

Testimony By

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Before the  
United States Senate Committee on Banking, Housing and Urban Affairs  
Subcommittee on Digital Assets

*Exploring Bipartisan Legislative Frameworks for Digital Assets*

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Chairwoman Lummis, Ranking Member Gallego, and Members of the Subcommittee:

Thank you for the opportunity to testify today.

My name is Jonathan Jachym. I am the Global Head of Policy and Government Relations at Kraken. Founded in San Francisco in 2011, Kraken is one of the world's oldest and largest digital asset trading platforms. Since then, we have steadily grown into a diversified digital asset business serving over 15 million customers around the world.

Kraken actively supports policymakers in the United States and abroad in efforts to implement effective domestic rules and a coherent international regulatory framework for digital asset markets. As other major jurisdictions finalize and implement rules to regulate centralized intermediaries, we welcome efforts by this Subcommittee to advance bipartisan legislation that powers responsible growth of innovative digital asset technology in the United States.

We commend Senate Banking Chairman Scott for establishing the Digital Assets Subcommittee and Subcommittee Chairwoman Lummis for her many years of dedication to advancing bipartisan discussions and legislation on digital asset policy. The introduction of the Lummis-Gillibrand Responsible Financial Innovation Act in 2022 pioneered a meaningful foundation for policy development to advance legislation in the United States.<sup>1</sup>

Over the last several years, dozens of bills have been introduced on market structure, anti-money laundering, stablecoins, strategic reserves, and other key areas.<sup>2</sup> Notably, there was strong bipartisan passage of a market structure bill out of the House of Representatives in 2024.<sup>3</sup> Congress now has a crucial opportunity to build on this progress and finalize legislation this year.

Bipartisan cooperation will continue to drive progress. We commend the Administration and new leadership at our U.S. regulatory agencies for taking swift and meaningful steps towards advancing effective policymaking in the United States. This includes appointment of a Crypto and Artificial Intelligence Czar, establishment of the Crypto Council, and formation of the Securities and Exchange Commission's (SEC) Crypto Task Force.<sup>4</sup>

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<sup>1</sup> See, "Lummis-Gillibrand Responsible Financial Innovation Act," <https://www.congress.gov/bill/117th-congress/senate-bill/4356?s=4&r=3>.

<sup>2</sup> For a list of digital asset related legislation introduced in Congress, see Congress.gov, <http://bit.ly/3D4I9od>.

<sup>3</sup> The Financial Innovation and Technology for the 21st Century Act passed out of the House of Representatives on May 22, 2024, with 208 Republican and 71 Democratic Members voting Aye. <https://clerk.house.gov/Votes/2024226>.

<sup>4</sup> See SEC, "The Journey Begins," Statement by Commissioner Hester Peirce."

Following its early policy leadership in digital assets, the Commodity Futures Trading Commission (CFTC) continues to expand initiatives to establish effective regulation of spot crypto markets in addition to driving new policy thinking around the role of digital assets in derivatives markets.

### **Kraken plays a diverse role in supporting growth and innovation in digital asset markets.**

Kraken operates with a team of over 2,000 professionals around the world. Today, we safeguard over \$40 billion in assets. We executed over \$600 billion in trading volume in 2024, primarily across our core markets in North America and Europe. Kraken is consistently named one of the most secure places to buy and sell digital assets due to our robust security for client assets.<sup>5</sup>

We advance our mission to expand the adoption of cryptocurrencies in three main areas:

1. **Centralized spot markets** – We operate as a centralized intermediary for spot crypto markets which includes our exchange, custody, staking program, and related products and services.
2. **Traditional markets** – We power traditional market investment allocation into digital assets. This includes:
  - Derivatives offerings in eligible jurisdictions;
  - CF Benchmarks, the world’s leading benchmark provider for digital asset markets, which powers a majority of the exchange-traded products approved in the United States and other markets around the world;<sup>6</sup> and
  - A novel state-chartered bank, our Special Purpose Depository Institution (SPDI), which offers institutional custody under a robust and innovative WY legal framework tailored for the unique risks and opportunities in the digital asset markets.
3. **DeFi markets** – Our on-chain business includes our wallet and our Layer 2 blockchain, called Ink, which serves as a seamless bridge to DeFi for our new frontier of innovative developers and users.<sup>7</sup>

### **Bipartisan legislation for centralized intermediaries will create a level playing field to support innovation, market integrity, customer protection and asset safeguarding.**

The regulation by enforcement approach of the past several years has punished responsible American businesses, created gaps in customer protections, and pushed innovation and market activity outside of the United States.

