAL INFORMA-
21 TION.—Such additional information
22 as the Commission may determine by
23 rule to be necessary for a customer to
24 understand the financial and oper-
25 ational risks of a digital commodity,

1 and to be practically feasible to pro-
2 vide.

3 “(iii) FORMAT.—The Commission
4 shall prescribe rules and regulations for
5 the standardization and simplification of
6 disclosures under clause (ii), including re-
7 quiring that disclosures—

8 “(I) be conspicuous;

9 “(II) use plain language com-
10 prehensible to customers; and

11 “(III) succinctly explain the in-
12 formation that is required to be com-
13 municated to the customer.

14 “(iv) RELIANCE ON PREVIOUS DIS-
15 CLOSURES.—In complying with this sub-
16 paragraph, a digital commodity exchange
17 may rely on and make available to the pub-
18 lic relevant information publicly disclosed
19 to the Commission, the Securities and Ex-
20 change Commission, or an appropriate
21 Federal banking agency.

22 “(C) DIGITAL COMMODITIES HELD BY RE-
23 LATED AND DIGITAL COMMODITY AFFILIATED
24 PERSONS.—A digital commodity exchange shall
25 permit the trading of a unit of a digital com-

1 modity held by a digital commodity affiliated
2 person or a digital commodity related person,
3 only pursuant to section 4C of the Securities
4 Act of 1933.

5 “(4) TREATMENT OF CUSTOMER ASSETS.—A
6 digital commodity exchange shall establish policies
7 and procedures that are designed to protect and en-
8 sure the safety of customer money, assets, and prop-
9 erty.

10 “(5) MONITORING OF TRADING AND TRADE
11 PROCESSING.—

12 “(A) IN GENERAL.—A digital commodity
13 exchange shall provide a competitive, open, and
14 efficient market and mechanism for executing
15 transactions that protects the price discovery
16 process of trading on the exchange.

17 “(B) PROTECTION OF MARKETS AND MAR-
18 KET PARTICIPANTS.—A digital commodity ex-
19 change shall establish and enforce rules—

20 “(i) to protect markets and market
21 participants from abusive practices com-
22 mitted by any party, including abusive
23 practices committed by a party acting as
24 an agent for a participant; and

1 “(ii) to promote fair and equitable
2 trading on the exchange.

3 “(C) TRADING PROCEDURES.—A digital
4 commodity exchange shall—

5 “(i) establish and enforce rules or
6 terms and conditions defining, or specifica-
7 tions detailing—

8 “(I) trading procedures to be
9 used in entering and executing orders
10 traded on or through the facilities of
11 the digital commodity exchange; and

12 “(II) procedures for trade proc-
13 essing of digital commodities on or
14 through the facilities of the digital
15 commodity exchange; and

16 “(ii) monitor trading in digital com-
17 modities to prevent manipulation, price
18 distortion, and disruptions, through sur-
19 veillance, compliance, and disciplinary
20 practices and procedures, including meth-
21 ods for conducting real-time monitoring of
22 trading and comprehensive and accurate
23 trade reconstructions.

24 “(6) ABILITY TO OBTAIN INFORMATION.—A
25 digital commodity exchange shall—

1 “(A) establish and enforce rules that will
2 allow the facility to obtain any necessary infor-
3 mation to perform any of the functions de-
4 scribed in this section;

5 “(B) provide the information to the Com-
6 mission on request; and

7 “(C) have the capacity to carry out such
8 international information-sharing agreements as
9 the Commission may require.

10 “(7) EMERGENCY AUTHORITY.—A digital com-
11 modity exchange shall adopt rules to provide for the
12 exercise of emergency authority, in consultation or
13 cooperation with the Commission or a registered en-
14 tity, as is necessary and appropriate, including the
15 authority to facilitate the liquidation or transfer of
16 open positions in any digital commodity or to sus-
17 pend or curtail trading in a digital commodity.

18 “(8) TIMELY PUBLICATION OF TRADING INFOR-
19 MATION.—

20 “(A) IN GENERAL.—A digital commodity
21 exchange shall make public timely information
22 on price, trading volume, and other trading
23 data on digital commodities to the extent pre-
24 scribed by the Commission.

1 “(B) CAPACITY OF DIGITAL COMMODITY
2 EXCHANGE.—A digital commodity exchange
3 shall have the capacity to electronically capture
4 and transmit trade information with respect to
5 transactions executed on the exchange.

6 “(9) RECORDKEEPING AND REPORTING.—

7 “(A) IN GENERAL.—A digital commodity
8 exchange shall—

9 “(i) maintain records relating to the
10 operation of the exchange, including a
11 complete audit trail, in a form and manner
12 acceptable to the Commission for a period
13 of 5 years;

14 “(ii) report to the Commission, in a
15 form and manner acceptable to the Com-
16 mission, such information as the Commis-
17 sion determines to be necessary or appro-
18 priate for the Commission to perform the
19 duties of the Commission under this Act;
20 and

21 “(iii) keep any such records of digital
22 commodities which relate to a security
23 open to inspection and examination by the
24 Securities and Exchange Commission.

1 “(B) INFORMATION-SHARING.—Subject to
2 section 8, and on request, the Commission shall
3 share information collected under subparagraph
4 (A) with—

5 “(i) the Board;

6 “(ii) the Securities and Exchange
7 Commission;

8 “(iii) each appropriate Federal bank-
9 ing agency;

10 “(iv) each appropriate State bank su-
11 pervisor (within the meaning of section 3
12 of the Federal Deposit Insurance Act);

13 “(v) the Financial Stability Oversight
14 Council;

15 “(vi) the Department of Justice; and

16 “(vii) any other person that the Com-
17 mission determines to be appropriate, in-
18 cluding—

19 “(I) foreign financial supervisors
20 (including foreign futures authorities);

21 “(II) foreign central banks; and

22 “(III) foreign ministries.

23 “(C) CONFIDENTIALITY AGREEMENT.—Be-
24 fore the Commission may share information
25 with any entity described in subparagraph (B),

1 the Commission shall receive a written agree-
2 ment from the entity stating that the entity
3 shall abide by the confidentiality requirements
4 described in section 8 relating to the informa-
5 tion on digital commodities that is provided.

6 “(D) PROVIDING INFORMATION.—A digital
7 commodity exchange shall provide to the Com-
8 mission (including any designee of the Commis-
9 sion) information under subparagraph (A) in
10 such form and at such frequency as is required
11 by the Commission.

12 “(10) ANTITRUST CONSIDERATIONS.—Unless
13 necessary or appropriate to achieve the purposes of
14 this Act, a digital commodity exchange shall not—

15 “(A) adopt any rules or take any actions
16 that result in any unreasonable restraint of
17 trade; or

18 “(B) impose any material anticompetitive
19 burden on trading.

20 “(11) CONFLICTS OF INTEREST.—The digital
21 commodity exchange shall establish and enforce
22 rules—

23 “(A) to minimize conflicts of interest in
24 the decision making processes of the contract
25 market; and

1 “(B) to establish a process for resolving
2 conflicts of interest referred to in subparagraph
3 (A).

4 “(12) FINANCIAL RESOURCES.—

5 “(A) IN GENERAL.—A digital commodity
6 exchange shall have adequate financial, oper-
7 ational, and managerial resources, as deter-
8 mined by the Commission, to discharge each re-
9 sponsibility of the digital commodity exchange.

10 “(B) MINIMUM AMOUNT OF FINANCIAL RE-
11 SOURCES.—A digital commodity exchange shall
12 possess financial resources that, at a minimum,
13 exceed—

14 “(i) the total amount that would en-
15 able the digital commodity exchange to
16 cover the operating costs of the digital
17 commodity exchange for a 1-year period,
18 as calculated on a rolling basis; and

19 “(ii) the total amount necessary to
20 meet the financial obligations of the digital
21 commodity exchange to all customers of
22 the digital commodity exchange.

23 “(13) DISCIPLINARY PROCEDURES.—A digital
24 commodity exchange shall establish and enforce dis-
25 ciplinary procedures that authorize the digital com-

1 modity exchange to discipline, suspend, or expel
2 members or market participants that violate the
3 rules of the digital commodity exchange, or similar
4 methods for performing the same functions, includ-
5 ing delegation of the functions to third parties.

6 “(14) GOVERNANCE FITNESS STANDARDS.—

7 “(A) GOVERNANCE ARRANGEMENTS.—A
8 digital commodity exchange shall establish gov-
9 ernance arrangements that are transparent and
10 designed to permit consideration of the views of
11 market participants.

12 “(B) FITNESS STANDARDS.—A digital
13 commodity exchange shall establish and enforce
14 appropriate fitness standards for—

15 “(i) officers and directors; and

16 “(ii) any individual or entity with di-
17 rect access to, or control of, customer as-
18 sets.

19 “(15) SYSTEM SAFEGUARDS.—A digital com-
20 modity exchange shall—

21 “(A) establish and maintain a program of
22 risk analysis and oversight to identify and mini-
23 mize sources of operational and security risks,
24 through the development of appropriate controls

1 and procedures, and automated systems in ac-
2 cordance with industry standards, that—

3 “(i) are reliable and secure; and

4 “(ii) have adequate scalable capacity;

5 “(B) establish and maintain emergency
6 procedures, backup resources, and a plan for
7 disaster recovery that allow for—

8 “(i) the timely recovery and resump-
9 tion of operations; and

10 “(ii) the fulfillment of the responsibil-
11 ities and obligations of the digital com-
12 modity exchange; and

13 “(C) periodically conduct tests to verify
14 that the backup resources of the digital com-
15 modity exchange are sufficient to ensure contin-
16 ued—

17 “(i) order processing and trade
18 matching;

19 “(ii) price reporting;

20 “(iii) market surveillance; and

21 “(iv) maintenance of a comprehensive
22 and accurate audit trail.

23 “(d) HOLDING OF CUSTOMER ASSETS.—

24 “(1) IN GENERAL.—A digital commodity ex-
25 change shall hold customer money, assets, and prop-

1 erty in a manner to minimize the risk of loss to the
2 customer or unreasonable delay in customer access
3 to the money, assets, and property of the customer.

4 “(A) SEGREGATION OF FUNDS.—

5 “(i) IN GENERAL.—A digital com-
6 modity exchange shall treat and deal with
7 all money, assets, and property that is re-
8 ceived by the digital commodity exchange,
9 or accrues to a customer as the result of
10 trading in digital commodities, as belong-
11 ing to the customer.

12 “(ii) COMMINGLING PROHIBITED.—
13 Money, assets, and property of a customer
14 described in clause (i) shall be separately
15 accounted for and shall not be commingled
16 with the funds of the digital commodity ex-
17 change or be used to margin, secure, or
18 guarantee any trades or accounts of any
19 customer or person other than the person
20 for whom the same are held.

21 “(B) EXCEPTIONS.—

22 “(i) USE OF FUNDS.—

23 “(I) IN GENERAL.—Notwith-
24 standing subparagraph (A), money,
25 assets, and property of customers of a

1 digital commodity exchange described
2 in subparagraph (A) may, for conven-
3 ience, be commingled and deposited in
4 the same account or accounts with
5 any bank, trust company, derivatives
6 clearing organization, or qualified dig-
7 ital asset custodian.

8 “(II) WITHDRAWAL.—Notwith-
9 standing subparagraph (A), such
10 share of the money, assets, and prop-
11 erty described in subclause (I) of this
12 clause as in the normal course of busi-
13 ness shall be necessary to margin,
14 guarantee, secure, transfer, adjust, or
15 settle a contract of sale of a digital
16 commodity with a registered entity
17 may be withdrawn and applied to such
18 purposes, including the payment of
19 commissions, brokerage, interest,
20 taxes, storage, and other charges, law-
21 fully accruing in connection with the
22 contract of sale of a digital com-
23 modity.

