STAND WITH CRYPTO

FIT21

Financial Innovation and
Technology for the 21st Century Act

What is FIT21?

The Financial Innovation and Technology for the 21st Century Act (FIT21) is a comprehensive market structure bill that will protect consumers, promote national security, ensure crypto companies have robust rules, create clarity for job creators and blockchain builders, and the next generation of the Internet develops here. The bill passed out of the House Financial Services Committee on a strong bipartisan vote, and House Agriculture Committee on a voice vote in July 2023.
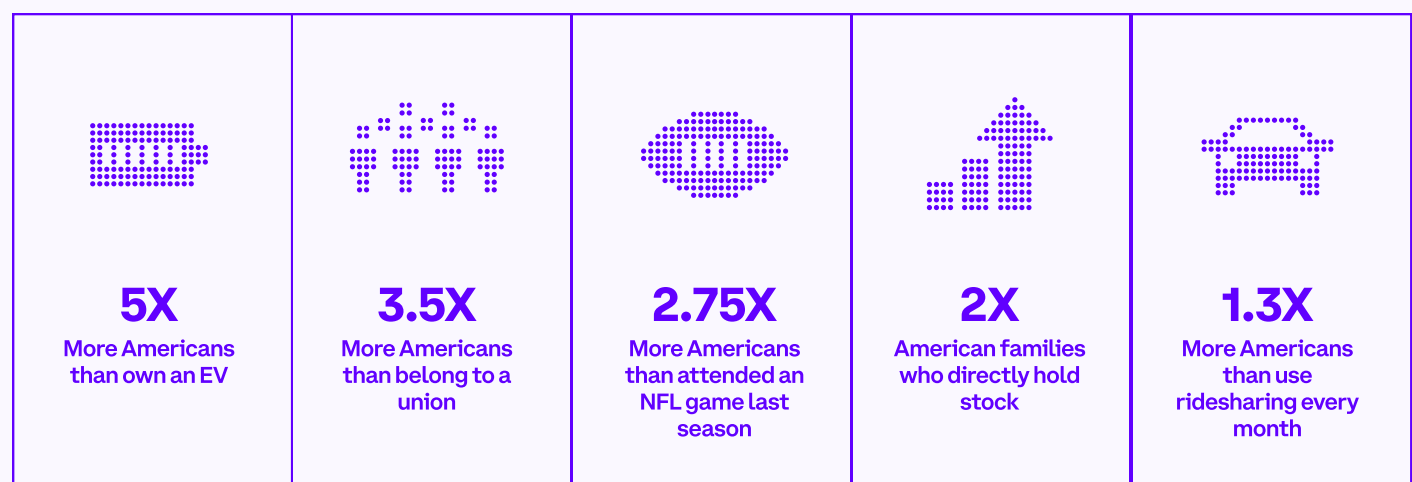
What does this bill do?

FIT21 is a consumer protection bill that does four key things:

1. **Creates consistent consumer protection requirements:** Ensures digital asset owners are protected by robust requirements for transparency, disclosure, segregation of funds and entities, protection of assets, and other measures under both the Securities and Exchange Commission (SEC) and Commodities Futures Trading Commision (CFTC).
2. **Provides new CFTC authority:** Creates a much-needed, robust federal regulatory framework for the CFTC to oversee spot markets for digital asset commodities. This framework would fill an existing gap in federal oversight, and would lead to both more consistent consumer protection requirements across the country and enable more vigorous enforcement against bad actors. The bill is also consistent with calls from President Biden's Financial Stability Oversight Council to ensure the CFTC can regulate digital asset commodities. Additionally, the CFTC will receive an increase in funding to adequately fulfill their oversight responsibilities.
3. **Modernizes SEC authority:** Establishes workable registration requirements for digital asset trading platforms under the SEC jurisdiction, applying the same high standards for investor protection while also maintaining fair, orderly, and efficient markets and facilitating capital formation. It gives the SEC clear authority over certain digital assets that do not meet requirements to be regulated by the CFTC, thus enabling the SEC to allocate their limited resources to hold digital assets in their jurisdiction accountable.
4. **Creates a pathway for innovation:** Constructs a fit-for-purpose registration pathway for developers, builders, and innovators that ensures appropriate regulation, including consumer and investor protection, at every step. The bill recognizes the unique characteristics of digital assets, which can evolve from a centralized project requiring the investor protections associated with securities to a decentralized project requiring consumer protections needed in commodities markets.
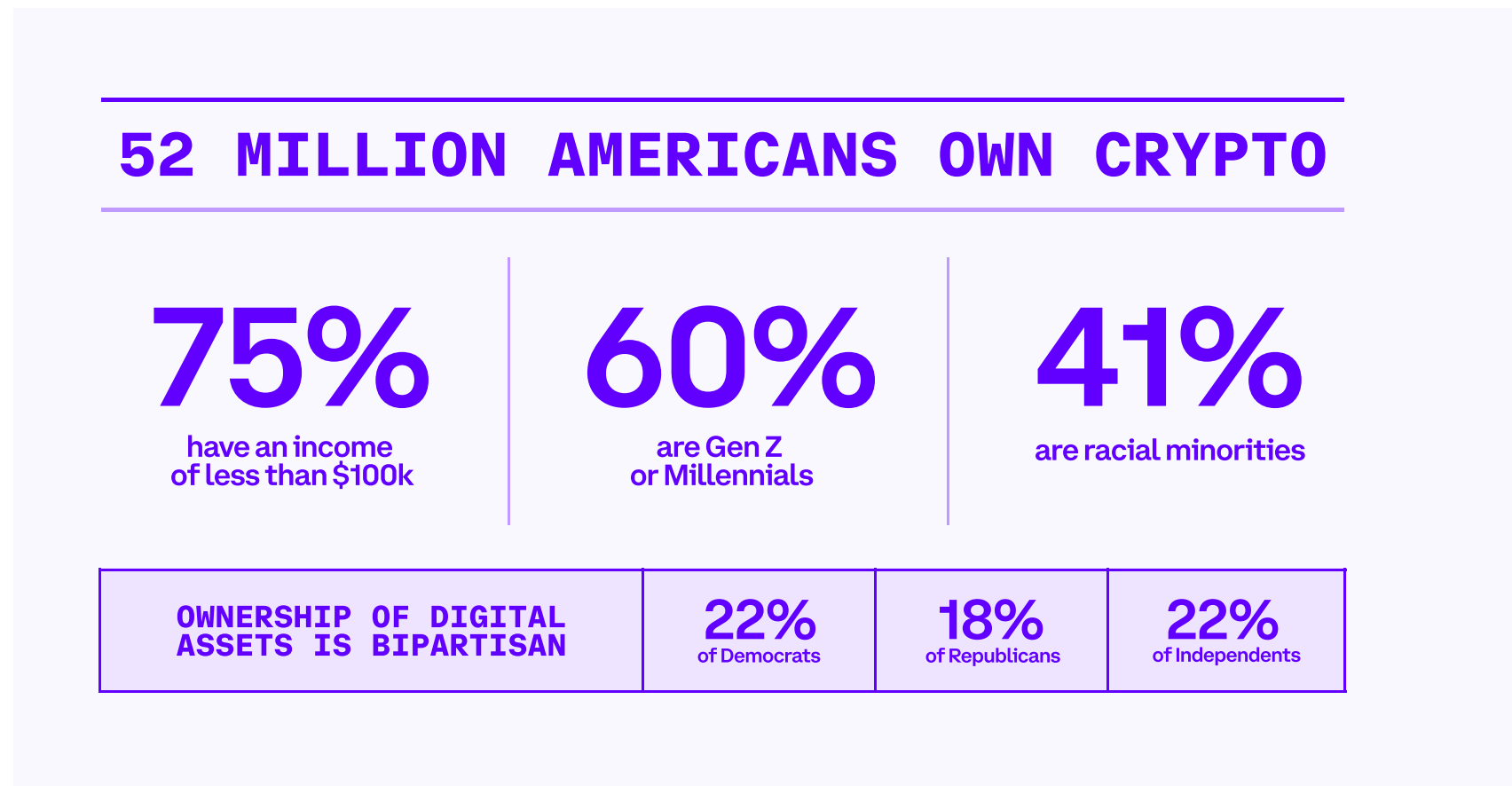
Why is this bill needed?

Crypto Ownership is Broad: Right now in America, 1 in 5 adults own crypto – it's a group 52 million Americans strong. Those consumers deserve to be protected. To help give this raw number context:

52 MILLION AMERICANS OWN CRYPTO

5X	3.5X	2.75X	2X	1.3X
More Americans than own an EV	More Americans than belong to a union	More Americans than attended an NFL game last season	American families who directly hold stock	More Americans than use ridesharing every month

Crypto is Bipartisan, Young, and Diverse: Not only is this a large absolute number, it's a group of Americans that will drive future cultural, political and economic trends. Crypto owners are working and middle class, younger, and more diverse than the population as a whole.

