

# Crypto Council for Innovation

November 3, 2022

Jon Fishman  
Assistant Director  
Office of Terrorist Financing and  
Financial Crimes  
U.S. Department of the Treasury  
1500 Pennsylvania Ave., N.W.  
Washington, DC 20220

RE: Response to September 20, 2022, U.S. Department of  
the Treasury Request for Comment Regarding Ensuring  
Responsible Development of Digital Assets

Dear Mr. Fishman:

The Crypto Council for Innovation (“the Council”) submits this letter in response to the September 20, 2022, U.S. Department of the Treasury (“Treasury”) request for comment regarding “Ensuring Responsible Development of Digital Assets” (the “Request”).

## **I. Introduction and Overview**

The Council is the premier global alliance of digital asset industry leaders with a mission to communicate the benefits of digital assets and demonstrate their transformational promise. The Council’s members include some of the leading global companies and investors operating in the digital asset industry, including Andreessen Horowitz, Block (formerly Square), Coinbase, Electric Capital, Fidelity Digital Assets, FTX US, Gemini, Paradigm, and Ribbit Capital. The Council’s members span the digital asset ecosystem and share the goal of encouraging the responsible global regulation of digital assets to unlock economic potential, improve lives, foster financial inclusion, protect national security, and disrupt illicit activity. The Council and its members stand ready and willing to work with Treasury and the U.S. Government (the “USG”) to accomplish these goals and ensure that the most

transformative innovations of this generation and the next are anchored in the United States.

The Council supports the goals articulated by President Biden in Executive Order 14067 of March 9, 2022, “Ensuring Responsible Development of Digital Assets” (the “Executive Order”),<sup>1</sup> particularly the stated goals of (i) reinforcing U.S. leadership in the global financial system and in technological and economic competitiveness, including through the responsible development of payment innovations and digital assets; (ii) promoting access to safe and affordable financial services; and (iii) supporting technological advances that promote the responsible development and use of digital assets. We believe that digital asset technologies and services can, are being, and will be developed in a way that advances these goals while protecting consumers, investors, and businesses, safeguarding the U.S. and global financial system, and mitigating the risks posed to U.S. national security by illicit finance.

As we described in our August 8, 2022, letter in response to Treasury’s request for comment *TREAS-DO-2022-0014-0001* regarding “Ensuring Responsible Development of Digital Assets” (the “August 2022 Letter”),<sup>2</sup> digital assets based on blockchain technology represent some of the most significant innovations in finance in many years, with the potential to alter ownership structures, commercial applications, cross-border payments, transaction processing and settlement, access to capital, investment opportunities, and much more. In the United States, digital assets have the promise to provide critical payment services to the underserved. Beyond our shores, in countries that have collapsing economies or authoritarian regimes, digital assets can provide a financial – and literal – lifeline. Recent events including Russia’s invasion of Ukraine and popular movements in opposition to authoritarian regimes demonstrate the urgency of establishing payment methods that cannot be intercepted or monitored by despotic regimes. For these reasons alone, it is imperative that the USG and private industry work together to foster these innovative technologies.

This letter builds on the August 2022 Letter and our February 13, 2022, letter responding to the Financial Crimes Enforcement Network (“FinCEN”) Request for Information on the Modernization of U.S. AML/CFT Regulatory Regime (the “February 2022 Letter”)<sup>3</sup> and focuses on two of Treasury’s questions included in the Request that we believe are particularly important in fostering the conditions that will

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<sup>1</sup> 87 Fed. Reg. 14143, March 14, 2022, <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/>

<sup>2</sup> The August 2022 Letter is included as Exhibit A.

<sup>3</sup> The February 2022 Letter is included as Exhibit B.

enable the USG and the digital asset community to work collaboratively to achieve the goals articulated by the President:

**Question D. 1.** “How can Treasury maximize public-private and private-private information sharing on illicit finance and digital assets?”

