



Testimony of Greg Tusar

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Before a Joint Hearing of the
U.S. House Committee on Agriculture
Subcommittee on Commodity Markets, Digital Assets,
and Rural Development

-and-

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

Tuesday, May 6, 2025

Good morning Chairman Hill, Chairman Steil, Chairman Thompson, and Chairman Johnson, and Ranking Members Waters, Lynch, Craig, and Davis. Thank you for the opportunity to testify before you today. It is an honor to join you in discussing the future of financial markets, the critical need for regulatory clarity in the digital asset space, and the role of Congress in fostering innovation while protecting consumers. The decisions made here will define not only the trajectory of this industry but also the position of the United States as a global leader in financial innovation.

My name is Greg Tusar and I am the Vice President of Institutional Product at Coinbase. I lead teams focused on delivering products and services to the largest institutional participants in global markets, including asset managers, hedge funds, family offices, and corporate clients. Our offerings include Prime Brokerage, Custody, Financing, and access to Coinbase Exchange, the largest regulated spot crypto exchange in the United States. We also operate a Commodities Futures Trading Commission (CFTC) regulated Designated Contract Market (DCM), an NFA registered Futures Commission Merchant (FCM), and have a Securities and Exchange Commission (SEC) Registered Investment Advisor (RIA). Coinbase has extensive experience in highly regulated markets, and has an industry leading track record of integrating the highest standards of reliability, security, and trust into the evolving digital asset ecosystem.

Today, I hope to share perspectives informed by more than thirty years of experience in financial market infrastructure, electronic trading, and the migration to digitally-native systems. My career began at TLW Securities—a firm that specialized in program trading—where I eventually served as CEO before the company was acquired by Spear, Leeds & Kellogg (SLK) and then by Goldman Sachs in 2000. There I served as a partner responsible for building the firm's electronic trading business and guiding their market structure investments.

Based on these experiences, I know firsthand how thoughtful market structure design and regulation can drive efficiency, power innovation, protect consumers, and redefine the way financial markets operate. I also know that, at times, we need to take a fresh look at regulatory frameworks that may unnecessarily impede the integration of new technologies.

Transitioning from floor trading to electronic systems was not just a technical exercise—it was a seismic shift in how orders were matched, costs were reduced, and access was democratized. It introduced unprecedented speed, efficiency, and access, but also required a complete reimagining of market rules. How should orders be prioritized? How could participants ensure equal footing when order books were digitized? And most importantly, how could the industry ensure transparency and fairness in a system no longer reliant on physical presence? Financial market regulators worked with the industry to grapple with these novel questions, and did so in a way that encouraged continued integration of emerging technology.

That moment in history resonates deeply with me, particularly as we enter a similarly profound change to the financial system today. In the 1990s, markets became electronic, ignited by the rise of electronic communications networks. Now, they are becoming digitally-native with the

rise of crypto. The integration of open blockchain systems into our financial system will deliver better outcomes for participants while safeguarding trust. And we can foster this innovation here, in the United States, instead of driving it elsewhere.

For this to happen, we need regulatory clarity: clear guidelines that allow market participants to build novel products and services without compromising the safety and soundness of our markets. We also need to understand that the role of regulation is to provide needed protections, and not to enshrine certain business models in perpetuity.

Coinbase Background

Coinbase offers a suite of products that empower tens of millions of consumers, institutions, and developers worldwide to discover, transact, and engage with crypto assets and Web3 applications. Founded in 2012, Coinbase has embraced regulation from the very beginning. As I noted in my introduction, we are regulated by both the CFTC and SEC, along with over 50 additional regulators across the United States.

We are a registered money services business with FinCEN under the U.S. Treasury Department, and hold 46 state money transmission licenses, a Louisiana Virtual Currency Business Activity License, as well as both a BitLicense and limited purpose trust company charter from the New York Department of Financial Services (NYDFS). Additionally, our decision to go public in April 2021 marked a critical milestone—achieved after extensive review and engagement with the SEC. This experience reinforces our commitment to transparency, consistent regulations, and the essential role of robust capital formation markets in fostering innovative companies.

For more than a decade, Coinbase has been at the forefront of building and implementing strong consumer protection measures, prudent risk management, and best-in-class security practices.

Core to our consumer protection efforts is our rigorous listing process. Prior to listing any asset for trading or custody, our teams evaluate the assets against extensive legal, compliance, and information security standards. Additionally, we hold customer assets 1:1 at all times, safeguarding them with industry-leading security standards and never lending or rehypothecating assets without customer authorization. Our safeguards—administrative, technical, and physical—are designed to exceed legal requirements and industry standards. Customer assets are appropriately ledged, segregated, and managed in separate accounts and remain distinct from Coinbase's corporate assets.