52 MILLION AMERICANS OWN CRYPTO

75%
have an income
of less than $100k

60%
are Gen Z
or Millennials

41%
are racial minorities

OWNERSHIP OF DIGITAL ASSETS IS BIPARTISAN	22% of Democrats	18% of Republicans	22% of Independents

Constituents Care: Polling in the fall of 2022 showed that in the key states of NH, NV, OH, and PA, over half (55%) of voters stated that they would be less likely to vote for candidates who oppose crypto and web3.

America is Losing Its Competitive Edge: 83% of the G20 and major financial hubs are writing rules for crypto. Countries like the United Kingdom, Australia, Canada,, Singapore, Japan, and China, as well as the entire European Union, are racing to develop fit-for-purpose rules in order to attract innovative companies, developers, jobs and revenue. In fact, a recent report from Electric Capital found the US is already losing 2% of web3 developers every year, falling from 40% in 2018 to less than 26% in 2023. This brain drain will lead to the loss of one million developer jobs and three million related non-technical jobs over the next seven years.[1]

Technological Leadership is Critical to National Security: Blockchain technology and digital assets will define the next era of technological leadership, and shape the future of the world financial system. China is already embracing and advancing the use of blockchain technology to project power and gain dominance around the world, directly threatening America's global economic leadership and national security.

[1] *2023 Crypto Developer Report,* Electric Capital, https://www.developerreport.com/developer-report, 17 Jan 2024

What are Members of Congress saying?

- **Rep. Jim Himes (D-CT):** "After hundreds of hours of engagement with this bill...I am confident that this legislation, while not perfect, makes the status quo better." (link)
- **Rep. Ritchie Torres (D-NY):** "The legislation regulates digital assets. It brings regulatory clarity where none exists. It protects both consumers and investors." (link)
- **Rep. Yadira Caraveo (D-CO):** "At least 70 percent of digital assets are currently unregulated. That leaves a huge number of retail investors unprotected in a volatile market class where many people have already lost their life savings. We have to act now to prevent more FTX-like disasters." (link)
- **Rep. Wiley Nickel (D-NC):** "I firmly believe in the SEC's mission to protect investors, but for this to be effective Congress needs to pass legislation with a clear regulatory framework. The last thing we need is another situation like FTX. My goal has been to ensure that this bill could protect my constituents and I'm certain it'll do just that." (Link)
- **Rep. Dusty Johnson (R-SD):** "The digital asset space is muddled with regulatory uncertainty, lack of authority. The crypto industry wants clarity and our collaborative bill gives both the CFTC and SEC a seat at the table. Our bill establishes clear principles to ensure financial security and certainty as digital asset developers continue to innovate." (link)
- **Rep. Patrick McHenry (R-NC):** "This is a pivotal moment for America's standing as the global leader in innovation and technology adoption. Not only can digital assets revolutionize our financial system, but their underlying blockchain technology holds promise as the building blocks for the next generation of the internet. As other countries move forward with digital asset regulatory frameworks and Chair Gensler continues his regulation by enforcement, the U.S. is falling behind. Innovators need regulatory clarity and certainty to enable this technology to achieve its full potential." (link)
- **Rep. Glenn Thompson (R-PA):** "[C]urrent federal laws and regulations provide few rules of the road for those who want to engage with these emerging technologies, leading to complicated enforcement actions by regulators and creating further confusion in the industry and market." (link)
- **Rep. Tom Emmer (R-MN):** "If Congress does nothing, the United States will miss a huge opportunity and Americans will suffer for it." (link)

Crypto 101

What is crypto?

The crypto ecosystem is made up of blockchain technology – also known as distributed ledger technology – and digital assets. The first blockchain, the Bitcoin blockchain, was developed in 2009 and was revolutionary because it allowed, for the first time ever, individuals to transmit value without centralized intermediaries like banks or payment providers.