24 “(ii) COMMISSION ACTION.—Notwith-
25 standing subparagraph (A), in accordance

1 with such terms and conditions as the
2 Commission may prescribe by rule, regula-
3 tion, or order, any money, assets, or prop-
4 erty of the customers of a digital com-
5 modity exchange described in subpara-
6 graph (A) may be commingled and depos-
7 ited in customer accounts with any other
8 money, assets, or property received by the
9 digital commodity exchange and required
10 by the Commission to be separately ac-
11 counted for and treated and dealt with as
12 belonging to the customer of the digital
13 commodity exchange.

14 “(2) PERMITTED INVESTMENTS.—Money de-
15 scribed in subparagraph (A) may be invested in obli-
16 gations of the United States, in general obligations
17 of any State or of any political subdivision of a
18 State, and in obligations fully guaranteed as to prin-
19 cipal and interest by the United States, or in any
20 other investment that the Commission may by rule
21 or regulation prescribe, and such investments shall
22 be made in accordance with such rules and regula-
23 tions and subject to such conditions as the Commis-
24 sion may prescribe.

1 “(3) CUSTOMER PROTECTION DURING BANK-
2 RUPTCY.—

3 “(A) CUSTOMER PROPERTY.—All assets
4 held on behalf of a customer by a digital com-
5 modity exchange, and all money, assets, and
6 property of any customer received by a digital
7 commodity exchange for trading or custody, or
8 to facilitate, margin, guarantee, or secure con-
9 tracts of sale of a digital commodity (including
10 money, assets, or property accruing to the cus-
11 tomer as the result of the transactions), shall
12 be considered customer property for purposes of
13 section 761 of title 11, United States Code.

14 “(B) TRANSACTIONS.—A transaction in-
15 volving the sale of a unit of a digital commodity
16 occurring on or subject to the rules of a digital
17 commodity exchange shall be considered a con-
18 tract for the purchase or sale of a commodity
19 for future delivery, on or subject to the rules of,
20 a contract market or board of trade for pur-
21 poses of the definition of ‘commodity contract’
22 in section 761 of title 11, United States Code.

23 “(C) EXCHANGES.—A digital commodity
24 exchange shall be considered a futures commis-

1 sion merchant for purposes of section 761 of
2 title 11, United States Code.

3 “(D) ASSETS REMOVED FROM SEGREGA-
4 TION.—Assets removed from segregation due to
5 a customer election under paragraph (5) shall
6 not be considered customer property for pur-
7 poses of section 761 of title 11, United States
8 Code.

9 “(4) MISUSE OF CUSTOMER PROPERTY.—

10 “(A) IN GENERAL.—It shall be unlawful—

11 “(i) for any digital commodity ex-
12 change that has received any customer
13 money, assets, or property for custody to
14 dispose of, or use any such money, assets,
15 or property as belonging to the digital
16 commodity exchange or any person other
17 than a customer of the digital commodity
18 exchange; or

19 “(ii) for any other person, including
20 any depository, other digital commodity ex-
21 change, or digital asset custodian that has
22 received any customer money, assets, or
23 property for deposit, to hold, dispose of, or
24 use any such money, assets, or property, or
25 property, as belonging to the depositing

1 digital commodity exchange or any person
2 other than the customers of the digital
3 commodity exchange.

4 “(B) USE FURTHER DEFINED.—For pur-
5 poses of this section, ‘use’ of a digital com-
6 modity includes utilizing any unit of a digital
7 asset to participate in a blockchain service de-
8 fined in paragraph (5) or a decentralized gov-
9 ernance system associated with the digital com-
10 modity or the blockchain system to which the
11 digital commodity relates in any manner other
12 than that expressly directed by the customer
13 from whom the unit of a digital commodity was
14 received.

15 “(5) PARTICIPATION IN BLOCKCHAIN SERV-
16 ICES.—

17 “(A) IN GENERAL.—A customer shall have
18 the right to waive the restrictions in paragraph
19 (1) for any unit of a digital commodity to be
20 used under subparagraph (B), by affirmatively
21 electing, in writing to the digital commodity ex-
22 change, to waive the restrictions.

23 “(B) USE OF FUNDS.—Customer digital
24 commodities removed from segregation under
25 subparagraph (A) may be pooled and used by

1 the digital commodity exchange or its designee
2 to provide a blockchain service for a blockchain
3 system to which the unit of the digital asset re-
4 moved from segregation in subparagraph (A)
5 relates.

6 “(C) LIMITATIONS.—

7 “(i) IN GENERAL.—The Commission
8 shall, by rule, establish notice and disclo-
9 sure requirements, and may, by rule, es-
10 tablish any other limitations and rules re-
11 lated to the waiving of any restrictions
12 under this paragraph that are reasonably
13 necessary to protect customers, including
14 eligible contract participants, non-eligible
15 contract participants, or any other class of
16 customers.

17 “(ii) CUSTOMER CHOICE.—A digital
18 commodity exchange may not require a
19 waiver from a customer described in sub-
20 paragraph (A) as a condition of doing
21 business on the exchange.

22 “(D) BLOCKCHAIN SERVICE DEFINED.—In
23 this subparagraph, the term ‘blockchain service’
24 means any activity relating to validating trans-
25 actions on a blockchain system, providing secu-

1 rity for a blockchain system, or other similar
2 activity required for the ongoing operation of a
3 blockchain system.

4 “(e) MARKET ACCESS REQUIREMENTS.—The Com-
5 mission may, by rule, impose any additional requirements
6 related to the operations and activities of the digital com-
7 modity exchange and an affiliated digital commodity
8 broker necessary to protect market participants, promote
9 fair and equitable trading on the digital commodity ex-
10 change, and promote responsible innovation.

11 “(f) DESIGNATION OF CHIEF COMPLIANCE OFFI-
12 CER.—

13 “(1) IN GENERAL.—A digital commodity ex-
14 change shall designate an individual to serve as a
15 chief compliance officer.

16 “(2) DUTIES.—The chief compliance officer
17 shall—

18 “(A) report directly to the board or to the
19 senior officer of the exchange;

20 “(B) review compliance with the core prin-
21 ciples in this subsection;

22 “(C) in consultation with the board of the
23 exchange, a body performing a function similar
24 to that of a board, or the senior officer of the

1 exchange, resolve any conflicts of interest that
2 may arise;

3 “(D) establish and administer the policies
4 and procedures required to be established pur-
5 suant to this section;

6 “(E) ensure compliance with this Act and
7 the rules and regulations issued under this Act,
8 including rules prescribed by the Commission
9 pursuant to this section; and

10 “(F) establish procedures for the remedi-
11 ation of noncompliance issues found during
12 compliance office reviews, look backs, internal
13 or external audit findings, self-reported errors,
14 or through validated complaints.

15 “(3) REQUIREMENTS FOR PROCEDURES.—In
16 establishing procedures under paragraph (2)(F), the
17 chief compliance officer shall design the procedures
18 to establish the handling, management response, re-
19 mediation, retesting, and closing of noncompliance
20 issues.

21 “(4) ANNUAL REPORTS.—

22 “(A) IN GENERAL.—In accordance with
23 rules prescribed by the Commission, the chief
24 compliance officer shall annually prepare and
25 sign a report that contains a description of—

1 “(i) the compliance of the digital com-
2 modity exchange with this Act; and

3 “(ii) the policies and procedures, in-
4 cluding the code of ethics and conflicts of
5 interest policies, of the digital commodity
6 exchange.

7 “(B) REQUIREMENTS.—The chief compli-
8 ance officer shall—

9 “(i) submit each report described in
10 subparagraph (A) with the appropriate fi-
11 nancial report of the digital commodity ex-
12 change that is required to be submitted to
13 the Commission pursuant to this section;
14 and

15 “(ii) include in the report a certifi-
16 cation that, under penalty of law, the re-
17 port is accurate and complete.

18 “(g) APPOINTMENT OF TRUSTEE.—

19 “(1) IN GENERAL.—If a proceeding under sec-
20 tion 5e results in the suspension or revocation of the
21 registration of a digital commodity exchange, or if a
22 digital commodity exchange withdraws from registra-
23 tion, the Commission, on notice to the digital com-
24 modity exchange, may apply to the appropriate
25 United States district court where the digital com-

1 modity exchange is located for the appointment of a
2 trustee.

3 “(2) ASSUMPTION OF JURISDICTION.—If the
4 Commission applies for appointment of a trustee
5 under paragraph (1)—

6 “(A) the court may take exclusive jurisdic-
7 tion over the digital commodity exchange and
8 the records and assets of the digital commodity
9 exchange, wherever located; and

10 “(B) if the court takes jurisdiction under
11 subparagraph (A), the court shall appoint the
12 Commission, or a person designated by the
13 Commission, as trustee with power to take pos-
14 session and continue to operate or terminate
15 the operations of the digital commodity ex-
16 change in an orderly manner for the protection
17 of customers subject to such terms and condi-
18 tions as the court may prescribe.

19 “(h) QUALIFIED DIGITAL ASSET CUSTODIAN.—A
20 digital commodity exchange shall hold in a qualified digital
21 asset custodian each unit of a digital asset that is—

22 “(1) the property of a customer of the digital
23 commodity exchange;

1 “(2) required to be held by the digital com-
2 modity exchange under subsection (c)(12) of this
3 section; or

4 “(3) otherwise so required by the Commission
5 to reasonably protect customers.

6 “(i) EXEMPTIONS.—

7 “(1) In order to promote responsible innovation
8 and fair competition, or protect customers, the Com-
9 mission may (on its own initiative or on application
10 of the registered digital commodity exchange) ex-
11 empt, either unconditionally or on stated terms or
12 conditions or for stated periods and either retro-
13 actively or prospectively, or both, a registered digital
14 commodity exchange from the requirements of this
15 section, if the Commission determines that—

16 “(A) the exemption would be consistent
17 with the public interest and the purposes of this
18 Act; and

19 “(B) the exemption will not have a mate-
20 rial adverse effect on the ability of the Commis-
21 sion or the digital commodity exchange to dis-
22 charge regulatory or self-regulatory duties
23 under this Act.

24 “(2) The Commission may exempt, condi-
25 tionally or unconditionally, a digital commodity ex-

1 change from registration under this section if the
2 Commission finds that the digital commodity ex-
3 change is subject to comparable, comprehensive su-
4 pervision and regulation on a consolidated basis by
5 the appropriate governmental authorities in the
6 home country of the facility.

7 “(j) CUSTOMER DEFINED.—In this section, the term
8 ‘customer’ means any person that maintains an account
9 for the trading of digital commodities directly with a dig-
10 ital commodity exchange (other than a person that is
11 owned or controlled, directly or indirectly, by the digital
12 commodity exchange) for its own behalf or on behalf of
13 any other person.

14 “(k) FEDERAL PREEMPTION.—Notwithstanding any
15 other provision of law, the Commission shall have exclusive
16 jurisdiction over any digital commodity exchange reg-
17 istered under this section with respect to activities and
18 transactions subject to this Act.”.