We also maintain an unwavering dedication to anti-money laundering (AML) compliance, as well as effective partnerships with law enforcement—both of which are vital for ensuring safety and integrity in the rapidly growing crypto space. Our comprehensive Financial Crimes Compliance

program adheres to the U.S. Bank Secrecy Act (BSA), AML laws, and sanctions requirements, aligning with the same standards expected of traditional financial institutions. This focus allows Coinbase to keep customers—and the U.S. financial system—safe from bad actors.

It's Time to Update the System

Today, I am here to discuss how the Financial Innovation and Technology for the 21st Century Act (FIT21), which passed with a resounding bipartisan House vote of 279-136 in 2024, can evolve to better meet the needs of consumers, investors, and innovators. The evolution of legislation is not new – good bills become better all the time. We applaud the work of the 118th Congress to develop and pass FIT21, which was a substantial contribution towards creating clear, thoughtful, and consistent rules. The overwhelming bipartisan support for FIT21 reflected the growing recognition that modern rules are essential for fostering innovation, protecting consumers, and maintaining America's leadership in global financial markets.

The legislation should build on the foundation established by FIT21, retaining many of its core principles while refining critical areas to address emerging challenges. This effort should clarify asset classifications—defining which digital asset transactions are securities and which are commodities—and empowering the CFTC to oversee spot markets for digital commodities. These steps are key to ensuring customer protections, promoting market transparency, and encouraging responsible innovation within U.S. borders.

Gaps in Current Regulatory Frameworks

Despite the rapid growth of digital asset ownership, use, and integration into financial systems worldwide, the regulatory frameworks governing their activity in the United States have lagged behind. This has been problematic—not only for developers and market participants, but also for consumers, who are left without the benefits of federal regulatory protections. Closing these gaps in regulation has never been more urgent. Today, critical shortcomings hold this industry back, undermining its potential and exposing market participants to significant risks.

Misaligned Regulators

One of the fundamental challenges in digital asset regulation lies in the lack of clear regulatory boundaries between agencies like the SEC and CFTC. This lack of clarity has led to a tug-of-war over which asset transactions are securities and which are not securities. And the two agencies took different approaches to resolving the problem - leaving market participants and the American people in the middle. The SEC took the failed approach of regulation by enforcement, rather than providing market-wide guidance to help developers understand when certain characteristics might trigger the federal securities laws. This resulted in opaque and lengthy litigation battles with individual companies that provided zero certainty for the markets or consumers. In contrast, the CFTC worked to understand digital assets and provide some

pathways for digital asset services within the scope of their jurisdiction. But the CFTC's activity was ultimately limited given both the limits of their statutory scope and the conflict with the SEC over certain assets.

The two agencies have also taken different approaches to the treatment of innovation more generally. A good example is the approval of Bitcoin futures contracts versus the approval of Bitcoin exchange-traded products (ETPs). The CFTC approved the first Bitcoin futures contract launched by the Chicago Mercantile Exchange (CME) on December 18, 2017. This marked a significant milestone in the integration of cryptocurrency into mainstream financial markets, and also recognized that Bitcoin is a commodity, effectively digital gold. And yet the SEC did not approve a Bitcoin ETP until 2024, and only did so after a federal appeals court ruled that the agency's refusal to provide a green light was arbitrary, capricious and inconsistent with law.

This bifurcated and conflicting - and sometimes unlawful - approach to regulating crypto has created significant obstacles for innovators seeking to build responsible projects in the United States. Between the lack of clarity and the high probability of legal action from the SEC over the last 4 years, many innovators have opted to domicile their operations in overseas jurisdictions with clear rules. An explicit demarcation of jurisdictional authority between the SEC and CFTC—and a mandate from Congress for the agencies to provide the public with clarity—would resolve many of these uncertainties, restoring trust and ensuring market integrity.

The root of the current regulatory confusion is token classification. Although I am not a lawyer and this is outside of my area of professional expertise, current frameworks fail to offer objective criteria for determining how assets should be classified, forcing developers and market participants to operate in regulatory gray areas. The lack of clarity isn't just a legal challenge—it stifles innovation and investment by limiting product designs and features that might otherwise have been offered if their regulatory treatment was clear.