**Question D. 2.** “How can the U.S. Department of the Treasury, in concert with other government agencies, improve guidance and public-private communication on AML/CFT and sanctions obligations with regard to digital assets?”

We provide our thoughts and recommendations related to these questions in Parts II and III. Part IV describes how public-private partnerships and improved education can help reduce the risk that USG action may have unintended consequences that could undermine the President’s goals in the Executive Order, such as by impeding law enforcement efforts, creating privacy concerns, further excluding historically underserved populations from the global financial system, and stifling innovation. Part V provides a summary of our recommendations responsive to the questions above and certain other questions in the Request.

**II. Question D. 2. “How can the U.S. Department of the Treasury, in concert with other government agencies, improve guidance and public-private communication on AML/CFT and sanctions obligations with regard to digital assets?”**

We appreciate that Treasury and the USG have developed a robust understanding of the benefits and risks of digital assets and other blockchain technologies over the past several years. The Executive Order underscores the importance of further understanding the digital asset ecosystem, the underlying technologies, and available tools that can make digital assets and related technologies safer and more effective. To advance the objectives of the Executive Order, below we propose certain recommendations to expand public-private sector communication, strengthen consumer financial and digital asset awareness, and foster innovation through the use of exemptive relief and regulatory sandboxes.

- a. **Two-way public-private sector communication is imperative to ensure that the solutions to potential illicit finance risks incorporate the latest developments in the digital asset space and the unique features of digital assets.**

Key players in the digital asset ecosystem and the USG, including law enforcement, FinCEN and the Office of Foreign Assets Control (“OFAC”), should

continue to establish and foster open communication to find effective solutions to the challenges posed by illicit finance. Frequent dialogue between the USG and major private sector players like the Council and our members will enable the USG to better understand the technologies and how responsible innovation – not just regulation – can solve many of the problems related to illicit finance that the government is seeking to address. Additionally, the digital asset community can gain insights from the USG, which will often have access to information that the industry does not. In this regard, we would appreciate frequent advisories and guidance from U.S. regulators like FinCEN and OFAC on relevant financial crime typologies. Prior advisories and guidance papers from these agencies in 2013, 2019, and 2021, respectively, have been instrumental in establishing an understanding of the applicability of financial regulations to different digital asset and blockchain business types and has led to consistency in how compliance controls are implemented across the industry.

Moreover, given the rapid innovation and deployment of a wide array of digital asset and other blockchain technologies in recent years, including cryptocurrencies, decentralized finance (“DeFi”), stablecoins, non-fungible tokens (“NFTs”), and decentralized autonomous organizations, any regulatory approach to these technologies should acknowledge and account for each asset or technology’s unique and evolving characteristics. As one of many examples, fungible digital asset tokens are not the same thing as NFTs. NFTs are not only unique, but they are almost always associated with rich metadata, such as artwork or media, which is a key differentiator from fungible digital asset tokens and may therefore warrant a different regulatory approach. Similarly, DeFi protocols provide a myriad of products and services that vary significantly, ranging from products that mirror traditional financial services (e.g., lending, borrowing and exchange activity) to prediction markets, yield lotteries, and liquidity pools, with new business models emerging every day. There is also a wide range of decentralization in the DeFi space that makes it difficult, if not impossible, to impose the same regulatory requirements on all DeFi protocols. These examples demonstrate the importance of tailoring regulation to the specific product or service, particularly as digital asset products and business models continue to evolve, becoming increasingly complex and distinctive.

Private sector academics, technologists, businesspeople, and entrepreneurs who are shaping such technologies – including members of the Council – are well positioned to provide insights into this changing landscape. As described in our August 2022 Letter, the USG has long recognized that traditional financial institutions, like banks and money transmitters, have access to information and technology necessary to enable the USG to identify and prevent illicit activity. Major players in the digital asset ecosystem are similarly positioned to help the government to innovate and develop techniques to help combat illicit finance through responsible innovation that is fit for purpose.