19 **SEC. 405. QUALIFIED DIGITAL ASSET CUSTODIANS.**

20 The Commodity Exchange Act (7 U.S.C. 1 et seq.),
21 as amended by the preceding provisions of this Act, is
22 amended by inserting after section 5i the following:

23 **“SEC. 5j. QUALIFIED DIGITAL ASSET CUSTODIANS.**

24 “(a) IN GENERAL.—A person is a qualified digital
25 asset custodian for purposes of this Act if the person—

1 “(1) holds digital assets on behalf of a person
2 registered under this Act or a customer of a person
3 registered under this Act; and

4 “(2) is in compliance with subsections (b) and
5 (c).

6 “(b) SUPERVISION REQUIREMENT.—A person is in
7 compliance with this subsection if the person is subject
8 to—

9 “(1) supervision and examination for custody
10 and safekeeping of digital assets by an appropriate
11 Federal banking agency, the National Credit Union
12 Administration, the Commission, or the Securities
13 and Exchange Commission; or

14 “(2) adequate supervision and appropriate reg-
15 ulation for custody and safekeeping of digital assets
16 by—

17 “(A) a State bank supervisor (within the
18 meaning of section 3 of the Federal Deposit In-
19 surance Act);

20 “(B) a State credit union supervisor, as
21 defined under section 6003 of the Anti-Money
22 Laundering Act of 2020; or

23 “(C) an appropriate foreign governmental
24 authority in the home country of the digital
25 commodity custodian.

1 “(c) OTHER REQUIREMENTS.—A person shall be in
2 compliance with this subsection if:

3 “(1) NOT OTHERWISE PROHIBITED.—The per-
4 son has not been prohibited by its supervisor from
5 engaging in an activity with respect to the custody
6 and safekeeping of digital assets.

7 “(2) INFORMATION SHARING.—

8 “(A) IN GENERAL.—The person shares in-
9 formation with the Commission on request and
10 complies with such requirements for periodic
11 sharing of information regarding customer ac-
12 counts that the person holds on behalf of an en-
13 tity registered with the Commission as the
14 Commission determines by rule are reasonably
15 necessary to effectuate any of the provisions, or
16 to accomplish any of the purposes, of this Act.

17 “(B) PROVISION OF INFORMATION.—If the
18 person is subject to regulation and examination
19 by an appropriate Federal banking agency, the
20 person may satisfy any information request de-
21 scribed in subparagraph (A) by providing the
22 Commission with a detailed listing, in writing,
23 of the digital assets of a customer in the cus-
24 tody of, or use by, the person.

25 “(C) RULEMAKING FOR CFTC ENTITIES.—

1 “(i) IN GENERAL.—The Commission
2 shall prescribe rules to permit a person
3 registered with the Commission to be a
4 qualified digital asset custodian in compli-
5 ance with this section.

6 “(ii) CONTENT.—In prescribing the
7 rules under subparagraph (A), the Com-
8 mission shall require a person registered
9 with the Commission to—

10 “(I) implement requirement con-
11 sistent with the requirements in sub-
12 section (d)(1);

13 “(II) establish sufficient system
14 safeguards;

15 “(III) prevent or mitigate con-
16 flicts of interest, as appropriate; and

17 “(IV) establish separate govern-
18 ance arrangements for the custodial
19 function of the entity.

20 “(d) ADEQUATE SUPERVISION AND APPROPRIATE
21 REGULATION.—

22 “(1) IN GENERAL.—For purposes of subsection
23 (b), the terms ‘adequate supervision’ and ‘appro-
24 priate regulation’ mean such minimum standards for
25 supervision and regulation as are reasonably nec-

1 essary to protect the digital assets held by a person
2 registered under this Act, including standards relat-
3 ing to the licensing, examination, and supervisory
4 processes that require the person to, at a min-
5 imum—

6 “(A) receive a review and evaluation of
7 ownership, character and fitness, conflicts of in-
8 terest, business model, financial statements,
9 funding resources, and policies and procedures
10 of the person;

11 “(B) hold capital sufficient for the finan-
12 cial integrity of the person;

13 “(C) protect customer assets;

14 “(D) establish and maintain books and
15 records regarding the business of the person;

16 “(E) submit financial statements and au-
17 dited financial statements to the applicable su-
18 pervisor described in subsection (b);

19 “(F) provide disclosures to the applicable
20 supervisor described in subsection (b) regarding
21 actions, proceedings, and other items as deter-
22 mined by the supervisor;

23 “(G) maintain and enforce policies and
24 procedures for compliance with applicable State

1 and Federal laws, including those related to
2 anti-money laundering and cybersecurity;

3 “(H) establish a business continuity plan
4 to ensure functionality in cases of disruption;
5 and

6 “(I) establish policies and procedures to re-
7 solve complaints.

8 “(2) RULEMAKING WITH RESPECT TO DEFINI-
9 TIONS.—

10 “(A) IN GENERAL.—For purposes of this
11 section, the Commission may, by rule, further
12 define the terms ‘adequate supervision’ and ‘ap-
13 propriate regulation’ as necessary and appro-
14 priate for the protection of customers, and con-
15 sistent with the purposes of this Act.

16 “(B) CONDITIONAL TREATMENT OF CER-
17 TAIN CUSTODIANS BEFORE RULEMAKING.—Be-
18 fore the effective date of a rulemaking under
19 subparagraph (A), a trust company is deemed
20 subject to adequate supervision and appropriate
21 regulation if—

22 “(i) the trust company is expressly
23 permitted by a State bank supervisor to
24 engage in the custody and safekeeping of
25 digital assets;

1 “(ii) the State bank supervisor has es-
2 tablished licensing, examination, and su-
3 pervisory processes that require the trust
4 company to, at a minimum, meet the con-
5 ditions described in subparagraphs (A)
6 through (I) of paragraph (1); and

7 “(iii) the trust company is in good
8 standing with its State bank supervisor.

9 “(C) TRANSITION PERIOD FOR CERTAIN
10 CUSTODIANS.—In implementing the rulemaking
11 under subparagraph (A), the Commission shall
12 provide a transition period of not less than 2
13 years for any trust company that is deemed
14 subject to adequate supervision and appropriate
15 regulation under subparagraph (B) on the ef-
16 fective date of the rulemaking.

17 “(e) AUTHORITY TO TEMPORARILY SUSPEND
18 STANDARDS.—The Commission may, by rule or order,
19 temporarily suspend, in whole or in part, any requirement
20 imposed under, or any standard referred to in, this section
21 if the Commission determines that the suspension would
22 be consistent with the public interest and the purposes of
23 this Act.”.

1 **SEC. 406. REGISTRATION AND REGULATION OF DIGITAL**
2 **COMMODITY BROKERS AND DEALERS.**

3 The Commodity Exchange Act (7 U.S.C. 1 et seq.)
4 is amended by inserting after section 4t the following:

5 **“SEC. 4u. REGISTRATION AND REGULATION OF DIGITAL**
6 **COMMODITY BROKERS AND DEALERS.**

7 “(a) REGISTRATION.—

8 “(1) REQUIREMENT.—It shall be unlawful for
9 any person to act as a digital commodity broker or
10 digital commodity dealer unless the person is reg-
11 istered as such with the Commission.

12 “(2) ADDITIONAL REGISTRATION.—

13 “(A) RULES.—In order to foster the devel-
14 opment of fair and orderly markets, protect
15 customers, and promote responsible innovation,
16 the Commission—

17 “(i) shall prescribe rules to exempt an
18 entity registered with the Commission
19 under more than 1 section of this Act from
20 duplicative, conflicting, or unduly burden-
21 some provisions of this Act and the rules
22 under this Act;

23 “(ii) shall prescribe rules to address
24 conflicts of interests and the activities of
25 the entity; and

1 “(iii) may after an analysis of the
2 risks and benefits, prescribe rules to pro-
3 vide for portfolio margining.

4 “(B) WITH MEMBERSHIP IN A REG-
5 ISTERED FUTURES ASSOCIATION.—Any person
6 required to be registered as a digital commodity
7 broker or digital commodity dealer under this
8 section shall be a member of a registered fu-
9 tures association.

10 “(b) REQUIREMENTS.—

11 “(1) IN GENERAL.—A person shall register as
12 a digital commodity broker or digital commodity
13 dealer by filing a registration application with the
14 Commission.

15 “(2) CONTENTS.—

16 “(A) IN GENERAL.—The application shall
17 be made in such form and manner as is pre-
18 scribed by the Commission, and shall contain
19 such information as the Commission considers
20 necessary concerning the business in which the
21 applicant is or will be engaged.

22 “(B) CONTINUAL REPORTING.—A person
23 that is registered as a digital commodity broker
24 or digital commodity dealer shall continue to
25 submit to the Commission reports that contain

1 such information pertaining to the business of
2 the person as the Commission may require.

3 “(3) STATUTORY DISQUALIFICATION.—Except
4 to the extent otherwise specifically provided by rule,
5 regulation, or order, it shall be unlawful for a digital
6 commodity broker or digital commodity dealer to
7 permit any person who is associated with a digital
8 commodity broker or a digital commodity dealer and
9 who is subject to a statutory disqualification to ef-
10 fect or be involved in effecting a contract of sale of
11 a digital commodity on behalf of the digital com-
12 modity broker or the digital commodity dealer, re-
13 spectively, if the digital commodity broker or digital
14 commodity dealer, respectively, knew, or in the exer-
15 cise of reasonable care should have known, of the
16 statutory disqualification.

17 “(c) RULEMAKING.—

18 “(1) IN GENERAL.—The Commission shall pre-
19 scribe such rules applicable to registered digital com-
20 modity brokers and registered digital commodity
21 dealers as are appropriate to carry out this section,
22 including rules in the public interest that limit the
23 activities of digital commodity brokers and digital
24 commodity dealers.

25 “(2) FINANCING AGREEMENTS.—

1 “(A) IN GENERAL.—The Commission shall
2 prescribe rules and regulations applicable to
3 digital commodity brokers or digital commodity
4 dealers which shall set forth minimum require-
5 ments related to disclosure, recordkeeping, mar-
6 gin and financing arrangements,
7 rehypothecation, capital, reporting, business
8 conduct, documentation, and supervision of em-
9 ployees and agents, in connection with—

10 “(i) an agreement described in section
11 2(e)(2)(D)(iv); or

12 “(ii) any other margined, leveraged,
13 or financing arrangement for the purchase
14 or sale of a digital commodity with an eli-
15 gible contract participant.

16 “(B) SPECIFIC AUTHORITY.—Except as
17 prohibited in section 2(e)(2)(G)(iii), the Com-
18 mission may also make, promulgate, and en-
19 force such rules and regulations as, in the judg-
20 ment of the Commission, are reasonably nec-
21 essary to effectuate any of the provisions of, or
22 to accomplish any of the purposes of, this Act
23 in connection with an agreement referred to in
24 subparagraph (A) of this paragraph, which may
25 include, without limitation, requirements re-

1 garding registration with the Commission and
2 membership in a registered futures association.

3 “(d) CAPITAL REQUIREMENTS.—

4 “(1) IN GENERAL.—Each digital commodity
5 broker and digital commodity dealer shall meet such
6 minimum capital requirements as the Commission
7 may prescribe to address the risks associated with
8 digital commodity trading and to ensure that the
9 digital commodity broker or digital commodity deal-
10 er, respectively, is able, at all times, to—

11 “(A) meet, and continue to meet the obli-
12 gations of such a registrant; and

13 “(B) fulfill obligations to customers or
14 counterparties for any margined, leveraged, or
15 financed transactions.