Although I will not focus on this specific topic in my testimony, the need for Congress to address the issue of token classification is absolutely critical to the healthy functioning of markets. The United States needs a consistent framework for token classification that reflects the unique qualities of digital assets whose value and functionality is derived from a blockchain network, and Congress has a critical role in bringing this about. The treatment of such assets must be based on the premise of technology neutrality. If the assets are not securities, then they should not be treated like securities. Today, the inability for developers to predict whether their project will be treated as a security prevents responsible innovation and risks their token being excluded from secondary market distributions critical for growth. For investors and institutions, misclassification or overly discretionary enforcement actions can result in substantial losses and damaged reputations.

Spot Market Vulnerabilities

Although derivatives markets for digital assets are subject to comprehensive oversight by the CFTC, spot markets—the platforms where assets are actively bought and sold by investors—largely lack federal supervision. The CFTC’s current authority is limited to fraud and manipulation in digital commodity spot markets, with no authority to proactively regulate the markets. As a result, market participants face a fragmented approach to spot market oversight, with regulation and enforcement scattered across state-level regulators in a patchwork system that fails to provide consistent rules or guardrails.

This oversight gap is particularly impactful for retail users, who should be able to trust that their preferred intermediaries for asset trading and custody meet rigorous safety and operational standards no matter where they live. Good actors will strive to implement comprehensive and consistent standards, while the lack of federal oversight leaves consumers exposed to potential bad actors who exploit the fractured system. Empowering the CFTC to oversee these intermediaries would address these vulnerabilities. It would ensure consistent national rules, improve consumer safeguards, and allow for proactive monitoring to mitigate risks and deter manipulation and fraud.

As a long-time market practitioner, there is no doubt in my mind that the CFTC is well-prepared to take on this task. With decades of experience overseeing complex and volatile futures and derivatives markets, the agency has developed robust mechanisms for ensuring market safety even under extreme conditions. Since 2014, the CFTC has expanded this expertise to include derivatives referencing digital assets, which serve as the foundation for pricing the crypto ETPs market. The CFTC moving proactively on digital asset futures enabled the creation of ETPs by demonstrating that there was an orderly and functioning market, not one prone to manipulation, which could be used to help price the ETPs.

Finally, the CFTC’s principles-based approach to regulation, combined with its history of aggressively enforcing against bad actors, demonstrates its capability to advance customer protections while allowing innovation to flourish. By focusing on regulatory outcomes rather than prescriptive rules, the CFTC’s approach to markets creates a flexible framework that accommodates the rapid evolution of technology while maintaining market integrity.

The Benefits of a Federal Framework

Throughout my career, I’ve built successful trading systems that have navigated a complex system of requirements. From my experience, unnecessary complexity generates risk, and eliminating it benefits to both consumers and service providers. Establishing a uniform set of standards through a federal regulatory framework would be beneficial for replacing a patchwork of state-level regulation characterized by duplicative and sometimes conflicting compliance

burdens. In its place would be a uniform set of consumer protections with lower system complexity and regulatory compliance costs.

Uniform Customer Protections Across All States

The lack of a federal regulatory framework can lead to uneven protections depending on the state in which they reside. In some cases, if standards are too low or absent, this could leave consumers without protections they need. For example, the New York Department of Financial Services requires Bitlicense holders like Coinbase to provide certain disclosures about digital assets that are not required in other states. If an exchange or intermediary wanted to avoid these disclosures, it could simply decide to avoid operations in New York.

It is also possible that regulatory requirements are set in ways that unnecessarily prevent residents of a jurisdiction from accessing legitimate services. A good example of this is staking: an essential part of blockchain operations in which participants earn rewards by helping to secure blockchain networks or validate transactions. Consistent with federal and state law – and recent actions and statements by the SEC – more than 40 states allow their residents to stake through a service provider. Yet a few states still prohibit this activity. By introducing a common set of rules and standards at the federal level, Congress can ensure more uniform customer protections and fair access to important products and services for consumers. Unified rules also provide greater trust and confidence in the market, empowering more Americans to engage safely with digital finance and protecting retail investors who rely on federal regulatory safeguards.

But uniform rules alone will not solve the problem. If federal laws do not expressly preempt state law, there is bound to be continued uneven and unequal enforcement across the states. Such patchwork enforcement is often not the result of disparate legal standards, but rather the result of inconsistent application of standards that may otherwise be identical in law. Strong preemption is thus a critical element for any legislation. Otherwise, state and other authorities could and likely will continue to classify assets and activities in ways that Congress has explicitly rejected. Further, given the long tail of enforcement risk this industry has faced over the years, Congress should also apply preemption retroactively to ensure subsequent state regulators cannot undermine the purposes of the bill through litigation directed at past conduct.

