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Before the Joint House Financial Services Subcommittee on Digital Assets, Financial Technology, and Artificial Intelligence & House Agriculture Subcommittee on Commodity Markets, Digital Assets, and Rural Development

For a Hearing on
"American Innovation and the Future of Digital Assets: A Blueprint for the 21st Century"

May 6, 2025

Chair Steil and Chair Johnson, Ranking Members Lynch and Davis, and the distinguished Members of both Subcommittees, thank you for the privilege of testifying today.

My name is James Rathmell, and I'm the General Counsel at Haun Ventures, a venture capital firm founded by Katie Haun, who served as a prosecutor in the Department of Justice for over a decade and was a General Partner at Andreessen Horowitz. Prior to Haun Ventures, I was in legal practice, where I primarily focused on securities offerings of all kinds, including venture capital financings, IPOs, and capital markets offerings by established public companies.

At Haun Ventures, we invest in teams innovating with frontier technology. We believe that crypto, which we define as decentralized cryptographic primitives paired with economic incentives, holds the potential to modernize financial infrastructure and digital ecosystems. With new cryptographic primitives, we believe money, assets, and markets will become like everything else on the internet: transferable at the speed of information, accessible, programmable, transparent, and auditable. This is made possible because of decentralized protocols, which are designed differently from both existing internet platforms and existing financial networks—in that they leverage digital assets, the subject of today's hearing, for economic incentives and coordination. Furthermore, decentralized protocols are often built on open-source code, enabling transparency, innovation, and competition as the best ideas rapidly proliferate into superior product offerings.

Our portfolio companies reflect the diversity and ambition of this moment. The founders behind these projects are building and expanding in the United States, and they are asking for a clear, consistent set of rules so they can build with confidence. Clarity isn't about giving them special treatment, it's about giving everyone, from developers to investors to users to regulators, a shared understanding of how these systems work and how we will ensure fair market participation.

Our portfolio company Plume is pioneering the tokenization of real-world assets, streamlining the complex process of bringing real estate, commodities, and financial instruments onchain and integrating relevant legal, regulatory, and compliance standards directly into its infrastructure. Another portfolio company, BVNK, uses stablecoins and decentralized infrastructure to make global payments for businesses as fast and seamless as sending an email, something traditional systems still fail to do.

Beyond finance, Aleo is a new blockchain that embeds privacy-preserving computing and infrastructure to protect sensitive consumer data and security; this technology provides the basis for a new and more secure digital identity, which can in turn be leveraged to combat problems like authentication and deep fakes. And our portfolio company Farcaster is helping reimagine social media through an open, decentralized protocol that returns control and data to users and developers.

At the heart of today's conversation is something deceptively simple: digital assets. Much of the confusion in current law—and the frustration felt by entrepreneurs—arises from the fact that we are dealing with a new asset class not contemplated by existing frameworks. A digital asset is not inherently a stock, or investment contract, or a currency. In many cases, it's something entirely novel: a new computing primitive that can represent many different things depending on the context in which it's used, and which can evolve over time.

This is why we need legislation that recognizes the unique characteristics of digital assets and offers a framework that evolves with them. Digital assets are not just financial instruments—they are building blocks for a new digital and financial system. They can carry value, confer rights and privileges, enforce rules, and facilitate coordination at scale.

The title of today's hearing is apt. What we urgently need is a blueprint—an architectural schematic—for the next century of American innovation to unlock the inherent potential of digital assets. We cannot reasonably expect that the blueprint from which we built the house of 20th century American innovation will do the job.

In 1996, the jurist and legal scholar Frank Easterbrook famously delivered a lecture titled "Cyberspace and the Law of the Horse," in which he argued that we did not need new ways of legal thinking with respect to the internet, any more than we needed an entire branch of study dedicated to equine law: "Lots of cases deal with sales of horses," Easterbrook said, "others deal with people kicked by horses; still more deal with the licensing and racing of horses, or with the care veterinarians give to horses, or with prizes at horse shows. Any effort to collect these strands into a course on 'The Law of the Horse' is doomed to be shallow and to miss unifying principles."[1] Easterbrook's conclusion was that novel and unique legal frameworks for the internet were superfluous.

Of course, this conclusion was wrong in 1996 as the internet was emerging, and it remains wrong now that the total amount of economic activity on the internet measures in the trillions of dollars per year. The laws governing the internet are of paramount national and global concern, and the lesson from the past 30 years is that we need to continually sharpen our thinking to meet the present moment of technology. Easterbrook's words also sound eerily familiar to those of us in the digital assets industry, who have long been told that crypto entrepreneurs should simply *abide by the existing rules*. Like the internet before it, digital asset innovation warrants a

[1] Frank H. Easterbrook, "Cyberspace and the Law of the Horse," University of Chicago Legal Forum (1996).

tailored approach that respects longstanding legal principles, while adapting them to meet the moment. We're grateful to the Members present here today for tackling this challenge head-on.