16 “(2) FUTURES COMMISSION MERCHANTS AND
17 OTHER DEALERS.—Each futures commission mer-
18 chant, introducing broker, digital commodity broker,
19 digital commodity dealer, broker, and dealer shall
20 maintain sufficient capital to comply with the strict-
21 er of any applicable capital requirements to which
22 the futures commission merchant, introducing
23 broker, digital commodity broker, digital commodity
24 dealer, broker, or dealer, respectively, is subject

1 under this Act or the Securities Exchange Act of
2 1934 (15 U.S.C. 78a et seq.).

3 “(e) REPORTING AND RECORDKEEPING.—Each dig-
4 ital commodity broker and digital commodity dealer—

5 “(1) shall make such reports as are required by
6 the Commission by rule or regulation regarding the
7 transactions, positions, and financial condition of the
8 digital commodity broker or digital commodity deal-
9 er, respectively;

10 “(2) shall keep books and records in such form
11 and manner and for such period as may be pre-
12 scribed by the Commission by rule or regulation; and

13 “(3) shall keep the books and records open to
14 inspection and examination by any representative of
15 the Commission.

16 “(f) DAILY TRADING RECORDS.—

17 “(1) IN GENERAL.—Each digital commodity
18 broker and digital commodity dealer shall maintain
19 daily trading records of the transactions of the dig-
20 ital commodity broker or digital commodity dealer,
21 respectively, and all related records (including re-
22 lated forward or derivatives transactions) and re-
23 corded communications, including electronic mail, in-
24 stant messages, and recordings of telephone calls,

1 for such period as the Commission may require by
2 rule or regulation.

3 “(2) INFORMATION REQUIREMENTS.—The daily
4 trading records shall include such information as the
5 Commission shall require by rule or regulation.

6 “(3) COUNTERPARTY RECORDS.—Each digital
7 commodity broker and digital commodity dealer shall
8 maintain daily trading records for each customer or
9 counterparty in a manner and form that is identifi-
10 able with each digital commodity transaction.

11 “(4) AUDIT TRAIL.—Each digital commodity
12 broker and digital commodity dealer shall maintain
13 a complete audit trail for conducting comprehensive
14 and accurate trade reconstructions.

15 “(g) BUSINESS CONDUCT STANDARDS.—

16 “(1) IN GENERAL.—Each digital commodity
17 broker and digital commodity dealer shall conform
18 with such business conduct standards as the Com-
19 mission, by rule or regulation, prescribes related
20 to—

21 “(A) fraud, manipulation, and other abu-
22 sive practices involving spot or margined, lever-
23 aged, or financed digital commodity trans-
24 actions (including transactions that are offered
25 but not entered into);

1 “(B) diligent supervision of the business of
2 the registered digital commodity broker or dig-
3 ital commodity dealer, respectively; and

4 “(C) such other matters as the Commis-
5 sion deems appropriate.

6 “(2) BUSINESS CONDUCT REQUIREMENTS.—
7 The Commission shall, by rule, prescribe business
8 conduct requirements which—

9 “(A) require disclosure by a registered dig-
10 ital commodity broker and registered digital
11 commodity dealer to any counterparty to the
12 transaction (other than an eligible contract par-
13 ticipant) of—

14 “(i) information about the material
15 risks and characteristics of the digital com-
16modity;

17 “(ii) information about the material
18 risks and characteristics of the transaction;

19 “(B) establish a duty for such a digital
20 commodity broker and such a digital commodity
21 dealer to communicate in a fair and balanced
22 manner based on principles of fair dealing and
23 good faith;

24 “(C) establish standards governing digital
25 commodity broker and digital commodity dealer

1 marketing and advertising, including
2 testimonials and endorsements; and

3 “(D) establish such other standards and
4 requirements as the Commission may determine
5 are appropriate for the protection of customers.

6 “(3) PROHIBITION ON FRAUDULENT PRAC-
7 TICES.—It shall be unlawful for a digital commodity
8 broker or digital commodity dealer to—

9 “(A) employ any device, scheme, or artifice
10 to defraud any customer or counterparty;

11 “(B) engage in any transaction, practice,
12 or course of business that operates as a fraud
13 or deceit on any customer or counterparty; or

14 “(C) engage in any act, practice, or course
15 of business that is fraudulent, deceptive, or ma-
16 nipulative.

17 “(h) DUTIES.—

18 “(1) RISK MANAGEMENT PROCEDURES.—Each
19 digital commodity broker and digital commodity
20 dealer shall establish robust and professional risk
21 management systems adequate for managing the
22 day-to-day business of the digital commodity broker
23 or digital commodity dealer, respectively.

24 “(2) DISCLOSURE OF GENERAL INFORMA-
25 TION.—Each digital commodity broker and digital

1 commodity dealer shall disclose to the Commission
2 information concerning—

3 “(A) the terms and conditions of the trans-
4 actions of the digital commodity broker or dig-
5 ital commodity dealer, respectively;

6 “(B) the trading operations, mechanisms,
7 and practices of the digital commodity broker
8 or digital commodity dealer, respectively;

9 “(C) financial integrity protections relating
10 to the activities of the digital commodity broker
11 or digital commodity dealer, respectively; and

12 “(D) other information relevant to trading
13 in digital commodities by the digital commodity
14 broker or digital commodity dealer, respectively.

15 “(3) ABILITY TO OBTAIN INFORMATION.—Each
16 digital commodity broker and digital commodity
17 dealer shall—

18 “(A) establish and enforce internal systems
19 and procedures to obtain any necessary infor-
20 mation to perform any of the functions de-
21 scribed in this section; and

22 “(B) provide the information to the Com-
23 mission, on request.

24 “(4) CONFLICTS OF INTEREST.—Each digital
25 commodity broker and digital commodity dealer shall

1 establish, maintain, and enforce written policies and
2 procedures reasonably designed, taking into consid-
3 eration the nature of the business of the person, to
4 mitigate any conflicts of interest in transactions or
5 arrangements with affiliates.

6 “(5) ANTITRUST CONSIDERATIONS.—Unless
7 necessary or appropriate to achieve the purposes of
8 this Act, a digital commodity broker or digital com-
9 modity dealer shall not—

10 “(A) adopt any process or take any action
11 that results in any unreasonable restraint of
12 trade; or

13 “(B) impose any material anticompetitive
14 burden on trading or clearing.

15 “(i) DESIGNATION OF CHIEF COMPLIANCE OFFI-
16 CER.—

17 “(1) IN GENERAL.—Each digital commodity
18 broker and digital commodity dealer shall designate
19 an individual to serve as a chief compliance officer.

20 “(2) DUTIES.—The chief compliance officer
21 shall—

22 “(A) report directly to the board or to the
23 senior officer of the registered digital com-
24 modity broker or registered digital commodity
25 dealer;

1 “(B) review the compliance of the reg-
2 istered digital commodity broker or registered
3 digital commodity dealer with respect to the
4 registered digital commodity broker and reg-
5 istered digital commodity dealer requirements
6 described in this section;

7 “(C) in consultation with the board of di-
8 rectors, a body performing a function similar to
9 the board, or the senior officer of the organiza-
10 tion, resolve any conflicts of interest that may
11 arise;

12 “(D) be responsible for administering each
13 policy and procedure that is required to be es-
14 tablished pursuant to this section;

15 “(E) ensure compliance with this Act (in-
16 cluding regulations), including each rule pre-
17 scribed by the Commission under this section;

18 “(F) establish procedures for the remedi-
19 ation of noncompliance issues identified by the
20 chief compliance officer through any—

21 “(i) compliance office review;

22 “(ii) look-back;

23 “(iii) internal or external audit find-
24 ing;

25 “(iv) self-reported error; or

1 “(v) validated complaint; and

2 “(G) establish and follow appropriate pro-
3 cedures for the handling, management response,
4 remediation, retesting, and closing of non-
5 compliance issues.

6 “(3) ANNUAL REPORTS.—

7 “(A) IN GENERAL.—In accordance with
8 rules prescribed by the Commission, the chief
9 compliance officer shall annually prepare and
10 sign a report that contains a description of—

11 “(i) the compliance of the registered
12 digital commodity broker or registered dig-
13 ital commodity dealer with this Act (in-
14 cluding regulations); and

15 “(ii) each policy and procedure of the
16 registered digital commodity broker or reg-
17 istered digital commodity dealer followed
18 by the chief compliance officer (including
19 the code of ethics and conflict of interest
20 policies).

21 “(B) REQUIREMENTS.—The chief compli-
22 ance officer shall ensure that a compliance re-
23 port under subparagraph (A)—

24 “(i) accompanies each appropriate fi-
25 nancial report of the registered digital

1 commodity broker or registered digital
2 commodity dealer that is required to be
3 furnished to the Commission pursuant to
4 this section; and

5 “(ii) includes a certification that,
6 under penalty of law, the compliance re-
7 port is accurate and complete.

8 “(j) SEGREGATION OF DIGITAL COMMODITIES.—

9 “(1) HOLDING OF CUSTOMER ASSETS.—

10 “(A) IN GENERAL.—Each digital com-
11 modity broker and digital commodity dealer
12 shall hold customer money, assets, and property
13 in a manner to minimize the risk of loss to the
14 customer or unreasonable delay in customer ac-
15 cess to the money, assets, and property of the
16 customer.

17 “(B) QUALIFIED DIGITAL ASSET CUSTO-
18 DIAN.—Each digital commodity broker and dig-
19 ital commodity dealer shall hold in a qualified
20 digital asset custodian each unit of a digital
21 asset that is—

22 “(i) the property of a customer or
23 counterparty of the digital commodity
24 broker or digital commodity dealer, respec-
25 tively;

1 “(ii) required to be held by the digital
2 commodity broker or digital commodity
3 dealer under subsection (e); or

4 “(iii) otherwise so required by the
5 Commission to reasonably protect cus-
6 tomers or promote the public interest.

7 “(2) SEGREGATION OF FUNDS.—

8 “(A) IN GENERAL.—Each digital com-
9 modity broker and digital commodity dealer
10 shall treat and deal with all money, assets, and
11 property that is received by the digital com-
12 modity broker or digital commodity dealer, or
13 accrues to a customer as the result of trading
14 in digital commodities, as belonging to the cus-
15 tomer.

16 “(B) COMMINGLING PROHIBITED.—

17 “(i) IN GENERAL.—Except as pro-
18 vided in clause (ii), each digital commodity
19 broker and digital commodity dealer shall
20 separately account for money, assets, and
21 property of a digital commodity customer,
22 and shall not commingle any such money,
23 assets, or property with the funds of the
24 digital commodity broker or digital com-
25 modity dealer, respectively, or use any such

1 money, assets, or property to margin, se-
2 cure, or guarantee any trades or accounts
3 of any customer or person other than the
4 person for whom the money, assets, or
5 property are held.

6 “(ii) EXCEPTIONS.—

7 “(I) USE OF FUNDS.—

8 “(aa) IN GENERAL.—A dig-
9 ital commodity broker or digital
10 commodity dealer may, for con-
11 venience, commingle and deposit
12 in the same account or accounts
13 with any bank, trust company,
14 derivatives clearing organization,
15 or qualified digital asset custo-
16 dian money, assets, and property
17 of customers.

18 “(bb) WITHDRAWAL.—The
19 share of the money, assets, and
20 property described in item (aa)
21 as in the normal course of busi-
22 ness shall be necessary to mar-
23 gin, guarantee, secure, transfer,
24 adjust, or settle a contract of sale
25 of a digital commodity with a

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1 registered entity may be with-
2 drawn and applied to such pur-
3 poses, including the payment of
4 commissions, brokerage, interest,
5 taxes, storage, and other charges,
6 lawfully accruing in connection
7 with the contract.

