CHAMBER OF PROGRESS

The CLARITY Act of 2025 (H.R. 3633): Bipartisan Digital Asset Regulation

Establishing Rules, Protecting Consumers, and Securing U.S. Innovation

Digital assets are transforming finance, commerce, and the internet economy—but without clear federal rules, U.S. markets remain fragmented, consumers are at risk, and American innovators face uncertainty. The bipartisan **Digital Asset Market Clarity (CLARITY) Act**, introduced by **Reps. French Hill (R-AR) and G.T. Thompson (R-PA), with support from key Democrats, including Reps. Angie Craig (D-MN), Ritchie Torres (D-NY), Don Davis (D-NC), and Josh Gottheimer (D-NJ),** builds on the bipartisan momentum of last Congress's Financial Innovation and Technology for the 21st Century (FIT21) Act, which passed the House with support from **71 Democrats**.

The **CLARITY Act creates a much-needed regulatory framework** for digital assets that strengthens consumer protections, fosters responsible innovation, and reaffirms America's leadership in emerging financial technology.

Why Congress Must Act Now

The CLARITY Act responds to a critical moment for digital asset policy:

✅ **Ends regulatory confusion** that has driven responsible innovation offshore

✅ **Protects consumers** from fraud, instability, and hidden risks in digital asset markets

✅ **Safeguards national interests** by preventing misuse of digital assets by adversaries

✅ **Strengthens U.S. competitiveness** as other nations define global standards

✅ **Modernizes financial oversight** to support responsible use of blockchain technologies

With strong bipartisan momentum and growing urgency, Congress has a window to pass foundational legislation that ensures the next generation of digital finance is built in America and reflects democratic values.

Regulatory Clarity: Establishing Clear Federal Oversight for Digital Assets

For over a decade, the U.S. digital asset market has operated under legal uncertainty, shaped by outdated statutes, conflicting regulatory interpretations, and uneven enforcement. This ambiguity has created confusion for innovators, investors, and consumers alike, making it difficult to understand the rules of the road and to compete on a level playing field. Without clear guidance, responsible businesses face obstacles to compliance, while consumers lack the consistent protections they deserve.

The **CLARITY Act offers a straightforward solution**: it defines key terms, clarifies which agencies are responsible for different parts of the market, and ensures that digital assets are regulated in a way that reflects how they function. The result is a fairer, more predictable system that supports innovation, fosters trust, and strengthens America's leadership in the global digital economy.

Key Provisions in the Bill:

- **Defines key digital asset terms**, including "digital commodity," "mature blockchain system," and "permitted payment stablecoin," creating a consistent regulatory lexicon across agencies.
- **Clarifies jurisdiction** between the SEC and CFTC:
    - The **CFTC** is granted exclusive oversight over digital commodities and their spot markets.
    - The **SEC** retains authority over digital assets offered as **securities or through investment contracts**, and oversight lasts until the blockchain system associated with the asset meets the "maturity" criteria defined under the Act.[1]
- **Creates a provisional registration process** for digital commodity exchanges, brokers, and dealers, allowing operations to begin while rulemaking is finalized.
- **Preempts state-by-state regulatory fragmentation** for federally registered entities, ensuring consistent oversight and reducing compliance burdens.[2]

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[1] *See* Decentralization Research Center: https://thedrcenter.org/wp-content/uploads/2025/04/DRC-Flourishing-v2.pdf
[2] *See* Maryland House of Delegates: https://www.dropbox.com/scl/fi/h6oo8a78k1e7229cmpdyk/Delegate-Adrian-Boafo-and-Assemblyman-Clyde-Vanel-Letter-on-Crypto.pdf?rlkey=wserx7ukzvj3o28i841x1dls6&e=3&st=te7diy3n&dl=0

Why Regulatory Clarity Matters:

- **Ends jurisdictional confusion** that has led to duplicative enforcement and legal uncertainty. As the Government Accountability Office (GAO) noted, overlapping authority has contributed to an uneven regulatory landscape for digital assets.[3]
    - The CLARITY Act seeks to resolve the longstanding ambiguity over which regulator oversees different types of digital assets.
- **Encourages domestic innovation** by offering clear, navigable rules for entrepreneurs and platforms. A lack of clear rules has driven blockchain projects and talent overseas. According to Electric Capital, the U.S. share of crypto developers dropped by 38% since 2015.[4]
    - Regulatory clarity is essential for blockchain initiatives, enabling them to operate within a well-defined framework rather than navigating the uncertainties of outdated compliance requirements.
- **Restores U.S. competitiveness** against regions with clearer rules, like the EU and Singapore. The European Union's Markets in Crypto-Assets (MiCA) regulation provides legal certainty around crypto assets, streamlining adoption and protecting users and investors.[5][6]
- **Protects investors and consumers** by replacing ambiguity with enforceable, federally supervised standards. Unclear guidelines raise doubts about an agency's ability to maintain fair and orderly markets, potentially leading to prolonged destabilization in crypto markets.
    - Regulatory gaps have left consumers vulnerable to fraud and instability, as seen in high-profile failures like FTX. Clear statutory frameworks empower regulators to act proactively rather than reactively.[7][8][9]

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[3] *See* Government Accountability Office: https://www.gao.gov/assets/gao-23-105346.pdf
[4] *See* Electric Capital Developer Report: https://www.developerreport.com/developer-report
[5] *See* European Securities and Markets Authority: https://www.esma.europa.eu/esmas-activities/digital-finance-and-innovation/markets-crypto-assets-regulation-mica
[6] *See* Monetary Authority of Singapore: https://www.mas.gov.sg/news/media-releases/2024/mas-expands-scope-of-regulated-payment-services
[7] *See* U.S. Securities and Exchange Commission: https://www.sec.gov/newsroom/press-releases/2022-219
[8] *See* Senate Committee on Agriculture, Nutrition, and Forestry: https://www.govinfo.gov/content/pkg/CHRG-117shrg51393/pdf/CHRG-117shrg51393.pdf
[9] *See* The Bretton Woods Committee: https://www.brettonwoods.org/article/lessons-of-the-ftx-collapse

Consumer Protections: Building Trust in the Digital Asset Marketplace

Recent failures in the digital asset market have exposed a troubling reality: too many consumers are navigating high-risk financial products without the basic protections they deserve. Predatory actors, undisclosed conflicts of interest, and opaque business practices have put everyday investors, particularly young people, communities of color, and working families, at risk of devastating losses. For too long, Washington has failed to provide oversight to ensure fairness and transparency in this emerging sector.

The **CLARITY Act responds** with a comprehensive framework to put consumers first. It mandates clear disclosures, requires secure custody of digital assets, bans deceptive practices, and gives regulators the tools they need to act before the damage is done. It aligns digital asset oversight with the fundamental Democratic value that financial markets must work for the people, not just the powerful.

Key Provisions in the Bill:

- **Mandates disclosures** for blockchain systems, including source code, material risk factors, development timelines, transaction histories, and economic models.
- **Requires use of qualified custodians** to hold customer digital assets, ensuring safekeeping and regulatory accountability.[10]
- **Protects retail consumers** through detailed standards for customer asset segregation, anti-fraud measures, and opt-in participation for services like staking.
- **Establishes reporting rules for insiders**, including lockups and limitations on selling digital assets tied to projects they control.
- **Empowers the SEC and CFTC** with anti-fraud and anti-manipulation authority across digital asset platforms registered under their jurisdictions.[11][12]
- **Requires** digital commodity exchanges to implement core principles related to internal governance.

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[10] *See* Fidelity: https://www.fidelity.com/learning-center/trading-investing/crypto-custodian
[11] *See* Commodity Futures Trading Commission: https://www.cftc.gov/sites/default/files/idc/groups/public/%40newsroom/documents/file/amaf_factsheet_final.pdf
[12] *See* U.S. Code: https://uscode.house.gov/view.xhtml?req=granuleid:USC-2000-title15-section78i&num=0&edition=2000

  - These include the designation of a **Chief Compliance Officer**, development of compliance programs, and oversight structures designed to prevent conflicts of interest and ensure adherence to federal standards.
  - Exchanges must establish **system safeguards**, including policies to monitor and mitigate operational, technological, and financial risks. This includes cyber-risk protections, disaster recovery procedures, and data integrity protocols.
  - Exchanges must implement **trade surveillance programs** to detect and prevent market manipulation, fraud, and abusive trading practices. Additionally, they are limited to listing digital commodities for which issuers comply with public disclosure standards.
- **Prohibits** exchanges and their affiliates from acting as counterparties to customer transactions, except in limited circumstances, ensuring neutrality and market fairness.