**b. Building consumer financial and digital literacy can make the digital asset ecosystem safer and more beneficial for all users.**

We strongly support efforts to build financial and digital asset literacy among the public. We think that we can build a safer, and more resilient ecosystem by educating the public who seek to reap the benefits of digital assets. We also believe that transparency is key to ensuring that consumers receive the full benefits of the digital asset space and the technologies that support them. The general public should understand how digital assets work (and do not work), the key players in the space, how trust is earned and maintained, and the potential risks that digital assets may share with other financial products, as well as those that are unique to the digital asset space. Armed with this knowledge, consumers will be well equipped to make informed decisions based on their own goals and risk tolerance – decisions that make the digital asset ecosystem safer and more beneficial for all.

**c. The USG should consider exceptive relief and regulatory sandboxes to afford the digital asset industry opportunity to innovate to solve the challenges posed by illicit finance.**

We believe that increasing our collective understanding of the risks and benefits of digital assets will require allowing technologies room to grow. It is only by providing the players in this space opportunities to innovate that we will begin to understand the full potential of this technology. Beyond keeping open lines of communication with the digital asset industry, as we described in our August 2022 Letter, the USG should consider the use of exceptive relief and regulatory sandboxes to allow for experimentation that could enable public and private partners to gather knowledge and pursue effective, innovative regulation. For example, several U.S. states have established regulatory sandboxes to help foster responsible innovation and explore the potential expansion of financial products and services that digital assets can offer their residents.<sup>4</sup> These sandboxes provide a safe space for the digital asset industry to explore the potential benefits that their innovation can bring to consumers and the broader financial system, while providing the necessary legal and regulatory guardrails in this space.

By fostering open dialogue, consumer financial and digital asset literacy, and the use of exceptive relief and regulatory sandboxes, we believe that the United States can position itself as the world leader in digital asset innovation and remain the central player in the global financial system.

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<sup>4</sup> See e.g., Ariz. Rev. Stat. Ann. §§ 41-5601 *et seq.*; Fla. Stat. Ann. §§ 559.952 *et seq.*; Utah Code Ann. §§ 13-55-101 *et seq.*; W. Va. Code Ann. §§ 31A-8G-1 *et seq.*; Wyo. Stat. Ann. §§ 40-28-103 *et seq.*

**III. Question D. 1. “How can Treasury maximize public-private and private-private information sharing on illicit finance and digital assets?”**

Existing initiatives and partnerships such as FinCEN Exchanges and other programs have served to increase public-private sector collaboration and coordination. However, we think that additional and more robust public-private information sharing frameworks would facilitate stronger management of illicit finance risks in the digital asset ecosystem.

**a. Treasury should consider establishing industry-hosted and other bidirectional information sharing programs to expand the USG’s understanding of the digital asset ecosystem.**

We believe that collaboration between the public and private sectors would be most effective if information flows more freely in both directions. As such, while the FinCEN Exchange program has been a very useful starting point for facilitating USG-led discussions, we also propose exchanges hosted and led by industry leaders to further expand the USG’s understanding of the industry and relevant technologies. The private sector is well-equipped and committed to provide the USG with insight into the industry’s perspective on the digital asset landscape to assist in the investigation and prosecution of financial crimes. These meetings should include a safe harbor for private industry participants so that they feel empowered to share insights freely with the USG. Conversely, we hope that the USG will provide more frequent and useful information to digital asset industry partners to ensure the private sector is best positioned to detect and prevent illicit finance.