8 “(II) COMMISSION ACTION.—In
9 accordance with such terms and con-
10 ditions as the Commission may pre-
11 scribe by rule, regulation, or order,
12 any money, assets, or property of the
13 customers of a digital commodity
14 broker or digital commodity dealer
15 may be commingled and deposited in
16 customer accounts with any other
17 money, assets, or property received by
18 the digital commodity broker or dig-
19 ital commodity dealer, respectively,
20 and required by the Commission to be
21 separately accounted for and treated
22 and dealt with as belonging to the
23 customer of the digital commodity
24 broker or digital commodity dealer,
25 respectively.

1 “(3) PERMITTED INVESTMENTS.—Money de-
2 scribed in paragraph (2) may be invested in obliga-
3 tions of the United States, in general obligations of
4 any State or of any political subdivision of a State,
5 in obligations fully guaranteed as to principal and
6 interest by the United States, or in any other invest-
7 ment that the Commission may by rule or regulation
8 allow.

9 “(4) CUSTOMER PROTECTION DURING BANK-
10 RUPTCY.—

11 “(A) CUSTOMER PROPERTY.—All money,
12 assets, or property described in paragraph (2)
13 shall be considered customer property for pur-
14 poses of section 761 of title 11, United States
15 Code.

16 “(B) TRANSACTIONS.—A transaction in-
17 volving a unit of a digital commodity occurring
18 with a digital commodity broker or digital com-
19 modity dealer shall be considered a ‘contract for
20 the purchase or sale of a commodity for future
21 delivery, on or subject to the rules of, a con-
22 tract market or board of trade’ for purposes of
23 the definition of a ‘commodity contract’ in sec-
24 tion 761 of title 11, United States Code.

1 “(C) BROKERS AND DEALERS.—A digital
2 commodity broker and a digital commodity
3 dealer shall be considered a futures commission
4 merchant for purposes of section 761 of title
5 11, United States Code.

6 “(D) ASSETS REMOVED FROM SEGREGA-
7 TION.—Assets removed from segregation due to
8 a customer election under paragraph (6) shall
9 not be considered customer property for pur-
10 poses of section 761 of title 11, United States
11 Code.

12 “(5) MISUSE OF CUSTOMER PROPERTY.—

13 “(A) IN GENERAL.—It shall be unlawful—

14 “(i) for any digital commodity broker
15 or digital commodity dealer that has re-
16 ceived any customer money, assets, or
17 property for custody to dispose of, or use
18 any such money, assets, or property as be-
19 longing to the digital commodity broker or
20 digital commodity dealer, respectively, or
21 any person other than a customer of the
22 digital commodity broker or digital com-
23 modity dealer, respectively; or

24 “(ii) for any other person, including
25 any depository, digital commodity ex-

1 change, other digital commodity broker,
2 other digital commodity dealer, or digital
3 commodity custodian that has received any
4 customer money, assets, or property for
5 deposit, to hold, dispose of, or use any
6 such money, assets, or property, as belong-
7 ing to the depositing digital commodity
8 broker or digital commodity dealer or any
9 person other than the customers of the
10 digital commodity broker or digital com-
11 modity dealer, respectively.

12 “(B) USE FURTHER DEFINED.—For pur-
13 poses of this section, ‘use’ of a digital com-
14 modity includes utilizing any unit of a digital
15 asset to participate in a blockchain service de-
16 fined in paragraph (6) or a decentralized gov-
17 ernance system associated with the digital com-
18 modity or the blockchain system to which the
19 digital commodity relates in any manner other
20 than that expressly directed by the customer
21 from whom the unit of a digital commodity was
22 received.

23 “(6) PARTICIPATION IN BLOCKCHAIN SERV-
24 ICES.—

1 “(A) IN GENERAL.—A customer shall have
2 the right to waive the restrictions in paragraph
3 (2) for any unit of a digital commodity to be
4 used under subparagraph (B) of this para-
5 graph, by affirmatively electing, in writing to
6 the digital commodity broker or digital com-
7 modity dealer, to waive the restrictions.

8 “(B) USE OF FUNDS.—Customer digital
9 commodities removed from segregation under
10 subparagraph (A) may be pooled and used by
11 the digital commodity broker or digital com-
12 modity dealer, or one of their designees, to pro-
13 vide a blockchain service for a blockchain sys-
14 tem to which the unit of the digital asset re-
15 moved from segregation in subparagraph (A)
16 relates.

17 “(C) LIMITATIONS.—

18 “(i) IN GENERAL.—The Commission
19 shall, by rule, establish notice and disclo-
20 sure requirements, and may, by rule, es-
21 tablish any other limitations and rules re-
22 lated to the waiving of any restrictions
23 under this paragraph that are reasonably
24 necessary to protect customers, including
25 eligible contract participants, non-eligible

1 contract participants, or any other class of
2 customers.

3 “(ii) CUSTOMER CHOICE.—A digital
4 commodity broker or digital commodity
5 dealer may not require a waiver from a
6 customer described in subparagraph (A) as
7 a condition of doing business with the
8 broker or dealer.

9 “(D) BLOCKCHAIN SERVICE DEFINED.—In
10 this subparagraph, the term ‘blockchain service’
11 means any activity relating to validating trans-
12 actions on a blockchain system, providing secu-
13 rity for a blockchain system, or other similar
14 activity required for the ongoing operation of a
15 blockchain system.

16 “(k) FEDERAL PREEMPTION.—Notwithstanding any
17 other provision of law, the Commission shall have exclusive
18 jurisdiction over any digital commodity broker or digital
19 commodity dealer registered under this section with re-
20 spect to activities subject to this Act, except as provided
21 in section 5k.

22 “(l) EXEMPTIONS.—In order to promote responsible
23 innovation and fair competition, or protect customers, the
24 Commission may (on its own initiative or on application
25 of the registered digital commodity broker or registered

1 digital commodity dealer) exempt, unconditionally or on
2 stated terms or conditions, or for stated periods, and
3 retroactively or prospectively, or both, a registered digital
4 commodity broker or registered digital commodity dealer
5 from the requirements of this section, if the Commission
6 determines that—

7 “(1)(A) the exemption would be consistent with
8 the public interest and the purposes of this Act; and

9 “(B) the exemption will not have a material ad-
10 verse effect on the ability of the Commission to dis-
11 charge regulatory duties under this Act; or

12 “(2) the registered digital commodity broker or
13 registered digital commodity dealer is subject to
14 comparable, comprehensive supervision and regula-
15 tion by the appropriate government authorities in
16 the home country of the registered digital commodity
17 broker or registered digital commodity dealer, re-
18 spectively.”.

19 **SEC. 407. REGISTRATION OF ASSOCIATED PERSONS.**

20 (a) IN GENERAL.—Section 4k of the Commodity Ex-
21 change Act (7 U.S.C. 6k) is amended—

22 (1) by redesignating subsections (4) through
23 (6) as subsections (5) through (7), respectively;

24 (2) by inserting after subsection (3) the fol-
25 lowing:

1 “(4) It shall be unlawful for any person to act as an
2 associated person of a digital commodity broker or an as-
3 sociated person of a digital commodity dealer unless the
4 person is registered with the Commission under this Act
5 and such registration shall not have expired, been sus-
6 pended (and the period of suspension has not expired),
7 or been revoked. It shall be unlawful for a digital com-
8 modity broker or a digital commodity dealer to permit
9 such a person to become or remain associated with the
10 digital commodity broker or digital commodity dealer if
11 the digital commodity broker or digital commodity dealer
12 knew or should have known that the person was not so
13 registered or that the registration had expired, been sus-
14 pended (and the period of suspension has not expired),
15 or been revoked.”; and

16 (3) in subsection (5) (as so redesignated), by
17 striking “or of a commodity trading advisor” and in-
18 serting “of a commodity trading advisor, of a digital
19 commodity broker, or of a digital commodity deal-
20 er”.

21 (b) CONFORMING AMENDMENTS.—The Commodity
22 Exchange Act (7 U.S.C. 1a et seq.) is amended by striking
23 “section 4k(6)” each place it appears and inserting “sec-
24 tion 4k(7)”.

1 **SEC. 408. REGISTRATION OF COMMODITY POOL OPERA-**
2 **TORS AND COMMODITY TRADING ADVISORS.**

3 (a) IN GENERAL.—Section 4m(3) of the Commodity
4 Exchange Act (7 U.S.C. 6m(3)) is amended—

5 (1) in subparagraph (A)—

6 (A) by striking “any commodity trading
7 advisor” and inserting “a commodity pool oper-
8 ator or commodity trading advisor”; and

9 (B) by striking “acting as a commodity
10 trading advisor” and inserting “acting as a
11 commodity pool operator or commodity trading
12 advisor”; and

13 (2) in subparagraph (C), by inserting “digital
14 commodities,” after “physical commodities,”.

15 (b) EXEMPTIVE AUTHORITY.—Section 4m of such
16 Act (7 U.S.C. 6m) is amended by adding at the end the
17 following:

18 “(4) EXEMPTIVE AUTHORITY.—The Commission
19 shall promulgate rules to provide appropriate exemptions
20 for commodity pool operators and commodity trading advi-
21 sors, to provide relief from duplicative, conflicting, or un-
22 duly burdensome requirements or to promote responsible
23 innovation, to the extent the exemptions foster the devel-
24 opment of fair and orderly cash or spot digital commodity
25 markets, are necessary or appropriate in the public inter-
26 est, and are consistent with the protection of customers.”.

1 **SEC. 409. EXCLUSION FOR DECENTRALIZED FINANCE AC-**
2 **TIVITIES.**

3 The Commodity Exchange Act (7 U.S.C. 1 et seq.),
4 as amended by the preceding provisions of this Act, is
5 amended by inserting after section 4u the following:

6 **“SEC. 4v. DECENTRALIZED FINANCE ACTIVITIES NOT SUB-**
7 **JECT TO THIS ACT.**

8 “(a) IN GENERAL.—Notwithstanding any other pro-
9 vision of this Act, a person shall not be subject to this
10 Act and the regulations promulgated under this Act based
11 on the person directly or indirectly engaging in any of the
12 following activities, whether singly or in combination, in
13 relation to the operation of a blockchain system or in rela-
14 tion to decentralized finance trading protocol:

15 “(1) Compiling network transactions or relay-
16 ing, searching, sequencing, validating, or acting in a
17 similar capacity.

18 “(2) Providing computational work, operating a
19 node or oracle service, or procuring, offering, or uti-
20 lizing network bandwidth, or other similar incidental
21 services.

22 “(3) Providing a user-interface that enables a
23 user to read, and access data about a blockchain
24 system.

25 “(4) Developing, publishing, constituting, ad-
26 ministering, maintaining, or otherwise distributing a

1 blockchain system or a decentralized finance trading
2 protocol.

3 “(5) Developing, publishing, constituting, ad-
4 ministering, maintaining, or otherwise distributing a
5 decentralized finance messaging system or operating
6 or participating in a liquidity pool for the purpose
7 of executing a contract of sale of a digital com-
8 modity.

9 “(6) Developing, publishing, constituting, ad-
10 ministering, maintaining, or otherwise distributing
11 software or systems that create or deploy hardware
12 or software, including wallets or other systems, fa-
13 cilitating an individual user’s own personal ability to
14 keep, safeguard, or custody the user’s digital assets
15 or related private keys.

16 “(b) EXCEPTIONS.—Subsection (a) shall not be inter-
17 preted to apply to the anti-fraud, anti-manipulation, or
18 false reporting enforcement authorities of the Commis-
19 sion.”.