Reducing Duplicative Regulatory Oversight

The current regulatory environment for digital assets burdens both intermediaries and other businesses offering crypto products with duplicative compliance requirements imposed by overlapping state and federal regulations, and leaves consumers with little consistency in protections and often arbitrary barriers to accessing legitimate products and services. For example, exchanges operating across multiple states must navigate a maze of different rules, licensing requirements, and operational standards—while also ensuring adherence to federal AML guidelines.

This collage of rules creates inefficiencies that increase costs for both businesses and their customers. Platforms expend significant resources on complying with multiple oversight mechanisms that often require the exchange to set up systems in each state that are different shades of gray, rather than directing those resources toward innovation, security improvements, or expanding access for underserved communities. National standards would consolidate these requirements under a single framework, creating streamlined pathways for compliance that free innovators to focus on building transformative solutions. Reducing regulatory overlap also supports better enforcement by ensuring agencies can focus on key priorities rather than spreading their efforts across fragmented compliance jurisdictions. Perhaps most importantly, consistency gives consumers some clarity on what protections they can expect and how to best set their expectations when engaging in the crypto markets.

Keeping the U.S. Globally Competitive

National standards don't just resolve inefficiencies—they help position the United States as a global leader in digital finance and blockchain innovation. While Singapore, Switzerland, and the European Union have adopted unified frameworks that attract talent and capital, the fragmented U.S. regulatory landscape coupled by an enforcement-first approach has pushed innovators overseas. Without a clear, consistent roadmap for compliance across all states, developers and businesses find themselves focusing on jurisdictions where regulations are predictable and accessible, leaving the United States at a competitive disadvantage.

Unified federal standards create an environment where innovators can operate confidently, knowing their compliance obligations are clear and consistent throughout the country. These standards signal to investors, developers, and institutions that America is committed to fostering responsible innovation in the digital asset space, attracting the talent and capital needed to maintain global leadership. Congressional action on national standards would not only streamline oversight, but also allow the United States to set the tone for how blockchain-based systems evolve globally. This would embed American values like transparency, fairness, and consumer protection into the technology's development.

Core Elements of Legislation

Consumer Protection in Digital Asset Markets

Consumer protection is the foundation of any well-functioning financial system. In digital asset markets, ensuring retail investors are safeguarded requires a regulatory framework designed to meet the unique characteristics of this emerging industry. A robust regulatory framework isn't just about reducing these risks—it's about fostering trust. When consumers are confident that the platforms they use are safe, transparent, and accountable, markets thrive, innovation accelerates, and more participants engage.

At Coinbase, consumer protection is central to everything we do, and our global experience provides a roadmap for how strong frameworks can protect retail participants while enabling innovation. Based on this experience, we believe regulators should adopt a balanced and principles-based approach to ensure consumer safety without stifling progress.

Protecting Retail Customers and Fostering Trust

Retail customers are engaging with digital asset markets at unprecedented levels. Whether buying Bitcoin, participating in decentralized finance, or transacting in stablecoins, consumers across the U.S. deserve clear, consistent protections that allow them to make informed decisions without fear of exploitation. Key components of a robust framework include:

1. **Transparency Requirements:** Consumers need access to timely, accurate, and relevant information about the platforms and products they engage with. Requiring platforms to disclose material information—including tokenomics, fees, market risks, and operational security—helps retail investors assess opportunities and risks.
2. **Strong Standards for Asset Listings:** A reliable consumer protection framework should require exchanges to rigorously evaluate tokens before listing them for trading. This ensures assets meet clear legal and compliance metrics, protecting consumers from engaging with fraudulent or economically unstable tokens.
3. **Custody Standards and Asset Segregation:** Federal requirements ensuring that customer assets are legally segregated from house funds are critical to safeguarding customer holdings. Centralized platforms should also be required to adopt rigorous security solutions to ensure digital assets remain secure. We believe the CFTC is equipped to regulate custody, just as they would all other elements of digital asset markets.
4. **Market Manipulation Oversight:** Platforms should implement proactive measures to prevent market manipulation and bad actor behavior, including automated monitoring tools and transparent reporting of suspicious activity to regulators. These safeguards prevent unfair trading practices and reinforce market integrity.