A blockchain is similar to a database or ledger, but unlike traditional ledgers, it is not controlled by a single central authority. Instead, blockchain-based ledgers are public, distributed, and immutable: anyone can download the ledger and see the entire history of every transaction that has ever occurred on a given blockchain. That free public history is an essential feature of a blockchain because it ensures that a counterparty possesses the digital asset that is being transacted. As a result, transactions can occur remotely without an intermediary vouching for either party.[2]

Distributed ledgers are enabled by cryptography. At the core of all cryptocurrencies are private keys — complex and secret numbers used by an individual transacting on the blockchain. A private key is mathematically linked to a public key, which is the address that others can use to transact with the owner of the private key. Put simply, a distributed ledger is really just the history of transactions between public keys. The cryptographic math that secures the blockchain generally obscures the identity of the owner of the private keys - making transactions pseudonymous. This means that a transaction can be tracked but the details are obfuscated. This balance between obfuscation and tracking is what ensures law enforcement has the tools needed to protect against illegal uses, while protecting the privacy of Americans.

[2] For a general overview of blockchain technologies, see C. Jaikaran, Blockchain: Background and Policy Issues, Congressional Research Service, at 1-2, Feb. 28, 2018, https://fas.org/sgp/crs/misc/R45116.pdf.

[3] Id.

Bitcoin ($1.2 trillion market cap) is the most widely used digital asset, but there are countless others with various use cases and promising technology (i.e. Ethereum, Solana, and stablecoins like USDC that are digital representations of the US Dollar). These assets make it possible to send online payments directly from one party to another without the need for a middleman like a bank or payment processor, allowing value to transfer **globally, near-instantly, 24/7, and for low fees.**

The additional accessibility, speed, and affordability of crypto can lead to:

- **Lower transaction fees:** Americans spend about $12b every year in transaction fees. Crypto can reduce these fees by 96% and put that money back into the pockets of Americans.
- **An inflation hedge:** Crypto can be a hedge against inflation due to its decentralized nature and fixed supply. Unlike fiat currencies where centralized authorities can always print more money, the supply of some cryptocurrencies like Bitcoin is capped.
- **More transparency:** Because most crypto transactions are published on a public blockchain, they are fully transparent. There's no room for manipulation of transactions or changing of the money supply during the course of the transaction.
- **Greater privacy controls:** When paying with crypto, only the information needed for the transaction is provided allowing the individual greater control over their private information. Consumers do not need to provide unnecessary personal info.
- **Enhanced tools for law enforcement:** Because the movement of assets can be tracked on a blockchain, law enforcement has new investigative tools to pursue and catch bad actors.
- **Jobs of the Future:** Crypto and blockchain will create an estimated 4 million jobs globally by 2030. Regulatory clarity can help make sure those jobs are here.

Use Cases for Crypto

What are the use cases for crypto?
By enabling the transfer of value in an open, decentralized way, blockchain builders are creating the next generation of the Internet. Digital assets and blockchain technology are the infrastructure that will power technological innovation for decades to come. We are only scratching the surface on use cases, just like with the Internet in the 1990s, but examples of how crypto improves lives are already starting to surface.

USE CASE 1
LOCAL GOVERNMENT USE

Local and state governments are exploring new ways to drive down costs, while making the provision of services more efficient and reliable. Blockchain technology and digital assets can help do both by creating immutable ledgers and secure representations of information like proof of identification.

In many states, blockchain-based identity solutions are being adopted in order to speed up the provision of services, protect against fraud, and give users greater privacy and control over their personal information. With a blockchain-based ID, a person's data is verified once and securely stored on the blockchain and in a digital wallet on their smartphone, streamlining the authentication process. Government services like education enrollment, foreign travel, SNAP services, and even voting can benefit from this reliable form of ID, potentially reducing the millions of identity theft cases filed every year.

Rhode Island Department of Business Regulation – Digital ID
Rhode Island is developing a "future-ready approach" by integrating records from various agencies into a unified blockchain-based system. The new process will let citizens verify their information once and then use it whenever interacting with a government agency. For example, the new system will allow accountants to renew their state licenses through verifications in their digital wallet, "[r]educing a multi-week process to 30 minutes."

California DMV – Car Title Tokenization
The California DMV is tokenizing the titles of over 14 million registered automobiles, issuing them as non-fungible tokens (NFTs) on the blockchain. This move could reduce fraud and expedite the process of issuing and transferring vehicle titles, reducing it "from weeks to minutes." The blockchain also could be used to record vehicle repairs and coordinate with other state agencies that license vehicles, increasing efficiencies.