20 **SEC. 410. RESOURCES FOR IMPLEMENTATION AND EN-**
21 **FORCEMENT.**

22 (a) COLLECTION OF FEES.—

23 (1) IN GENERAL.—The Commodity Futures
24 Trading Commission (in this section referred to as
25 the “Commission”) shall charge and collect a filing

1 fee from each person who files with the Commission
2 a statement of provisional registration as a digital
3 commodity exchange, digital commodity broker, or
4 digital commodity dealer pursuant to section 106.

5 (2) AMOUNT.—The fees authorized under para-
6 graph (1) may be collected and available for obliga-
7 tion only in the amounts provided in advance in an
8 appropriation Act.

9 (3) AUTHORITY TO ADJUST FEES.—Notwith-
10 standing the preceding provisions of this subsection,
11 to promote fair competition or innovation, the Com-
12 mission, in its sole discretion, may reduce or elimi-
13 nate any fee otherwise required to be paid by a small
14 or medium filer under this subsection.

15 (b) FEE SCHEDULE.—

16 (1) IN GENERAL.—The Commission shall pub-
17 lish in the Federal Register a schedule of the fees
18 to be charged and collected under this section.

19 (2) CONTENT.—The fee schedule for a fiscal
20 year shall include a written analysis of the estimate
21 of the Commission of the total costs of carrying out
22 the functions of the Commission under this Act dur-
23 ing the fiscal year.

24 (3) SUBMISSION TO CONGRESS.—Before pub-
25 lishing the fee schedule for a fiscal year, the Com-

1 mission shall submit a copy of the fee schedule to
2 the Committees on Agriculture and on Appropria-
3 tions of the House of Representatives and the Com-
4 mittees on Agriculture, Nutrition, and Forestry and
5 on Appropriations of the Senate.

6 (4) TIMING.—

7 (A) 1ST FISCAL YEAR.—The Commission
8 shall publish the fee schedule for the fiscal year
9 in which this Act is enacted, within 30 days
10 after the date of the enactment of this Act.

11 (B) SUBSEQUENT FISCAL YEARS.—The
12 Commission shall publish the fee schedule for
13 each subsequent fiscal year, not less than 90
14 days before the due date prescribed by the
15 Commission for payment of the annual fee for
16 the fiscal year.

17 (c) LATE PAYMENT PENALTY.—

18 (1) IN GENERAL.—The Commission may im-
19 pose a penalty against a person that fails to pay an
20 annual fee charged under this section, within 30
21 days after the due date prescribed by the Commis-
22 sion for payment of the fee.

23 (2) AMOUNT.—The amount of the penalty shall
24 be—

1 (A) 5 percent of the amount of the fee due,
2 multiplied by

3 (B) the whole number of consecutive 30-
4 day periods that have elapsed since the due
5 date.

6 (d) REIMBURSEMENT OF EXCESS FEES.—To the ex-
7 tent that the total amount of fees collected under this sec-
8 tion during a fiscal year that begins after the date of the
9 enactment of this Act exceeds the amount provided under
10 subsection (a)(2) with respect to the fiscal year, the Com-
11 mission shall reimburse the excess amount to the persons
12 who have timely paid their annual fees, on a pro-rata basis
13 that excludes penalties, and shall do so within 60 days
14 after the end of the fiscal year.

15 (e) DEPOSIT OF FEES INTO THE TREASURY.—All
16 amounts collected under this section shall be credited to
17 the currently applicable appropriation, account, or fund of
18 the Commission as discretionary offsetting collections, and
19 shall be available for the purposes authorized in subsection
20 (f) only to the extent and in the amounts provided in ad-
21 vance in appropriations Acts.

22 (f) AUTHORIZATION OF APPROPRIATIONS.—In addi-
23 tion to amounts otherwise authorized to be appropriated
24 to the Commission, there is authorized to be appropriated
25 to the Commission amounts collected under this section

1 to cover the costs the costs of carrying out the functions
2 of the Commission under this Act.

3 (g) EXPEDITED HIRING AUTHORITY.—

4 (1) APPOINTMENT AUTHORITY.—The Chair-
5 man, pursuant to section 6(a), may appoint individ-
6 uals to a position described in paragraph (2) of this
7 subsection—

8 (A) in accordance with the statutes, rules,
9 and regulations governing appointments to posi-
10 tions in the excepted service (as defined in sec-
11 tion 2103 of title 5, United States Code); and

12 (B) without regard to any statute, rule, or
13 regulation governing appointments to positions
14 in the competitive service (as defined in section
15 2102 of such title).

16 (2) POSITION DESCRIBED.—A position referred
17 to in subparagraph (1) is a position at the Commis-
18 sion that—

19 (A) is in the competitive service (as defined
20 in section 2102 of such title); and

21 (B) requires specialized knowledge of dig-
22 ital commodities markets, financial and capital
23 market formation or regulation, financial mar-
24 ket structures or surveillance, data collection or

1 analysis, or information technology, cybersecu-
2 rity, or system safeguards.

3 (3) RULE OF CONSTRUCTION.—The appoint-
4 ment of a candidate to a position under this sub-
5 section shall not be considered to cause the position
6 to be converted from the competitive service to the
7 excepted service.

8 (h) SUNSET.—The authorities provided by this sec-
9 tion shall expire at the end of the 4th fiscal year that be-
10 gins after the date of the enactment of this Act.

11 **SEC. 411. DIGITAL COMMODITY ACTIVITIES BY SEC-REG-**
12 **ISTERED ENTITIES.**

13 The Commodity Exchange Act (7 U.S.C. 1 et seq.),
14 as amended by the preceding provisions of this Act, is
15 amended by inserting after section 5j the following:

16 **“SEC. 5k. EXEMPTION FOR CERTAIN REGISTERED ENTITIES**
17 **ENGAGED IN DIGITAL COMMODITY ACTIVI-**
18 **TIES.**

19 “(a) BY ALTERNATIVE TRADING SYSTEMS.—

20 “(1) IN GENERAL.—On receipt by the Commis-
21 sion from an alternative trading system of a written
22 or electronic notice that contains such information
23 as the Commission, by rule, may prescribe as nec-
24 essary or appropriate in the public interest or for
25 the protection of investors, the alternative trading

1 system shall be exempt from registration as a digital
2 commodity exchange pursuant to section 5i if—

3 “(A) the alternative trading system does
4 not list any retail commodity transactions pur-
5 suant to section 2(c)(2)(D);

6 “(B) the provider, or an affiliate person of
7 the provider, of the alternative trading system
8 is not otherwise registered under this Act;

9 “(C) the alternative trading system lists or
10 trades no other contracts of sale of commod-
11 ities, except for digital commodities, currencies,
12 and securities; and

13 “(D) the registration of the alternative
14 trading system is not suspended pursuant to an
15 order by the Securities and Exchange Commis-
16 sion.

17 “(2) FURTHER REQUIREMENTS.—An alter-
18 native trading system that provides notice to the
19 Commission pursuant to paragraph (1) of this sub-
20 section shall be exempt from the requirements of
21 section 5i to the extent that the alternative trading
22 system—

23 “(A) is in compliance with requirements
24 consistent with the requirements of section 5i

1 and imposed on the alternative trading system
2 by the Securities and Exchange Commission;

3 “(B) annually files with the Commission,
4 in a form and manner acceptable to the Com-
5 mission, a notice that demonstrates compliance
6 with this paragraph and contains any other in-
7 formation the Commission determines to be
8 necessary or appropriate to perform the duties
9 of the Commission under this Act; and

10 “(C) has total trading volume in digital
11 commodities during any calendar quarter in ei-
12 ther of its 2 most recently completed fiscal
13 years that does not exceed the lesser of—

14 “(i) 25 percent of the total trading
15 volume for all transactions over the same
16 period; or

17 “(ii) \$50,000,000,000.

18 “(3) ENFORCEMENT.—This subsection shall not
19 be construed to limit any jurisdiction that the Com-
20 mission may otherwise have under any other provi-
21 sion of this Act with respect to a contract of sale of
22 a digital commodity or persons effecting contracts of
23 sale of digital commodities.

24 “(b) BY REGISTERED INTERMEDIARIES.—

1 “(1) IN GENERAL.—On receipt by the Commis-
2 sion, from a broker or dealer that is registered with
3 the Securities and Exchange Commission, of a writ-
4 ten or electronic notice that contains such informa-
5 tion as the Commission, by rule, may prescribe as
6 necessary or appropriate in the public interest or for
7 the protection of investors, the broker or dealer shall
8 be exempt from registration as a digital commodity
9 broker or digital commodity dealer pursuant to sec-
10 tion 4u of this Act if—

11 “(A) the broker or dealer does not offer or
12 engage in any retail commodity transactions
13 pursuant to section 2(c)(2)(D) of this Act or
14 other contracts of sale of commodities, except
15 for digital commodities, currencies, and securi-
16 ties;

17 “(B) the broker or dealer is not otherwise
18 registered under this Act;

19 “(C) the broker or dealer is not subject to
20 a statutory disqualification, as defined under
21 section 3(a) of the Securities Exchange Act of
22 1934 (15 U.S.C. 78c(a)); and

23 “(D) the broker or dealer is a member of
24 a national securities association registered pur-

1 suant to section 15A of the Securities Exchange
2 Act of 1934.

3 “(2) FURTHER REQUIREMENTS.—A broker or
4 dealer that provides notice to the Commission pursu-
5 ant to paragraph (1) shall be exempt from the re-
6 quirements of section 4u to the extent that the
7 broker or dealer—

8 “(A) is in compliance with requirements
9 consistent with the requirements of section 4u
10 and imposed on the broker or dealer by the Se-
11 curities and Exchange Commission;

12 “(B) annually files with the Commission,
13 in a form and manner acceptable to the Com-
14 mission, a notice that demonstrates compliance
15 with this subsection and contains any other in-
16 formation the Commission determines to be
17 necessary or appropriate to perform the duties
18 of the Commission under this Act; and

19 “(C) has consolidated annual gross finan-
20 cial revenues in either of its 2 most recently
21 completed fiscal years from sales, commissions
22 or other activities in digital commodities that do
23 not exceed the lesser of—

24 “(i) 10 percent of the total annual
25 gross revenues during the same period; or

1 “(ii) \$100,000,000.

2 “(3) ENFORCEMENT.—This subsection shall not
3 be construed to limit any jurisdiction that the Com-
4 mission may otherwise have under any other provi-
5 sion of this Act with respect to a contract of sale of
6 a digital commodity and persons effecting contracts
7 of sale of digital commodities.”.

8 **SEC. 412. REQUIREMENTS RELATED TO CONTROL PER-**
9 **SONS.**

10 The Commodity Exchange Act (7 U.S.C. 1 et seq.),
11 as amended the preceding provisions of this Act, is amend-
12 ed by inserting after section 4v the following:

13 **“SEC. 4w. LIMITATION ON TRANSACTIONS BY BLOCKCHAIN**
14 **CONTROL PERSONS.**

15 “(a) LIMITATION.—It shall be unlawful for a
16 blockchain control person with respect to a blockchain sys-
17 tem certified as a mature blockchain system in accordance
18 with section 42 of the Securities Exchange Act of 1934
19 to sell a unit of a digital commodity related to the
20 blockchain system unless the person files notice with the
21 Commission, in a form and manner determined by the
22 Commission, that the person has or intends to obtain an
23 authority described in subsection (b)(1) with respect to the
24 blockchain system, and complies with rules adopted by the
25 Commission that require—

1 “(1) disclosure of information to the Commis-
2 sion and the public about the material activities, as
3 determined by the Commission, of the blockchain
4 control person; and

5 “(2)(A) the use of a digital commodity broker
6 to effect the sale; or

7 “(B) such other sales restrictions applicable to
8 blockchain control person, or any of its digital com-
9 modity affiliated persons, to prevent manipulation
10 and distortion of the value of the digital commodity
11 and promote further maturity of the blockchain sys-
12 tem to which the digital commodity relates.