Customer-First Regulatory Structure

A first principle for any market structure legislation should be to leverage rules that have worked in the past, but also recognize that technology and innovation can render some rules and requirements obsolete. As I noted earlier in my testimony, I have experienced first hand that regulations should evolve to meet both the demands of customers and the capabilities of platforms and technology. I helped stand up Goldman Sachs's alternative trading system (ATS) more than twenty years ago, and from that experience, I believe the same regulatory structure can serve digital asset trading.

The SEC first introduced Regulation ATS in December 1998, with the rules becoming effective on April 21, 1999. This regulation allowed broker-dealers and national securities exchanges to operate and register an ATS, giving brokers order-matching capabilities.

ATS platforms played a critical role in the technological evolution of securities trading in traditional financial markets, and they can do the same for the trading of all digital assets, including securities, commodities, and payment stablecoins. These venues provide intermediaries like broker-dealers with the ability to offer an order-matching engine while operating under rigorous oversight frameworks. For digital assets, ATS inclusion within the broader regulatory framework would serve several key purposes:

1. **Meeting Customer Demand:** Customers engaged in digital asset markets expect the benefits provided by blockchain technology and integrated models, including efficiency, speed, and cost effectiveness. An ATS framework for digital assets ensures that customers continue to benefit from both existing streamlined business models and robust, well-understood rules.
2. **Facilitating SEC-Compatible Trading Venues:** The ATS model creates a bridge for regulatory compliance under SEC authority, allowing trading venues to operate in a highly-regulated environment while focusing on innovation. By applying ATS rules to digital assets, legislation could ensure that digital securities are traded responsibly under SEC jurisdiction, side-by-side with digital commodities.
3. **Creating a Path for Institutional Adoption:** ATS rules provide a familiar regulatory framework for institutions entering digital asset markets. Institutions increasingly seek compliance-forward trading platforms, and ATS regulations ensure that venues meet the rigorous operational and transparency standards that institutional investors demand. This clarity encourages more institutional capital to flow into digital assets, strengthening market integrity.
4. **Ensuring Broad, Equitable Market Access:** ATS platforms are designed to facilitate fair trading while ensuring equitable access for all participants. Using this model for digital assets under SEC regulation minimizes the risks of market manipulation, ensuring robust protections for retail and institutional investors alike.

The Practical Alignment of ATS Rules and Digital Assets

Coinbase strongly supports an ATS model for its compatibility with existing market structures and its ability to address current gaps in crypto trading regulation. Digital asset markets face significant challenges around fragmented oversight and inconsistent rules. Applying ATS frameworks to these markets would provide a proven regulatory model with modifications tailored to the unique properties of blockchain ecosystems.

In practice, ATS rules can apply directly to digital asset markets in the following ways:

1. **Disclosure Requirements:** ATS platforms are required to provide detailed disclosures regarding execution practices, systems architecture, and operational conflicts of interest. Extending this transparency to digital assets would ensure that participants trust trading venues and understand the risks associated with executed trades.
2. **Broker-Dealer Collaboration:** ATS platforms are registered broker-dealers to ensure compliance and investor protections. This model encourages collaboration between

innovation-focused trading venues and compliance-forward intermediaries, creating a partnership structure rooted in accountability.

3. **Adaptations for Blockchain Systems:** While ATS rules apply to traditional trade execution, the adaptability of this framework allows regulators to craft provisions specifically for blockchain-based tokenized environments and digital securities, reflecting the decentralized, programmable nature of these assets. In fact, despite many features of the ATS model that are a natural fit for digital asset markets, there are important elements of securities regulation that will need to evolve to reflect the specifics of crypto asset markets and distributed ledger technology. An ATS model would permit this necessary evolution.

One of the greatest risks to digital asset adoption is instability caused by inconsistent oversight in trading venues. By integrating ATS rules into the framework, legislation could provide a clear, reliable pathway for regulated trading venues, creating unprecedented stability for market participants. Under ATS compliance rules, platforms offering digital securities could meet investor demands for transparency, operational security, and predictable reporting.

Parallel ATS Structure Needed Under the CFTC

As noted above, Coinbase strongly supports an ATS model that allows brokerage, dealer, exchange and custodial activities to be undertaken within the same legal entity. We would also urge Congress to create a similarly efficient and customer-first model under the jurisdiction of the CFTC. This would reduce the risk of regulatory arbitrage and ensure that customers benefit from this innovative approach to regulation.

Throughout my career, I've learned that efficiency and trust are paramount in financial markets. For digital asset platforms to operate at scale and deliver the protections and transparency consumers deserve, simplicity in operational structures is essential. Forcing digital asset businesses to split core functions—such as trading, custody, and brokerage—into separate entities does not benefit the market. It instead creates unnecessary operational complexity, drives up costs for consumers, and diminishes market efficiency. Platforms like Coinbase have already demonstrated how an integrated technology stack can deliver seamless experiences to its customers in a safe and secure manner.