Healthy and vibrant markets are built on safety, security, and transparency. Passing market structure legislation will provide clear rules and level the playing field for centralized intermediaries operating in the United States with critical standards for cybersecurity protections, operational resilience, market manipulation monitoring, regulatory reporting, public disclosures, and other core principles to ensure robust markets that protect consumers.

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<https://www.sec.gov/newsroom/speeches-statements/peirce-journey-begins-020425>.

<sup>5</sup> For further information on our risk management, security, and client protection standards, see “*Industry-leading security protects your investments*,” <https://www.kraken.com/features/security>.

<sup>6</sup> CF Benchmarks administers indices that support ETFs/ETPs listed in the U.S., Europe, Canada, Brazil, Australia, and Hong Kong, <https://www.cfbenchmarks.com/>.

<sup>7</sup> For further information on our on-chain platform, visit *Ink*, <https://inkonchain.com/>.

Market structure legislation will ensure all centralized intermediaries operate at the same minimum standards in order to protect American consumers in the digital asset marketplace. Among other fundamental components, an effective legislative framework for market structure in the United States should:

1. **Create a clear path for registration and oversight over centralized markets –**  
Oversight over centralized intermediaries and secondary market transactions, complemented by effective disclosure requirements, will create a durable approach for supporting innovation and protecting customers. The Administration, SEC, and CFTC should enhance and accelerate cooperation towards this legislative goal. Legislation to grant the CFTC clear authority to regulate spot markets will support these goals, building on the CFTC’s experience regulating other retail commodity markets<sup>8</sup> and working through close inter-agency coordination with the SEC to build an effective regulatory framework.
2. **Avoid blunt application of centralized rulebooks to decentralized protocols –**  
Similar to the approach taken by other major economies, the United States should not apply centralized intermediary rules to decentralized protocols. Open and transparent decentralized blockchain networks do not have centralized governance systems, infrastructure or management. Applying centralized exchange-styled registration and reporting requirements to DeFi protocols like smart contracts would be both impractical and contrary to the well-established fundamental freedoms in our internet-based economy. Rather, the industry and policymakers must continue to evaluate and craft best practices and distinct policy approaches that account for the unique characteristics of DeFi.

**The United States has fallen behind other major jurisdictions in passing foundational market regulation for centralized intermediaries.**

Many major economies have finalized or are actively advancing fit-for-purpose regulatory frameworks for digital assets, recognizing that blunt application of traditional financial regulations are not effective at addressing the unique risks and opportunities in the digital asset markets.

Major economies and jurisdictions such as the European Union (EU), United Kingdom (UK), and Canada, have advanced rules tailored to digital asset markets. These and many other markets have classified digital assets as a simple new category, commonly referred to as “crypto assets,” rather than applying or modifying existing definitions from traditional market regulation.

These frameworks acknowledge the unique characteristics of digital assets, including decentralized networks, smart contracts, and staking mechanisms, ensuring regulatory clarity while fostering innovation.

Legislative and regulatory clarity in these markets is providing a clear path to investment and growth from a growing population of participants, ranging from large institutional players to innovators, builders and retail customers.

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<sup>8</sup> In 2010, the CFTC finalized its regulations for retail foreign exchange dealers (RFEDs), which requires registration with the CFTC and NFA and financial obligations, including minimum capital requirements. 17 C.F.R. §1.17, §5.7.