Why Consumer Protection Matters:

- **Addresses fraud and market manipulation** by implementing robust consumer protection measures needed to mitigate risks and protect investors in this rapidly growing market.
  - Cryptocurrency markets have been plagued by various fraudulent schemes, including phishing attacks, Ponzi schemes, fake Initial Coin Offerings (ICOs), and pump-and-dump tactics.[13]
  - In 2023 alone, the FBI reported over $5.6 billion in losses due to crypto-related fraud, marking a 45% increase from the previous year.[14] These scams often exploit the lack of regulation and the anonymity of digital assets, making it challenging for investors to verify the legitimacy of projects and platforms.
- **Empowers informed financial decisions** by providing consumers with mandatory disclosures, reducing information asymmetry.
  - Transparent disclosures provide consumers with critical information about financial products and services, enabling them to make choices that align

[13] *See* RBC Wealth Management: https://www.rbcwealthmanagement.com/en-us/insights/eight-common-crypto-scams-and-how-to-spot-them
[14] *See* Federal Bureau of Investigation: https://www.ic3.gov/AnnualReport/Reports/2023_IC3Report.pdf

    - with their circumstances. Research indicates that well-designed disclosures can improve consumer understanding and decision-making in financial contexts.[15]

- **Fills critical gaps in consumer education** by mandating a joint study by the CFTC and SEC to assess and enhance financial literacy among retail digital commodity holders.
    - Digital assets are complex financial products, and many consumers may not have the background to assess their risks. Enhancing financial literacy helps democratize access to these markets and reduces the likelihood of consumer harm. Evidence suggests that financial education can significantly improve decision-making and reduce susceptibility to fraud in digital finance.[16]

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[15] *See* Federal Reserve: https://www.federalreserve.gov/pubs/bulletin/2011/articles/designingdisclosures/

[16] *See* Government Accountability Office: https://www.gao.gov/blog/financial-literacy-digital-age#:~:text=The%20speed%20of%20digital%20transactions,decisions%20about%20digital%20financial%20services.

National Security: Securing America's Digital Future

Unregulated digital asset markets have become a fertile ground for illicit finance, sanctions evasion, and systemic risk. Without a federal framework, bad actors, including foreign adversaries, can exploit regulatory gaps to launder money, finance terrorism, or bypass U.S. sanctions. Meanwhile, nations like China are advancing centralized digital currencies with geopolitical implications, challenging the role of the U.S. dollar in global markets. For the U.S. to lead in financial innovation while protecting its national interests, Congress must act.

The **CLARITY Act responds** by integrating security-conscious oversight into the digital asset ecosystem, ensuring transparency, resilience, and global leadership aligned with democratic values.

Key Provisions in the Bill:

- **Affirms U.S. jurisdiction** over digital commodity intermediaries, including exchanges and brokers, to prevent foreign adversaries from undermining regulatory enforcement.
- **Requires Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) compliance** for all registered entities, aligning with obligations under the Bank Secrecy Act and enhancing oversight of digital asset flows.
- **Preserves SEC and CFTC enforcement powers**, including anti-fraud and anti-manipulation authority, across platforms that could be exploited for illicit finance.
- **Mandates a study on foreign digital asset threats**, including the role of state-sponsored actors and adversarial use of blockchain-based technologies
- **Promotes international coordination** with regulators in allied jurisdictions, supporting harmonized rules and standards to limit regulatory arbitrage and ensure U.S. competitiveness.

Why National Security Matters:

- **Protects against misuse by foreign adversaries** by enacting compliance, prohibiting the circumvention of sanctions, and the funding of illicit activity.

  - The U.S. Department of the Treasury has consistently highlighted the risks posed by state-sponsored cyber actors, particularly from North Korea and Iran, in exploiting digital assets to circumvent global financial controls.[17]
  - The CLARITY Act supports the Department's commitment to disrupting the illicit use of digital assets by state actors and emphasizes the importance of robust regulatory frameworks to safeguard the global financial system.