In traditional financial markets, regulatory frameworks that require the separation of critical functions do so to mitigate conflicts of interest and promote market fairness. However, the unique characteristics of blockchain technology challenge the assumptions that have underpinned these rules for decades. Custody no longer needs to take place at a centralized clearing agency because transactions are recorded and settled on public blockchains. By eliminating a previously needed piece of infrastructure, integrated technology stacks can take advantage of atomistic settlement in ways that de-risk the financial system by removing settlement risk. This makes it less costly to operate by eliminating capital requirements to protect against settlement failures.

Done responsibly with the right guardrails in place, integrated structures do not undermine consumer protection or market integrity. Instead, they foster greater transparency, enhance capital efficiency, create resiliency, and result in better outcomes for all participants in the ecosystem—from retail customers to institutional players.

Digital asset platforms like Coinbase have already demonstrated how this can work in practice—it is how we are setup today. By incorporating trading, custody, and settlement into a single legal entity, we reduce the number of intermediaries to which customers need to pay fees. This approach creates efficiency and eliminates many of the friction points that hinder innovation in traditional financial systems. As noted above in relation to an ATS model, several key benefits emerge from a unified structure in digital asset markets:

1. **Enhanced User Experience:** Integrated platforms provide a seamless experience for users. For example, a customer who purchases digital assets on an exchange can have those assets securely stored in custody systems within the same platform, eliminating the need for manual transfers to external holding entities. This not only improves convenience but also reduces operational risks, as consumers avoid potential errors or delays caused by fragmented workflows.
2. **Faster and More Cost-Effective Transactions:** With trading, custody, and settlement services housed under one roof, platforms can settle trades in real-time and at a lower cost. This efficiency is particularly important in fast-moving markets where delays between trade execution and settlement can expose both retail and institutional investors to unnecessary risks.
3. **Improved Transparency and Accountability:** Blockchain technology itself provides unparalleled transparency, allowing for real-time auditing of transactions and fund flows. When integrated platforms leverage this inherent transparency, they not only simplify regulatory compliance but provide regulators and consumers clear oversight into how their processes operate.
4. **Innovation Enablement:** By reducing intermediaries, a unified structure allows exchanges to create and deploy innovative products more quickly. Whether it's digital securities, payment stablecoins, or new custody solutions, integrating these functions allows platforms to operate at the speed of technological development, rather than at the pace dictated by segmented regulatory structures.

Countries like Singapore and Switzerland allow integrated operations, demonstrating the broad acceptance and competitive advantages of this approach. For example, Swiss providers like SEBA Bank operate as unified entities offering trading, custody, and lending services within a single framework. Similarly, the Monetary Authority of Singapore's (MAS) regulatory framework supports integrated digital payment tokens services, allowing platforms to combine brokerage and custodial functions efficiently. This unified model is one familiar to the most sophisticated market participants, and encourages them to bring their experience and expertise to the digital

asset markets. Further, unified models enable seamless compliance processes, and foster innovation due to reduced operational fragmentation.

Guardrails to Address Potential Risks

The benefits of a single entity can be fully realized with appropriate safeguards to mitigate concerns about conflicts of interest. Historical rules separating functions in traditional markets were designed to address specific risks, such as exchanges prioritizing their own trades over client orders or commingling funds inappropriately. The advent of the ATS model shows that regulators have long concluded that these risks can be mitigated in traditional markets. In the context of digital assets, these risks can be managed even more effectively leveraging long-standing regulatory best practices, as well as blockchain technology. The following guardrails are examples of how regulators can balance the advantages of a unified structure with robust oversight:

1. **Customer Fund Segregation:** Platforms must be required to legally separate customer assets from operational reserves, ensuring that consumer funds remain secure and untouchable in the event of organizational distress or bankruptcy.
2. **Operational Firewalls:** To prevent conflicts of interest, vertically-integrated platforms should implement internal policies to prevent conflicts of interest between the broker, exchange, and custody functions. This could include designating separate personnel to work on specific functions.
3. **Third-Party Oversight:** The CFTC or the registered futures association should regularly check compliance for all platforms, helping to verify adherence to guardrails and ensuring that consumer protections remain strong.