13 “(b) DEFINITIONS.—In this section:

14 “(1) BLOCKCHAIN CONTROL PERSON.—The
15 term ‘blockchain control person’ means, with respect
16 to a blockchain system, any person or group of per-
17 sons under common control who—

18 “(A) has the unilateral authority, directly
19 or indirectly, through any contract, arrange-
20 ment, understanding, relationship, or otherwise,
21 to control or materially alter the functionality,
22 operation, or rules of consensus or agreement of
23 the blockchain system or its related digital com-
24 modity; or

1 “(B) has the unilateral authority to direct
2 the voting, in the aggregate, of 20 percent or
3 more of the outstanding voting power of the
4 blockchain system by means of a related digital
5 commodity, nodes or validators, a decentralized
6 governance system, or otherwise, in a
7 blockchain system which can be altered by a
8 voting system.

9 “(2) DIGITAL COMMODITY AFFILIATED PER-
10 SON.—The term ‘digital commodity affiliated person’
11 means any person directly or indirectly controlling,
12 controlled by, or under common control with a
13 blockchain control person, as the Commission by
14 rule or regulation, may determine will effectuate the
15 purposes of this section.”.

16 **SEC. 413. EFFECTIVE DATE.**

17 Unless otherwise provided in this title, this title and
18 the amendments made by this title shall take effect 360
19 days after the date of the enactment of this Act, except
20 that, to the extent a provision of this title requires a rule-
21 making, the provision shall take effect on the later of—

22 (1) 360 days after the date of the enactment of
23 this Act; or

24 (2) 60 days after the publication in the Federal
25 Register of the final rule implementing the provision.

1 **SEC. 414. SENSE OF CONGRESS.**

2 It is the sense of Congress that nothing in this Act
3 or any amendment made by this Act should be interpreted
4 to authorize any entity to regulate any commodity, other
5 than a digital commodity, on any spot market.

6 **TITLE V—INNOVATION AND**
7 **TECHNOLOGY IMPROVEMENTS**

8 **SEC. 501. FINDINGS; SENSE OF CONGRESS.**

9 (a) FINDINGS.—Congress finds the following:

10 (1) Entrepreneurs and innovators are building
11 and deploying this next generation of the internet.

12 (2) Digital commodity networks represent a
13 new way for people to join together and cooperate
14 with one another to undertake certain activities.

15 (3) Digital commodities have the potential to be
16 the foundational building blocks of these systems,
17 aligning the economic incentive for individuals to co-
18 operate with one another to achieve a common pur-
19 pose.

20 (4) The digital commodity ecosystem has the
21 potential to grow our economy and improve everyday
22 lives of Americans by facilitating collaboration
23 through the use of technology to manage activities,
24 allocate resources, and facilitate decision making.

25 (5) Blockchain systems and the digital commod-
26 ities they empower provide control, enhance trans-

1 parency, reduce transaction costs, and increase effi-
2 ciency if proper protections are put in place for in-
3 vestors, consumers, our financial system, and our
4 national security.

5 (6) Blockchain technology facilitates new types
6 of network participation which businesses in the
7 United States may utilize in innovative ways.

8 (7) Other digital commodity companies are set-
9 ting up their operations outside of the United
10 States, where countries are establishing frameworks
11 to embrace the potential of blockchain technology
12 and digital commodities and provide safeguards for
13 consumers.

14 (8) Digital commodities, despite the purported
15 anonymity, provide law enforcement with an excep-
16 tional tracing tool to identify illicit activity and bring
17 criminals to justice.

18 (9) The Financial Services Committee of the
19 House of Representatives has held multiple hearings
20 highlighting various risks that digital commodities
21 can pose to the financial markets, consumers, and
22 investors that must be addressed as we seek to har-
23 ness the benefits of these innovations.

24 (b) SENSE OF CONGRESS.—It is the sense of Con-
25 gress that—

1 (1) the United States should seek to prioritize
2 understanding the potential opportunities of the next
3 generation of the internet;

4 (2) the United States should seek to foster ad-
5 vances in technology that have robust evidence indi-
6 cating they can improve our financial system and
7 create more fair and equitable access to financial
8 services for everyday Americans while protecting our
9 financial system, investors, and consumers;

10 (3) the United States must support the respon-
11 sible development of digital commodities and the un-
12 derlying technology in the United States or risk the
13 shifting of the development of such assets and tech-
14 nology outside of the United States, to less regulated
15 countries;

16 (4) Congress should consult with public and
17 private sector stakeholders to understand how to
18 enact a functional framework tailored to the specific
19 risks and unique benefits of different digital com-
20 modity-related activities, distributed ledger tech-
21 nology, distributed networks, and mature blockchain
22 systems;

23 (5) Congress should enact a functional frame-
24 work tailored to the specific risks of different digital
25 commodity-related activities and unique benefits of

1 distributed ledger technology, distributed networks,
2 and mature blockchain systems; and

3 (6) consumers and market participants will ben-
4 efit from a framework for digital commodities con-
5 sistent with longstanding investor protections in se-
6 curities and commodities markets, yet tailored to the
7 unique benefits and risks of the digital commodity
8 ecosystem.

9 **SEC. 502. MODERNIZATION OF THE SECURITIES AND EX-**
10 **CHANGE COMMISSION MISSION.**

11 (a) SECURITIES ACT OF 1933.—Section 2(b) of the
12 Securities Act of 1933 (15 U.S.C. 77(b)) is amended—

13 (1) in the heading, by inserting “INNOVATION,”
14 after “EFFICIENCY,”; and

15 (2) by inserting “innovation,” after “effi-
16 ciency,”.

17 (b) SECURITIES EXCHANGE ACT OF 1934.—Section
18 3(f) of the Securities Exchange Act of 1934 (15 U.S.C.
19 78(e)) is amended—

20 (1) in the heading, by inserting “INNOVATION,”
21 after “EFFICIENCY,”; and

22 (2) by inserting “innovation,” after “effi-
23 ciency,”.

1 (c) INVESTMENT ADVISERS ACT OF 1940.—Section
2 202(c) of the Investment Advisers Act of 1940 (15 U.S.C.
3 80b-2) is amended—

4 (1) in the heading, by inserting “INNOVATION,”
5 after “EFFICIENCY,”; and
6 (2) by inserting “innovation,” after “effi-
7 ciency,”.

8 (d) INVESTMENT COMPANY ACT OF 1940.—Section
9 2(c) of the Investment Company Act of 1940 (15 U.S.C.
10 80a-2) is amended—

11 (1) in the heading, by inserting “INNOVATION,”
12 after “EFFICIENCY,”; and
13 (2) by inserting “innovation,” after “effi-
14 ciency,”.

15 **SEC. 503. STRATEGIC HUB FOR INNOVATION AND FINAN-**
16 **CIAL TECHNOLOGY.**

17 Section 4 of the Securities Exchange Act of 1934 (15
18 U.S.C. 78d) is amended by adding at the end the fol-
19 lowing:

20 “(k) STRATEGIC HUB FOR INNOVATION AND FINAN-
21 CIAL TECHNOLOGY.—

22 “(1) ESTABLISHMENT.—Not later than 180
23 days after the date of the enactment of this sub-
24 section, the Securities and Exchange Commission
25 shall establish a committee to be known as the Stra-

1 tegic Hub for Innovation and Financial Technology
2 (referred to in this subsection as the ‘FinHub’) to
3 support engagement on emerging technologies in the
4 financial sector.

5 “(2) MEMBERS.—The composition of FinHub
6 shall be determined by the Commission, drawing
7 from relevant divisions as appropriate, including the
8 Division of Trading and Markets, Division of Cor-
9 porate Finance, and Division of Investment Manage-
10 ment.

11 “(3) RESPONSIBILITIES.—FinHub shall—

12 “(A) serve as a resource for the Commis-
13 sion on emerging financial technology advance-
14 ments;

15 “(B) engage with market participants
16 working on emerging financial technologies; and

17 “(C) facilitate communication between the
18 Commission and businesses working in emerg-
19 ing financial technology fields with information
20 on the Commission, its rules, and regulations.

21 “(4) REPORT TO THE COMMISSION.—

22 “(A) IN GENERAL.—Not later than Octo-
23 ber 31 of each year after 2025, FinHub shall
24 provide an annual summary of its engagement
25 activities to the Commission, which shall be in-

1 cluded in the Commission’s annual report to
2 Congress.

3 “(B) CONFIDENTIALITY.—Each report
4 submitted under this paragraph shall not con-
5 tain confidential information.”.

6 **SEC. 504. CODIFICATION OF LABCFTC.**

7 (a) IN GENERAL.—Section 18 of the Commodity Ex-
8 change Act (7 U.S.C. 22) is amended by adding at the
9 end the following:

10 “(c) LABCFTC.—

11 “(1) ESTABLISHMENT.—There is established in
12 the Commission LabCFTC.

13 “(2) PURPOSE.—The purposes of LabCFTC
14 are to—

15 “(A) promote responsible financial tech-
16 nology innovation and fair competition for the
17 benefit of the American public;

18 “(B) serve as an information platform to
19 inform the Commission about new financial
20 technology innovation; and

21 “(C) provide outreach to financial tech-
22 nology innovators to discuss their innovations
23 and the regulatory framework established by
24 this Act and the regulations promulgated there-
25 under.

1 “(3) DIRECTOR.—LabCF’TC shall have a Direc-
2 tor, who shall be appointed by the Commission and
3 serve at the pleasure of the Commission. Notwith-
4 standing section 2(a)(6)(A), the Director shall re-
5 port directly to the Commission and perform such
6 functions and duties as the Commission may pre-
7 scribe.

8 “(4) DUTIES.—LabCF’TC shall—

9 “(A) advise the Commission with respect
10 to rulemakings or other agency or staff action
11 regarding financial technology;

12 “(B) provide internal education and train-
13 ing to the Commission regarding financial tech-
14 nology;

15 “(C) advise the Commission regarding fi-
16 nancial technology that would bolster the Com-
17 mission’s oversight functions;

18 “(D) engage with academia, students, and
19 professionals on financial technology issues,
20 ideas, and technology relevant to activities
21 under this Act;

22 “(E) provide persons working in emerging
23 technology fields with information on the Com-
24 mission, its rules and regulations, and the role
25 of a registered futures association; and

1 “(F) encourage persons working in emerg-
2 ing technology fields to engage with the Com-
3 mission and obtain feedback from the Commis-
4 sion on potential regulatory issues.

5 “(5) REPORT TO CONGRESS.—

6 “(A) IN GENERAL.—Not later than Octo-
7 ber 31 of each year after 2025, LabCFTC shall
8 submit to the Committee on Agriculture of the
9 House of Representatives and the Committee
10 on Agriculture, Nutrition, and Forestry of the
11 Senate a report on its activities.