But why are existing laws inadequate to meet the present need?

Perhaps the most challenging aspect of regulating digital assets is that the same token can serve multiple functions simultaneously. A token might start its life primarily as a mechanism for capital raising, with the initial transactions involving security-like characteristics. But as the network develops and adoption grows, that same token may evolve to primarily serve other functions—as a means of payment, a governance mechanism, or to provide access to services on a network or protocol.

In fact, this evolution is not merely incidental. Rather, it is the explicit goal of many digital asset projects. They aim to transition from centralized development efforts to decentralized networks, which are governed by their communities and secured through game theoretic incentive mechanisms. These networks ultimately rely on trustless consensus—where participants reach agreement without relying on intermediaries—and digital assets are the bedrock of this mechanism. A successful legal and regulatory framework must accommodate this transition rather than stifle it, because enabling decentralized innovation can unlock more resilient, transparent, and broadly accessible financial and digital infrastructure.

Of course, one way that digital assets can be used is for capital raising purposes—so that a project can hire people, lease office space, and pay for development costs. For those seeking to raise capital in a traditional securities offering, there are a few pathways.

The most frequently used, especially for venture-backed companies like the ones in our portfolio, is Regulation D. Reg D was adopted in 1982, and allows an organization to conduct a private securities offering without registering with the SEC, as long as the sales are to accredited investors of a certain income bracket, net worth, or degree of professional licensure. Reg D is an incredible success story: many of the world's largest and most innovative companies were originally seeded from venture capital investments under the Reg D exemption. From July 2022 to June 2023, over 19,000 operating companies relied on Reg D to raise more than $275 billion.[2]

However, Reg D is not without its drawbacks. For one, a typical Reg D offering consists of a highly negotiated and bespoke set of legal documents, costing tens or hundreds of thousands of dollars in legal fees to paper. Moreover, and as I will discuss in greater detail below, private securities lack liquid markets and therefore efficient price discovery. Finally, Reg D offerings do not enable broad community participation.

These drawbacks led to the creation of two other exemptions signed into law in 2012. Regulation A+, also known as Reg A+ or the "mini-IPO", was designed to facilitate access to capital for

[2] Mark T. Uyeda, Commissioner, U.S. Securities & Exchange Commission, "Remarks at the 51st Annual Securities Regulation Institute" (Jan. 22, 2024), https://www.sec.gov/newsroom/speeches-statements/uyeda-remarks-securities-regulation-institute-012224.

early-stage and mid-stage companies and to bridge the gap between private and public markets by allowing broader investor access. Regulation Crowdfunding, also known as Reg CF, was built to support small businesses and startups that may not attract institutional capital but have strong community support.

Unfortunately, Reg A+ and Reg CF have been mostly unsuccessful at achieving these goals, representing less than 1% of private capital raised in recent years.[3] Commissioner Uyeda at the SEC, who himself worked on the proposing and adopting releases for Reg CF a decade ago, recently concurred with the assessment that Reg CF has failed as a mechanism for low-cost capital formation by startups and small businesses, since an offering can cost more than $500,000 in fees despite a total offering cap of just $5 million.[4]

And then of course, there are public offerings. Today, an IPO will typically cost millions or even tens of millions in fees paid to lawyers, accountants, FINRA, the exchanges, transfer agents, and the SEC itself for filing and registration.[5] This does not include ongoing legal and compliance costs of being a public company, which can be in the millions of dollars per year. Leaving digital assets aside for a moment, these compliance costs are one reason we have seen the number of publicly listed companies decline by 50% since the late 1990s.[6]

It's important to note that every single one of these pathways—Reg D, Reg A+, Reg CF, and IPO—has been tried by digital asset issuers. It is simply not the case that market participants have defiantly refused to comply with existing laws. However, beyond the substantial costs to lawyers, auditors, and others, as well as the inadaptability of disclosure-based regimes for the particularities of digital assets,[7] an existential risk looms over those who have tried to shoehorn digital assets into existing securities laws: the need for liquid markets.