Permitting platforms to operate as unified entities does not mean removing oversight—it means creating smarter oversight tailored to the strengths of blockchain technology. Unified operational frameworks combined with proportionate and targeted guardrails creates win-win scenarios for customers and the market.

Unified Custody Framework under the CFTC

Custody of digital assets is one of the most critical aspects of a functioning and secure ecosystem. Whether for retail customers or institutional participants, safe and compliant custody solutions are essential to ensure trust and protect assets from theft, fraud, or improper access. Custody regulation in the United States will also equip American firms and institutions to compete globally based on the firm foundation of regulatory oversight in the United States. As discussed above in relation to integrated models, we urge Congress to ensure that exchanges, brokers, and dealers can custody assets or leverage a CFTC-regulated custodian. For digital commodities, we believe the CFTC is best positioned to act as the federal regulator. A custody framework under the CFTC would enable a unified tech stack, unlocking major operational efficiencies.

Why Custody Regulation is Critical for Digital Assets

Digital asset markets operate very differently from traditional financial systems in terms of custody. Assets are stored in cryptographic wallets, with security relying on advanced techniques including cold storage, access controls, and distributed systems that leverage blockchain technology. Unlike traditional systems, digital asset custody involves greater technical expertise and programmability, which offers both risks and opportunities. Regulators must adopt an approach that reflects these unique dynamics while prioritizing safety, access, and cost efficiency.

A robust federal framework for custody ensures that:

1. **Consumer Assets Are Protected:** Custody regulation guarantees that consumer funds remain insulated from operational risks at exchanges or platforms, providing a critical safeguard against bankruptcy scenarios and fraud.
2. **Transparency is Embedded:** Standardized custody requirements build trust by mandating auditability and visibility into custody practices, allowing regulators and participants to verify safekeeping measures and safeguards.
3. **Innovation Can Continue:** Regulatory clarity creates an environment where innovators can pursue novel custody models like decentralized custody solutions and programmable security protocols without unnecessary legal ambiguity.

There Should Be An Option for Custody Regulation at the CFTC

As was provided for in FIT21, platforms should have the ability to utilize state pathways for custody regulation, including state trust and bank charters and credit unions. However, it would be a missed opportunity if new legislation does not also enable the CFTC to serve as a custody regulator. Allowing the market regulator to serve as the custody regulator, as many digital asset proposals have done over the years, would simplify the overall regulatory approach. Digital commodity custodians and trading platforms could develop more unified technology stacks that achieve greater operational efficiencies. In just the same way, one regulator can see the whole picture, and in the process, better protect consumers.

Digital assets require regulatory flexibility to keep up with the rapid evolution of technology. The CFTC distinguishes itself with its principles-based regulatory approach, which focuses on market outcomes rather than rigid, prescriptive practices. The CFTC's approach would be well-suited to building on long-standing principles, such as the segregation of funds, operational security, and regular audits, while also enabling innovation to improve market functions.

Applying AML Standards to Centralized Crypto Actors

It is imperative that any future legislation aligns AML obligations for centralized crypto entities with those currently applied to traditional financial institutions. This includes on- and off-ramps

connecting the tokenized digital ecosystem to the traditional banking system—key gateways in maintaining financial integrity.

Blockchain's Transparency and Traceability in Combating Illicit Finance

Contrary to misconceptions about digital assets being a haven for illicit activity, blockchain technology offers unparalleled transparency and traceability. Every transaction is permanently recorded on a public ledger, enabling compliance professionals and law enforcement to monitor, trace, and prevent illicit activity more effectively than traditional systems. This inherent transparency empowers platforms like Coinbase to implement robust AML, terrorist financing, and sanctions compliance programs that exceed regulatory standards.

Through advanced blockchain analytics, Coinbase monitors suspicious activity in real-time, flags violations, and ensures any attempts at illicit exploitation leave a digital trail that law enforcement can investigate. Innovations such as smart contracts enable automated compliance measures, like restricting funds from sanctioned wallets or flagging large transactions for review.

Coinbase's Commitment to AML and Sanctions Compliance

Coinbase has built a comprehensive global compliance framework that adheres to regulatory requirements such as the BSA and the Patriot Act, ensuring the integrity of the digital asset system. Key elements of this framework include:

- **Rigorous KYC Protocols:** Verifying user identity and assessing risk to prevent illicit actors from accessing the platform.
- **Advanced Transaction Monitoring:** Using software to identify suspicious patterns and anomalies linked to money laundering or terrorist financing.
- **Automated Sanctions Screening:** Enforcing sanctions compliance by screening wallets and users against global watchlists such as OFAC.
- **Collaborations with Law Enforcement:** Sharing intelligence, aiding investigations, and recovering assets from bad actors in partnership with agencies such as the FBI and Homeland Security Investigations (HSI).