12 “(B) CONTENTS.—Each report required
13 under paragraph (1) shall include—

14 “(i) the total number of persons that
15 met with LabCFTC;

16 “(ii) a summary of general issues dis-
17 cussed during meetings with the person;

18 “(iii) information on steps LabCFTC
19 has taken to improve Commission services,
20 including responsiveness to the concerns of
21 persons;

22 “(iv) recommendations made to the
23 Commission with respect to the regula-
24 tions, guidance, and orders of the Commis-

1 sion and such legislative actions as may be
2 appropriate; and

3 “(v) any other information determined
4 appropriate by the Director of LabCFTC.

5 “(C) CONFIDENTIALITY.—A report under
6 paragraph (A) shall abide by the confidentiality
7 requirements in section 8.

8 “(6) RECORDS AND ENGAGEMENT.—The Com-
9 mission shall—

10 “(A) maintain systems of records to track
11 engagements with the public through
12 LabCFTC;

13 “(B) store communications and materials
14 received in connection with any such engage-
15 ment in accordance with Commission policies
16 and procedures on data retention and confiden-
17 tiality; and

18 “(C) take reasonable steps to protect any
19 confidential or proprietary information received
20 through LabCFTC engagement.”.

21 (b) CONFORMING AMENDMENTS.—Section
22 2(a)(6)(A) of such Act (7 U.S.C. 2(a)(6)(A)) is amend-
23 ed—

24 (1) by striking “paragraph and in” and insert-
25 ing “paragraph,”; and

1 (2) by inserting “and section 18(c)(3),” before
2 “the executive”.

3 (c) **EFFECTIVE DATE.**—The Commodity Futures
4 Trading Commission shall implement the amendments
5 made by this section (including complying with section
6 18(c)(7) of the Commodity Exchange Act) within 180
7 days after the date of the enactment of this Act.

8 **SEC. 505. STUDY ON DECENTRALIZED FINANCE.**

9 (a) **IN GENERAL.**—The Commodity Futures Trading
10 Commission, the Securities and Exchange Commission,
11 and the Secretary of the Treasury shall jointly carry out
12 a study on decentralized finance that analyzes—

13 (1) the nature, size, role, and use of decentral-
14 ized finance blockchain applications;

15 (2) the operation of blockchain applications that
16 comprise decentralized finance;

17 (3) the interoperability of blockchain applica-
18 tions and other blockchain systems;

19 (4) the interoperability of blockchain applica-
20 tions and software-based systems, including websites
21 and wallets;

22 (5) the decentralized governance systems
23 through which blockchain applications may be devel-
24 oped, published, constituted, administered, main-
25 tained, or otherwise distributed, including—

1 (A) whether the systems enhance or de-
2 tract from—

3 (i) the decentralization of the decen-
4 tralized finance; and

5 (ii) the inherent benefits and risks of
6 the decentralized governance system; and

7 (B) any procedures, requirements, or best
8 practices that would mitigate the risks identi-
9 fied in subparagraph (A)(ii);

10 (6) the benefits of decentralized finance, includ-
11 ing—

12 (A) operational resilience and availability
13 of blockchain systems;

14 (B) interoperability of blockchain systems;

15 (C) market competition and innovation;

16 (D) transaction efficiency;

17 (E) transparency and traceability of trans-
18 actions; and

19 (F) disintermediation;

20 (7) the risks of decentralized finance, includ-
21 ing—

22 (A) pseudonymity of users and trans-
23 actions;

24 (B) disintermediation; and

25 (C) cybersecurity vulnerabilities;

1 (8) the extent to which decentralized finance
2 has integrated with the traditional financial markets
3 and any potential risks or improvements to the sta-
4 bility of the markets;

5 (9) how the levels of illicit activity in decentral-
6 ized finance compare with the levels of illicit activity
7 in traditional financial markets;

8 (10) methods for addressing illicit activity in
9 decentralized finance and traditional markets that
10 are tailored to the unique attributes of each;

11 (11) how decentralized finance may increase the
12 accessibility of cross-border transactions; and

13 (12) the feasibility of embedding self-executing
14 compliance and risk controls into decentralized fi-
15 nance.

16 (b) CONSULTATION.—In carrying out the study re-
17 quired under subsection (a), the Commodity Futures
18 Trading Commission and the Securities and Exchange
19 Commission shall consult with the Secretary of the Treas-
20 ury on the factors described under paragraphs (7) through
21 (10) of subsection (a).

22 (c) REPORT.—Not later than 1 year after the date
23 of enactment of this Act, the Commodity Futures Trading
24 Commission and the Securities and Exchange Commission
25 shall jointly submit to the relevant congressional commit-

1 tees a report that includes the results of the study re-
2 quired by subsection (a).

3 (d) GAO STUDY.—The Comptroller General of the
4 United States shall—

5 (1) carry out a study on decentralized finance
6 that analyzes the information described under para-
7 graphs (1) through (12) of subsection (a); and

8 (2) not later than 1 year after the date of en-
9 actment of this Act, submit to the relevant congres-
10 sional committees a report that includes the results
11 of the study required by paragraph (1).

12 (e) DEFINITIONS.—In this section:

13 (1) DECENTRALIZED FINANCE.—

14 (A) IN GENERAL.—The term “decentral-
15 ized finance” means blockchain applications (in-
16 cluding decentralized finance trading protocols
17 and related decentralized finance messaging
18 systems) that allow users to engage in financial
19 transactions in a self-directed manner so that a
20 third-party intermediary does not effectuate the
21 transactions or take custody of digital commod-
22 ities of a user during any part of the trans-
23 actions.

24 (B) RELATIONSHIP TO EXCLUDED ACTIVI-
25 TIES.—The term “decentralized finance” shall

1 not be interpreted to limit or exclude any activ-
2 ity from the activities described in section
3 15I(a) of the Securities Exchange Act of 1934
4 or section 4v(a) of the Commodity Exchange
5 Act.

6 (2) RELEVANT CONGRESSIONAL COMMIT-
7 TEES.—The term “relevant congressional commit-
8 tees” means—

9 (A) the Committees on Financial Services
10 and Agriculture of the House of Representa-
11 tives; and

12 (B) the Committees on Banking, Housing,
13 and Urban Affairs and Agriculture, Nutrition,
14 and Forestry of the Senate.

15 **SEC. 506. STUDY ON NON-FUNGIBLE TOKENS.**

16 (a) IN GENERAL.—The Comptroller General of the
17 United States shall carry out a study of non-fungible to-
18 kens that analyzes—

19 (1) the nature, size, role, purpose, and use of
20 non-fungible tokens;

21 (2) the similarities and differences between non-
22 fungible tokens and other digital commodities, in-
23 cluding digital commodities and permitted payment
24 stablecoins, and how the markets for those digital
25 commodities intersect with each other;

- 1 (3) how non-fungible tokens are minted by
- 2 issuers and subsequently administered to purchasers;
- 3 (4) how non-fungible tokens are stored after
- 4 being purchased by a consumer;
- 5 (5) the interoperability of non-fungible tokens
- 6 between different blockchain systems;
- 7 (6) the scalability of different non-fungible to-
- 8 kens marketplaces;
- 9 (7) the benefits of non-fungible tokens, includ-
- 10 ing verifiable digital ownership;
- 11 (8) the risks of non-fungible tokens, including—
- 12 (A) intellectual property rights;
- 13 (B) cybersecurity risks; and
- 14 (C) market risks;
- 15 (9) whether and how non-fungible tokens have
- 16 integrated with traditional marketplaces, including
- 17 those for music, real estate, gaming, events, and
- 18 travel;
- 19 (10) whether and how non-fungible tokens can
- 20 be used to facilitate commerce or other activities
- 21 through the representation of documents, identifica-
- 22 tion, contracts, licenses, and other commercial, gov-
- 23 ernment, or personal records;
- 24 (11) any potential risks to traditional markets
- 25 from such integration; and

1 (12) the levels and types of illicit activity in
2 non-fungible tokens markets.

3 (b) REPORT.—Not later than 1 year after the date
4 of the enactment of this Act, the Comptroller General,
5 shall make publicly available a report that includes the re-
6 sults of the study required by subsection (a).

7 **SEC. 507. STUDY ON EXPANDING FINANCIAL LITERACY**
8 **AMONGST DIGITAL COMMODITY HOLDERS.**

9 (a) IN GENERAL.—The Commodity Futures Trading
10 Commission with the Securities and Exchange Commis-
11 sion shall jointly conduct a study to identify—

12 (1) the existing level of financial literacy among
13 retail digital commodity holders, including subgroups
14 of investors identified by the Commodity Futures
15 Trading Commission with the Securities and Ex-
16 change Commission;

17 (2) methods to improve the timing, content, and
18 format of financial literacy materials regarding dig-
19 ital commodities provided by the Commodity Fu-
20 tures Trading Commission and the Securities and
21 Exchange Commission;

22 (3) methods to improve coordination between
23 the Securities and Exchange Commission and the
24 Commodity Futures Trading Commission with other
25 agencies, including the Financial Literacy and Edu-

1 cation Commission as well as nonprofit organizations
2 and State and local jurisdictions, to better dissemi-
3 nate financial literacy materials;

4 (4) the efficacy of current financial literacy ef-
5 forts with a focus on rural communities and commu-
6 nities with majority minority populations;

7 (5) the most useful and understandable relevant
8 information, including clear disclosures, that retail
9 digital commodity holders need to make informed fi-
10 nancial decisions before engaging with or purchasing
11 a digital commodity or service that is typically sold
12 to retail investors of digital commodities;

13 (6) the most effective public-private partner-
14 ships in providing financial literacy regarding digital
15 commodities to consumers;

16 (7) the most relevant metrics to measure suc-
17 cessful improvement of the financial literacy of an
18 individual after engaging with financial literacy ef-
19 forts; and

20 (8) in consultation with the Financial Literacy
21 and Education Commission, a strategy (including to
22 the extent practicable, measurable goals and objec-
23 tives) to increase financial literacy of investors re-
24 garding digital commodities.

1 (b) REPORT.—Not later than 1 year after the date
2 of the enactment of this Act, the Commodity Futures
3 Trading Commission and the Securities and Exchange
4 Commission shall jointly submit a written report on the
5 study required by subsection (a) to the Committees on Fi-
6 nancial Services and on Agriculture of the House of Rep-
7 resentatives and the Committees on Banking, Housing,
8 and Urban Affairs and on Agriculture, Nutrition, and
9 Forestry of the Senate.

10 **SEC. 508. STUDY ON FINANCIAL MARKET INFRASTRUCTURE**
11 **IMPROVEMENTS.**

12 (a) IN GENERAL.—The Commodity Futures Trading
13 Commission and the Securities and Exchange Commission
14 shall jointly conduct a study to assess whether additional
15 guidance or rules are necessary to facilitate the develop-
16 ment of tokenized securities and derivatives products, and
17 to the extent such guidance or rules would foster the devel-
18 opment of fair and orderly financial markets, be necessary
19 or appropriate in the public interest, and be consistent
20 with the protection of investors and customers.

21 (b) REPORT.—

22 (1) TIME LIMIT.—Not later than 1 year after
23 the date of enactment of this Act, the Commodity
24 Futures Trading Commission and the Securities and
25 Exchange Commission shall jointly submit to the rel-

1 evant congressional committees a report that in-
2 cludes the results of the study required by sub-
3 section (a).

4 (2) RELEVANT CONGRESSIONAL COMMITTEES
5 DEFINED.—In this section, the term “relevant con-
6 gressional committees” means—

7 (A) the Committees on Financial Services
8 and on Agriculture of the House of Representa-
9 tives; and

10 (B) the Committees on Banking, Housing,
11 and Urban Affairs and on Agriculture, Nutri-
12 tion, and Forestry of the Senate.

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