The Treasury-led Financial and Banking Information Infrastructure Committee (“FBIIC”) and Financial Services Sector Coordinating Council (“FSSCC”) are examples of successful public-private collaboration. Another example of successful information sharing efforts between national government and industry players is the UK’s Joint Money Laundering Intelligence Taskforce (“JMLIT”). JMLIT, which we previously discussed in our February 2022 Letter, demonstrates the power of two-way law enforcement and financial sector partnerships. JMLIT, which is part of the UK’s National Economic Crime Centre, is a private-public coalition of over 40 financial institutions collaborating with five law enforcement agencies and other UK regulators to facilitate information sharing on new typologies, existing vulnerabilities, and live tactical intelligence. Since its inception in 2015, JMLIT has supported nearly 1,000 law enforcement investigations leading to more than 280 arrests and the seizure of

over £86 million.<sup>5</sup> Through JMLIT, the UK has also identified over 7,400 suspect accounts linked to money laundering activities and has commenced over 6,000 internal investigations.<sup>6</sup> To facilitate the two-way flow of information, the UK government has shared over 60 “JMLIT Alert” reports with the broader financial industry to deepen the industry-government partnership and enhance monitoring and enforcement of financial crimes nationwide.<sup>7</sup> JMLIT is widely viewed as an international example of best practice for government-private sector information sharing, and we recommend the USG consider creating a similar body or program in the United States to enable the private sector to serve as a more effective first line of defense against illicit finance.

**b. Treasury should establish a public-private 24/7 rapid-response communication network to monitor for and share intelligence on illicit finance risks.**

We propose that FinCEN consider establishing and hosting a 24/7 public-private rapid response communications network across national boundaries. FinCEN currently participates in similar – albeit governmental-only – networks, such as the Rapid Response Program (“RRP”). RRP facilitates partnership between FinCEN, U.S. law enforcement, and foreign agencies to help victims and their financial institutions recover funds stolen as a result of cyber-enabled financial crime schemes, including business email compromise.<sup>8</sup> We understand the RRP activates when a criminal complaint is reported, and then proceeds to open an investigation and coordinate sharing of financial intelligence with financial intelligence units (“FIUs”) of allied foreign countries. Through such information sharing, FinCEN encourages foreign authorities to intercept fraudulent transactions, freeze funds, and recall payments under the authority of their own respective legal and regulatory frameworks. Thanks to the RRP’s efforts, FinCEN has assisted in the successful recovery of over \$1.1 billion across 70 jurisdictions.

While public-sector only networks like RRP are a good start, including private sector actors can allow FinCEN and other USG agencies to have fuller insight into real-time threats impacting industry. With the participation of the U.S. Department of Justice, Federal Bureau of Investigation, and other USG agencies, along with the

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<sup>5</sup> Nat’l Econ. Crime Ctr., *Successes of JMLIT*, Nat’l Crime Agency, <https://www.nationalcrimeagency.gov.uk/what-we-do/national-economic-crime-centre> (last visited Oct. 21, 2022).

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *FinCEN Fact Sheet: Fact Sheet on the Rapid Response Program (RRP)*, Fin. Crimes Enf’t Network, at 1 (Feb. 11, 2022), <https://www.fincen.gov/sites/default/files/shared/RRP%20Fact%20Sheet%20Notice%20FINAL%20508.pdf>.

private sector, a similar network in the digital asset context could facilitate swift and coordinated action to address illicit finance risks.

**c. We recommend that the USG strategically leverage sections 314(a) and 314(b) of the USA PATRIOT Act to deepen engagement with the digital asset industry.**

While real-time information sharing through the proposed 24/7 communication network will be critical to combat financial crimes in the digital asset space in the United States and worldwide, we also propose that the USG strategically leverage sections 314(a) and 314(b) of the USA PATRIOT Act<sup>9</sup> to engage industry participation more deeply. Through regulations established under these provisions of the USA PATRIOT Act, federal, state, local, and European Union law enforcement agencies have already connected with approximately 14,000 financial institutions to identify accounts and transactions of individuals likely to be involved in terrorism or money laundering.<sup>10</sup> However, these legal frameworks may need to be modified to better serve and account for the interests of both law enforcement and the digital asset community. For example, the type of personally identifying information shared with financial institutions for screening and the mechanisms used to share such information may need to be tailored to the digital asset space.