- **Safeguards U.S. financial dominance** by establishing a strong regulatory foundation that reinforces America's digital asset oversight.
  - China's **digital yuan (e-CNY) has already been integrated into cross-border transactions**, posing a **long-term threat to U.S. financial dominance**.[18] Additionally, **it is suspected that the digital yuan will be incorporated into China's Belt and Road Initiative (BRI),** further expanding its influence in global trade and financial systems and displacing U.S. influence over global payment infrastructure.
  - **If the U.S. fails to establish clear rules, foreign jurisdictions will fill the regulatory vacuum, setting global standards that may not reflect American values or priorities.** This will force U.S.-based blockchain firms to relocate abroad in search of regulatory certainty, subjecting them to less favorable and potentially predatory international frameworks.

- **Enables proactive enforcement and risk mitigation** by equipping U.S. regulators with the tools to monitor digital markets for threats, rather than relying solely on post-crisis enforcement. This is essential to maintaining both market integrity and homeland security.[19]

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[17] *See* Office of Foreign Assets Control: https://ofac.treasury.gov/media/913571/download?inline
[18] *See* Atlantic Council: https://www.atlanticcouncil.org/blogs/econographics/practice-makes-perfect-what-china-wants-from-its-digital-currency-in-2023/
[19] *See* Department of Homeland Security: https://info.publicintelligence.net/DHS-CombattingIllicitCryptocurrencyActivity-Phase2.pdf

Market Efficiency: Unlocking Innovation Guardrails

Despite rapid advancements in blockchain technology, outdated and ambiguous regulations have hindered the development of efficient, inclusive digital financial markets. Entrepreneurs and institutions face high compliance costs and regulatory uncertainty, stifling innovation and keeping affordable, transparent financial services out of reach for too many. Without modernized rules, the U.S. risks falling behind in Web3 infrastructure, decentralized finance (DeFi), and tokenized asset markets.

The **CLARITY Act** addresses this head-on, creating a regulatory framework that supports responsible innovation, unlocks investment, and aligns market integrity with modernization.

Key Provisions in the Bill:

- **Creates a tailored regime for digital commodity intermediaries**, including brokers, dealers, and exchanges, focused on operational efficiency, consumer protection, and fair access.

- **Enables dual registration** and harmonized rules for platforms engaging in both securities and commodities trading, reducing compliance friction for emerging financial products.

- **Establishes listing pathways for digital assets** that meet disclosure and governance standards, allowing exchanges to offer tokens that demonstrate decentralization and transparency.[20]

- **Supports DeFi and alternative trading models** by allowing certain activities to be excluded from registration while remaining under anti-fraud and anti-manipulation oversight.

- **Directs the CFTC and SEC to study** topics including decentralized finance (DeFi), tokenization, NFTs, and financial literacy strategies to guide future rulemaking and market development.[21]

Why Market Efficiency Matters:

- **Promotes fairer, lower-cost access to financial services.** Blockchain-based systems offer transparent, peer-to-peer alternatives to traditional financial

[20] *See* a16z: https://a16zcrypto.com/posts/article/why-decentralization-matters-incentivizing-decentralization-incentives/
[21] *See* Commidity Futures Trading Commission: https://www.cftc.gov/PressRoom/SpeechesTestimony/romerostatement010824b

infrastructure, particularly valuable for underbanked populations and small businesses.[22][23]

- **Reduces regulatory uncertainty and barriers to entry.** By clearly defining digital assets and exchange obligations, the Act lowers the risk of enforcement whiplash and costly legal ambiguity, giving innovators a clear path to market compliance.
    - The Act provides a clear framework for digital commodity exchanges to list tokens that meet disclosure, governance, and maturity requirements, enabling the development of transparent, well-regulated secondary markets that facilitate capital formation for compliant projects.
- **Supports data-driven policy evolution.** By directing regulators to study and report on emerging models like DeFi and tokenization, the Act creates a feedback loop between innovation and oversight, supporting agile, responsive policymaking.[24]

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[22] *See* PWC: https://www.pwc.com/us/en/services/digital-assets/blockchain-financial-inclusion.html
[23] *See* Stanford Innovation Review: https://ssir.org/articles/entry/working_toward_financial_inclusion_with_blockchain
[24] *See* Paradigm: https://cdn.sanity.io/files/dgybcd83/production/90847c751e91613c908b8b9d492012509d66a1bd.pdf