Enhancing National Security Through Collaboration and Blockchain Tools

Digital asset platforms like Coinbase actively support national security initiatives by monitoring and addressing threats such as terrorist financing, sanctions evasion, and criminal activity. For example:

- **Combating Terrorist Financing:** Blockchain transparency aids in uncovering networks attempting to move funds to terrorist organizations.
- **Sanctions Compliance:** Platforms rigorously screen transactions against international sanctions, providing regulators with tools to enforce compliance even across decentralized systems.

- **AML Investigations:** Partnerships with law enforcement have led to dismantling criminal networks involved in activities like human trafficking and ransomware.

Congress's Role in Strengthening Compliance Frameworks

Congress has an important role to play in ensuring that AML, sanctions compliance, and counter-terrorist financing measures are both effective and aligned with the capabilities of digital asset technology. Building on existing regulatory frameworks, Congress should consider advancing legislation that:

1. **Encourages Platforms to Register in the United States:** Providing a path for onshoring this industry is the single biggest thing Congress can do to help national security. By providing a framework for platforms to register in the United States, AML compliance standards are appropriately applied across intermediaries. This reduces gaps that bad actors can exploit.
2. **Leverages Blockchain Transparency:** Regulatory approaches should embrace the unique transparency of blockchain systems to identify novel methods for combatting illicit finance, such as real-time transaction monitoring and cross-border coordination tools.
3. **Enhances Collaboration with Agencies:** Formalizing partnerships between digital asset platforms and law enforcement will ensure that private sector expertise helps strengthen investigations across borders.

Decentralized Finance (DeFi) at an Inflection Point

DeFi, one of the most transformative blockchain innovations, offers programmable, permissionless, and globally accessible financial tools through decentralized smart contracts. It has the potential to democratize access to financial services, reduce costs, and address inefficiencies in traditional systems—especially for underserved or unbanked populations. However, DeFi is still in its early stages. Premature regulation could stifle this innovation, driving it offshore or limiting its ability to serve global markets effectively. Just as electronic trading systems needed time to mature before regulation, DeFi requires flexibility to evolve responsibly.

Unique Benefits and Risks of DeFi

Unlike centralized platforms, DeFi operates on transparent, public, and permissionless protocols without centralized operators. Innovations such as composability—the ability to seamlessly connect financial services—have the potential to redefine finance by offering greater efficiency, transparency, and fairness. The ecosystem is also organically addressing risks, such as smart contract vulnerabilities (i.e., coding errors or bugs) and governance attacks (i.e., malicious manipulation of the protocol), through rapid iteration, governance, and the development of insurance mechanisms. Haphazard and unfocused regulation now could discourage innovation and drive developers to jurisdictions with lower standards, hampering progress and financial inclusion efforts.

A Balanced Approach to DeFi Regulation

Recognizing DeFi's transformative potential means providing it the regulatory room to grow, while still addressing risks over time. Just as the approach to electronic trading adjusted as systems matured, DeFi deserves the same opportunity to prove its advancements in transparency, efficiency, and financial inclusion. Congress should avoid regulating DeFi prematurely under new legislation before the sector develops and any perceived risks are better understood. Instead, policymakers should continue to embrace the principles adopted in FIT21:

- **Tech Neutral:** Ensure legislation allows blockchains, developers, and technology providers to innovate and deliver software and hardware that enables new products and services.
- **Collaborate:** Develop public-private working groups to better understand DeFi.
- **Risk-Based:** Encourage innovation by allowing DeFi protocols to mature naturally while assessing risks and benefits.

Now is the Time to Act

Regulating digital assets responsibly is not just about protecting markets today—it's about shaping the future. Congress maintaining the goal of positioning the United States as the global leader in innovation sends a powerful message to developers, consumers, and investors: America is committed to building frameworks that protect its citizens while allowing transformative change to thrive. We cannot afford to sit back while other nations leapfrog us in deploying a foundational technology like blockchain. What's at stake is our ability to shape the rules of the future and ground them in American values.

I urge Congress to act with urgency and conviction to provide clarity, enforce protections, and give innovators across the United States the certainty they need to build responsibly. With swift action, you have the power to set the course for this industry and reaffirm America's leadership in shaping the future of technology and finance.

Thank you to both Chairs and Ranking Members for this opportunity to testify. I look forward to answering your questions.