If you look at the largest decentralized blockchains today—Bitcoin, Ethereum, Solana—it is strictly necessary to acquire the associated digital assets (i.e., BTC, ETH, SOL) to use and participate in the corresponding network. If we followed Google from its venture-backed origins through its 2004 IPO, there was never a moment in which everyday users needed to own and spend Google stock to run searches; where the price of Google stock was instrumental to secure

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[3] David Krause, "Why Aren't Reg A Offerings More Popular Among Small Businesses?," The CLS Blue Sky Blog (Apr. 27, 2023), https://clsbluesky.law.columbia.edu/2023/04/27/why-arent-reg-a-offerings-more-popular-among-small-businesses/.

[4] Uyeda, *supra* note 2 ("In 2012, the JOBS Act introduced the concept of crowdfunding into the federal securities laws, and in 2015, the Commission adopted Regulation Crowdfunding ('Regulation CF'). I worked on both the proposing and adopting releases for Regulation CF. Almost ten years later, has Regulation CF achieved its intended goal of 'provid[ing] startups and small businesses with capital by making relatively low dollar offerings of securities…less costly'? Unfortunately, the answer is 'probably not.').

[5] PwC, "Considering an IPO? First, understand the costs," https://www.pwc.com/us/en/services/consulting/deals/library/cost-of-an-ipo.html.

[6] Wes Moss, "The Decline In U.S. Stocks To Choose From: What It Means For Investors," Forbes (Feb. 3, 2025), https://www.forbes.com/sites/wesmoss/2025/02/03/the-decline-in-us-stocks-to-choose-from-what-it-means-for-investors/.

[7] Paul Grewal, Faryar Shirzad, and Thaya Knight, "Digital Asset Securities Regulation: A Petition for Rulemaking from Coinbase," Harvard Law School Forum on Corporate Governance (Aug. 1, 2022) https://corpgov.law.harvard.edu/2022/08/01/digital-asset-securities-regulation-a-petition-for-rulemaking-from-coinbase/.

Google.com or incentivize users to improve the software; or where the lack of an active trading market in Google stock directly imperiled the functionality of the search engine.

Meanwhile, liquid markets with robust price discovery are an essential, non-negotiable precondition for the successful functioning of crypto protocols. This is the legal black hole many projects find themselves in: perhaps a project may find a way to conduct a digital asset offering under an existing pathway—even one that is costly and poorly suited to the unique characteristics of tokens—but often there is no viable next step if the asset lacks a functioning market to support its transfer, sale, and use for the intended purpose on a network or protocol.

Ensuring that digital assets and decentralized systems can operate as designed will benefit all market participants—both institutional and retail. The current regime, characterized by excessive compliance costs, high barriers to entry, and a reliance on multiple intermediaries, is not only impeding innovation but also failing to deliver on its core promises. It is ill-equipped to address the unique attributes of digital assets and, as a result, is falling short on both consumer protection and market integrity.

So what could be a better blueprint? Any market structure legislation will need a fit-for-purpose regulatory regime that evolves with project maturity. This would recognize the changing nature of digital assets throughout their lifecycle and apply appropriate oversight at each stage.

During the earliest stages, when a project is raising funds and beginning development, we should look to lightweight disclosure-based regimes to address information asymmetries between insiders and the public. Rather than shoehorning digital assets into ill-fitting securities laws, we should create a new pathway specifically designed for digital assets that address their unique risks and opportunities. For instance, many projects are open-source—meaning that the source code is available for anyone with sufficient technical knowledge to analyze and use. This is quite different from the information asymmetries that exist with securities, where issuers and their insiders may have specialized knowledge about a company that needs to be disseminated into the market to create an even playing field.

As a network launches, decentralizes, and matures, the regulatory focus should shift accordingly to ensure market integrity, liquidity, and efficient price discovery. This is the only way networks and protocols will achieve their true potential. Such a graduated approach would provide the clarity entrepreneurs need while ensuring appropriate protections for market participants at each stage. It would recognize that the same token can have different regulatory and policy implications at different points in its lifecycle.

In the 20th century, the United States did the world a profound service by building the most reliable, transparent, and robust capital markets in history—through a regulatory approach that balanced investor protection with innovation. We have the same opportunity with crypto. If we fail to seize it, that innovation will not wait; it will simply happen elsewhere. And if it does, we risk not only ceding economic opportunity but also the ability to shape the rules of the road in a way that reflects our values.

I believe this Congress has a historic opportunity to establish a framework that will secure American leadership across both financial and non-financial use cases in our industry for decades to come. The blueprint we create today will determine whether the next generation of digital asset innovation happens here in the United States or elsewhere.

For the sake of our economic competitiveness, national security, and the millions of Americans who stand to benefit from these technologies, I urge you to seize this opportunity.

Thank you for your time, and I look forward to your questions.