USE CASE 2
HOUSING

Property management and mortgage lending procedures often suffer from inefficiencies and are vulnerable to fraudulent activities. Blockchain technology is revolutionizing the housing industry by offering secure and transparent methods for record-keeping and transactions, and new ways to access financing for home buying.

For example, each U.S. state maintains a complex public land title recordation system to verify land ownership, which is essential for the real estate market's integrity. These systems, however, are susceptible to fraud and human errors, with a notable surge in home title theft and seller impersonation in 2023[5], underscoring their vulnerabilities. Blockchain technology presents a viable solution by offering a secure, transparent framework for digital property records management. Transitioning titles and transactions to a blockchain allows for precise verification of property history, significantly reducing risks of title fraud and inaccuracies in public records, and ensuring the accuracy and trustworthiness of land ownership verification, thereby enhancing the management and transfer of real estate assets.

Propy Title Agency
Propy Title Agency is a real estate transaction platform that uses blockchain, AI, and Web3 technologies to enhance the security and efficiency of buying and selling properties. Licensed as a title and escrow service, Propy integrates the entire closing process into a single platform, reducing fraud and error risks commonly found in traditional systems. The agency supports transactions involving cryptocurrencies and NFTs, offering rapid closings through its pioneering real property NFTs, which allow property transfers without the standard 30-day closing period. Recognized by the World Economic Forum for its innovative approach, Propy is redefining property transactions in the digital age.

Equity Platforms
Equity Platforms is a Public Benefit Corporation committed to fostering community prosperity through real estate and blockchain technology. With ventures like EquityCoin, EquityHaus, and EquityShare as part of the suite, Equity Platforms strives to make real estate more equitable and accessible by revolutionizing ownership and rental income opportunities for historically marginalized communities.

[5] Han, Brooklee, *'Fraudsters gotta eat too:' The title industry navigates an uptick in fraud.,* HousingWire, https://www.housingwire.com/articles/fraudsters-gotta-eat-too-the-title-industry-navigates-an-uptick-in-fraud/#:~:text=Since%20the%20start%20of%202023%2C%E2%80%9D 13 Oct 2023

USE CASE 3
HEALTHCARE

Healthcare is essential to every individual, yet it is frequently compromised by data breaches, with an average of 364,571 record breaches occurring daily in 2023. Blockchain technology can address these security issues through its consensus mechanism that ensures data immutability and through decentralization that reduces risks of breaches and information misuse. This enhances patient confidence in data security and addresses the inefficiencies of traditional healthcare systems.

Additionally, traditional centralized processes often delay the sharing of crucial medical information, creating bottlenecks that can be critical in emergencies where quick access to medical histories is necessary. Blockchain's distributed ledger provides a tamper-proof, up-to-date record system, facilitating seamless information exchange across healthcare providers and between patients and their medical professionals, thus speeding up response times in critical care scenarios.

Tamarin Health

Katherine Kuzmeskas, the founder of Tamarin Health, embarked on her venture with the objective of utilizing blockchain to make the healthcare data ecosystem safer and more secure. Tamarin Health empowers healthcare providers, caregivers, and consumers with HIPAA compliant decentralized file storage and privacy-preserving computation to make healthcare data more accessible and secure.

Solve.Care

Solve.Care is a global healthcare blockchain technology company founded in 2017, headquartered in Tallinn, Estonia. The company focuses on decentralizing and streamlining the complexities of healthcare administration, coordination, and payments using blockchain technology. Solve.Care offers several networks, such as the Global Telehealth Exchange for online doctor consultations and the Team.Care Network for improving workforce health engagement. They also provide solutions like Care.Wallet for managing healthcare and financial transactions, and have introduced a unique digital currency called SOLVE, used for transactions on their platform. The company aims to reduce healthcare costs and improve the efficiency and accessibility of services for all stakeholders involved.

USE CASE 4
FUTURE OF MONEY

In 2022, American merchants incurred nearly $100 billion in transaction fees, costs that were passed on to consumers through higher prices and resulted in inefficiencies in everyday payments. This burden disproportionately affects vulnerable groups, driving them towards costly alternatives like check cashing, payday lending, and overdraft protection, which collectively amount to billions in fees annually. Moreover, the International Monetary Fund notes that even advanced domestic payment solutions are costly for migrant workers, with average fees for sending $200 globally at 6.25%, and some rates as high as 30%. Blockchain technology offers a promising solution by enabling direct, peer-to-peer digital currency transfers, substantially lowering transaction costs. Stablecoins, in particular, provide an efficient means for international remittances, potentially saving 2-8% in fees per transaction. This could mean that an additional $16 from a $200 payment is retained by friends and family for essential expenditures, enhancing their financial resilience.