Among other G20 jurisdictions, notable examples include:

- **European Union** – The EU finalized the Markets in Crypto Assets (MiCA) Regulation in 2022. Since then, policymakers have proposed and finalized a comprehensive set of regulations for centralized intermediaries. MiCA became effective on December 30, 2024.<sup>9</sup> MiCA provides a harmonized approach to regulating the new legal category of “crypto assets” across 27 EU Member States.
- **United Kingdom** – Following legislative progress in 2023 for a new category of “crypto assets”, the UK’s Financial Conduct Authority (FCA) has begun a comprehensive consultation process to establish a tailored regime for centralized intermediaries and a bespoke regime for staking crypto assets.<sup>10</sup> These rules are expected to be finalized next year, allowing centralized intermediaries to be fully authorized within the FCA regulatory perimeter.
- **Canada** – In Canada, provincial regulators have advanced rules for centralized exchanges and other intermediaries in “crypto asset” markets with federal coordination through the Canadian Securities Administrators (CSA), ensuring businesses meet robust compliance requirements. The CSA established a regulatory approach to crypto assets in 2023, which requires centralized intermediaries to register with a provincial regulator in order to provide centralized products and services in Canada, such as exchange offerings and staking.<sup>11</sup>

Many other jurisdictions have already finalized regulatory frameworks for centralized exchanges and intermediaries, including Japan, Hong Kong, Singapore, Switzerland, Brazil, Turkey, and Bermuda. Other jurisdictions such as Australia, Argentina, and India are currently developing and advancing their frameworks for registration and regulation of centralized intermediaries.

### **Market structure legislation will complement Anti-Money Laundering requirements to ensure a holistic approach to customer protection.**

Policymakers in major markets around the world advanced anti-money laundering (AML) standards for digital assets platforms many years ago. Kraken has been registered as a Money Service Business with Financial Crimes Enforcement Network (FinCEN) since 2014, holds over 40 Money Transmitter Licenses in the United States, and AML registrations in over 60 jurisdictions around the world.<sup>12</sup>

Kraken is committed to maintaining the highest standards of security, compliance, and transparency to prevent illicit financial activity within the digital asset ecosystem. Kraken has built a global compliance program consistent with regulatory requirements that includes: AML and countering the financing of terrorism; transaction monitoring through the use of third-party blockchain analytics; market leading cybersecurity standards; Know Your Customer and Customer Due Diligence tests; Suspicious Activity Reporting; and sanctions compliance.

<sup>9</sup> ESMA, “Markets in Crypto-Assets Regulation (MiCA),”

<https://www.esma.europa.eu/esmas-activities/digital-finance-and-innovation/markets-crypto-assets-regulation-mica>.

<sup>10</sup> HM Treasury, “Future financial services regulatory regime for cryptoassets,”

<https://www.gov.uk/government/consultations/future-financial-services-regulatory-regime-for-cryptoassets>.

<sup>11</sup> Canadian Securities Administrators, “Staff Notice 21-332,”

[https://www.osc.ca/sites/default/files/2023-02/csa\\_20230222\\_21-332\\_crypto-trading-platforms-pre-reg-undertakings.pdf](https://www.osc.ca/sites/default/files/2023-02/csa_20230222_21-332_crypto-trading-platforms-pre-reg-undertakings.pdf).

<sup>12</sup> For the full list of Kraken’s licenses globally, see Kraken, “Legal Disclosures,”

<https://www.kraken.com/legal/disclosures>.

Through robust compliance personnel and programs, cutting-edge technology, and proactive engagement with regulators and law enforcement, Kraken continues to lead the industry in combating illicit finance while fostering a secure and compliant digital asset marketplace.<sup>13</sup>

Transactions that occur on public, immutable blockchains, allow real-time tracking and forensic analysis. Law enforcement agencies worldwide use these records to track, freeze, and recover stolen or illicit funds. This level of transparency makes illicit activity far easier to detect and investigate relative to cash and other forms of value transfer. Policymakers should embrace blockchain technology as a tool to promote innovation, enhance financial security and combat crime more efficiently.

**Policymaking in the United States is now moving in the right direction. It is time to accelerate.**

Without a clear regulatory framework for centralized markets, digital asset intermediaries in the United States will continue to face regulatory uncertainty and an inconsistent approach across state and federal agencies. The United States must move quickly to establish a comprehensive, bipartisan framework that provides clarity for businesses, protects consumers, and fosters responsible innovation.

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

I appreciate the opportunity to testify and look forward to your questions.

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<sup>13</sup> For further information on Kraken's engagement with law enforcement, see Kraken, "Announcing the 2024 Kraken Transparency Report," <https://blog.kraken.com/news/2024-kraken-transparency-report>.