USDC / Circle

USDC (USD Coin) is widely utilized for cross-border global remittances due to its stability and operational efficiency. As a stablecoin pegged to the US dollar, USDC mitigates the volatility commonly associated with other cryptocurrencies, providing a dependable store of value that safeguards recipients against currency fluctuations—a crucial feature for remittances. The use of USDC enhances transaction speed and reduces costs significantly compared to traditional banking methods, which are often slow and expensive. By processing transactions on blockchain networks, USDC enables near-instantaneous transfers with lower fees, ensuring that a larger portion of the sent funds reaches the recipients. Additionally, USDC offers great flexibility; it can be converted into local currencies or used directly in regions where digital currencies are accepted, simplifying financial management for recipients, especially in areas with limited access to conventional banking services. This combination of stability, efficiency, and flexibility makes USDC an attractive option for remittance purposes.

Umoja Labs

Robby Greenfield, the founder of Umoja Labs, is focused on leveraging blockchain technology to drive social impact and financial inclusion. Umoja Labs focuses on leveraging blockchain technology to improve financial inclusion in emerging markets. The company offers a variety of services including digital wallets, on/off-ramp APIs for crypto transactions, and peer-to-peer lending infrastructure. Umoja Labs aims to connect mobile money users to the decentralized finance (DeFi) market, enabling more efficient and accessible financial services. Their efforts are particularly geared towards helping underserved communities by providing them with the tools needed for economic participation and growth.

There are over 33 million small businesses in the U.S., contributing 44% of the overall U.S. GDP and employing nearly half the U.S. workforce. Yet, in 2023, many small businesses struggled with securing adequate funding, with less than half reporting sufficient access to capital, a significant decrease from 2017. Smart contracts and blockchain technology offer promising solutions by automating lending and borrowing, thereby cutting costs by removing intermediaries and allowing direct transactions. Businesses can lend their digital assets via stablecoins to reduce volatility, while decentralized protocols offer unbiased, cross-border access to capital.

Additionally, blockchain can revolutionize payments for small businesses burdened by high transaction fees from traditional credit card payments, which cost U.S. merchants over $125 billion in 2022. Digital assets provide a faster, secure, and cheaper alternative, with crypto transaction fees typically under 1%. This technological advancement not only improves liquidity but has led 77% of the over 2,000 U.S. businesses accepting Bitcoin to cite lower fees as their primary motivation.

Figure Technologies
Figure Technologies is a financial technology company that utilizes blockchain to transform financial services across various sectors. Founded in 2018 by Mike Cagney, who previously co-founded SoFi, Figure has introduced innovations in areas like loan origination, equity management, and banking services. Their platform aims to reduce costs and improve efficiency for both consumers and financial institutions by using the Provenance blockchain. This blockchain enables features such as faster transactions and lower fees compared to traditional financial systems. Figure offers products like home equity lines of credit, mortgage refinancing, and personal loans, all streamlined through its blockchain-based system.

SALT Lending
SALT Lending is a financial services company that provides loans backed by digital assets as collateral. Utilizing their Secure Automated Lending Technology (SALT), the platform allows users to obtain liquidity from their digital assets without having to sell them. This enables borrowers to access funds while potentially retaining the upside of their digital asset holdings. SALT offers loans in U.S. dollars or stablecoins, catering to a global clientele, with competitive interest rates and without requiring traditional credit checks. The company also incorporates its native token, SALT, which can be used to reduce loan interest rates or as an additional form of collateral. This blend of traditional lending services with innovative blockchain technology makes SALT a key player in the crypto-lending space.

Glossary

Blockchain: A blockchain is a distributed database that is shared among the nodes of a computer network. Blockchains store a continuously growing historical ledger of information electronically (e.g. accounts, transactions, contracts) into blocks in digital format.

Bitcoin: The first ever cryptocurrency on a Proof of Work (PoW) blockchain which was created in 2009 by Satoshi Nakomoto. Bitcoin transactions are recorded on a public ledger - the blockchain - which is maintained by a network of computers known as miners. These transactions are verified and added to the blockchain through a process called mining, where minders compete to solve complex mathematical puzzles. One of the defining features of Bitcoin is its limited supply - there will only ever be 21 million Bitcoins in existence.

Centralization: A hierarchical structure in which authority and control are concentrated within a small group of decision makers.

Custodial Wallet: A custodial wallet is a type of digital wallet where a third party, typically a company or service provider, has control over the private keys that are used to access and manage the assets stored in the wallet. You are relying on the service provider to safeguard your assets on your behalf.

Cryptocurrency: A digital asset that is encrypted using cryptography and is built on blockchain technology.

Cryptography: The practice and method of exchanging secure and encrypted messages between two or more parties

Decentralization: A system that operates without the control of a central figure or authority, and replaces it with a distributed peer-to-peer network.

DeFi: DeFi, or Decentralized Finance, is an open financial system that does not rely on centralized authorities or intermediaries, like banks or brokerages, to conduct financial activities permissionless like trading, borrowing, lending, and investing. Instead, it utilizes smart contracts on blockchains.

Digital Assets: A digital asset is a digital representation of value recorded on a cryptographically secured distributed ledger. The term encompasses a wide breadth of asset types such as cryptocurrencies, NFTs, asset-backed tokens, and tokenized real estate.

Ethereum: Ethereum is a decentralized, open-source blockchain network that was launched in 2015 by its founder, Vitalik Buterin. Ethereum is the leading smart contract-enabled blockchain in the world, and its native token, ETH, is the second-largest digital asset by market cap.

Exchange: A business that allows customers to trade cryptocurrencies or digital currencies for other assets, such as conventional fiat money or other digital assets.

Fiat: Fiat money is a type of money that is not backed by any commodity such as gold or silver, and typically decals by a decree from the government to be legal tender.

Non-Custodial Wallet: With a non-custodial wallet, you have sole control of your private keys, which in turn control your cryptocurrency and prove the funds are yours. While there is no need to trust a third party when using a non-custodial wallet, this also means that you are solely responsible for not losing your keys and are required to take precautions to protect your assets.

Non-Fungible Token (NFT): A non-fungible token (NFT) is a digital asset that can be used to represent ownership of a variety of digital assets including art, music, photography, real estate, and more.

On-Chain: On-chain is an umbrella term that includes any transaction or data that is available on the blockchain and visible to all nodes on the blockchain network.

Proof of Stake: Proof of Stake (PoS) is a decentralized consensus mechanism for processing transactions and creating new blocks in a blockchain.

Proof of Work: Proof of Work (PoW) is a decentralized consensus mechanism that requires network participants to spend computational power and energy to generate new valid blocks. The work, in this case, is generating a hash (a long string of characters) that matches the target for the current block. The crypto miner who does this wins the right to add that block to the blockchain and receives rewards.

Private Key: An alphanumeric passcode required to withdraw assets from a blockchain wallet and authorize digital transactions. Because these private keys are long and difficult to memorize, wallets will generally associate them with a seed or recovery phrase that is easier to remember.

Public Key: An alphanumeric code that serves as the address for a blockchain wallet, similar to a bank account number. Other users can send digital assets to your wallet via your public key, but only you can access your wallet's contents by using the corresponding private key.

Smart Contract: A smart contract is a piece of code that executes according to its instructions exactly like a traditional contract between two people would be executed. Smart contracts are used by developers to build decentralized applications on blockchain networks like Ethereum to enable users to permissionlessly transact securely. Smart contracts can facilitate other interactions such as fractionalized real estate transactions.

Stablecoin: A token with its value pegged to another asset. Stablecoins are usually backed by a fiat currency, like the US dollar, but can also be pegged to physical assets like precious metals, or even other cryptocurrencies like Bitcoin.

Validators: A validator is an individual or group responsible for running software that stores data, verifies transactions, adds new blocks in a Proof of Stake (PoS) blockchain, and maintains the security of the blockchain. In exchange for their work, validators receive rewards and earn fees every time a new block is added to the blockchain.

Wallet: A software application or hardware device used to store the private keys to blockchain assets and accounts. Unlike a traditional wallet, a blockchain wallet does not actually store the coins or tokens themselves. Instead, they store the private key that proves ownership of a given digital asset. Examples: Metamask, Coinbase Wallet, Ledger

Web3: Web3 is the current evolution of the internet, characterized by decentralization and digital ownership. Unlike Web 1.0 and Web 2.0 which were characterized by users being able to read (Web 1.0) and write (Web 2.0) content.