We encourage the USG to work with Congress and the industry to enhance these existing information sharing frameworks.

**d. The USG should consider creating international digital asset coordination centers to combat illicit finance in the digital asset space and promote and understand innovation.**

Finally, newly created national and international digital asset coordination centers could be used as a focal point for combating illicit finance and promoting and understanding innovation. These centers could facilitate public and private sector training, enable real-time information sharing, and promote the dissemination of shared analysis related to criminal networks and emerging money laundering typologies. While such coordinated information sharing typically takes place through mutual legal assistance treaties (“MLATs”), the MLAT process is often unable to

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<sup>9</sup> Pub. L. No. 107-56, §§ 314(a), (b), 115 Stat. 272, 307, 308 (2001). Section 314(a) requires the Secretary of the Treasury to encourage regulatory and law enforcement authorities to share information with financial institutions regarding individuals, entities, and organizations engaged in or suspected to be engaged in terrorist or money laundering activities. Section 314(b) permits financial institutions to share information with one another to identify and report these parties to the federal government.

<sup>10</sup> *FinCEN's 314(a) Fact Sheet*, Fin. Crimes Enf't Network, at 1 (Oct. 18, 2022), <https://www.fincen.gov/sites/default/files/shared/314afactsheet.pdf>.



match the pace of international financial criminals. Cross-border digital asset coordination centers could help address gaps in enforcement left outstanding by the MLAT process.

The Egmont Group is a prime example of a public-private collaborative project. The Egmont Group has achieved particular success in countering terrorist financing and money laundering crimes by groups such as ISIS and Al Qaeda.<sup>11</sup> While we recognize that certain limitations on information sharing may exist due to local data protection and secrecy laws in various jurisdictions, we recommend that Treasury and the USG look to organizations such as the Egmont Group and FinCEN's RRP as models for overcoming or operating within such constraints.

Whether through additional FinCEN exchanges led by U.S. industry partners, increased cross-border collaboration through coalitions or collaborative centers, or some combination of these options, we see a wide breadth of opportunity for increased cooperation between the private and public sectors. With increased two-way information sharing between both groups, greater transparency and effectiveness and criminal enforcement in the digital asset space is achievable. Our objective remains to support and partner with the USG toward these goals and we would welcome the opportunity to further discuss any of these proposals.

#### **IV. Avoiding Unintended Consequences**

Active public-private sector communications, consumer education, exceptive relief and regulatory sandboxes, and robust information sharing frameworks have the promise of not only making the digital asset ecosystem safer and more beneficial for all, but reducing the chances that USG actions may have unintended consequences that could stifle innovation, fracture the digital asset community, and push legitimate actors out of the ecosystem.

The Council supports the USG's efforts to combat illicit activity and protect consumers and businesses. These efforts should be grounded in a thorough understanding of the technologies that underlie the ecosystem and should be targeted to ensure that they reduce the risk of bad behavior while maximizing innovation that is beneficial to consumers and the wider economy. For instance, many have perceived OFAC's recent designation of Tornado Cash as an attack on the entire digital asset ecosystem even if it may have been well-intentioned. This designation has had repercussions far beyond its effect on a single technology. Today, innovators are worried that their technology may be OFAC's next target or the target of other USG

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<sup>11</sup> *Annual Report 2014-2015*, Egmont Grp. Fin. Intel. Units, at 14 (2015), [https://egmontgroup.org/wp-content/uploads/2021/09/Egmont\\_Group\\_Annual\\_Report\\_2014-2015.pdf](https://egmontgroup.org/wp-content/uploads/2021/09/Egmont_Group_Annual_Report_2014-2015.pdf).

agencies. Designating a self-executing autonomous protocol also impacts individuals who may have legitimate reasons to mask their identities. For instance, as money becomes digital money on-chain, transactions will be public on the blockchain. Therefore, employees of startups may be paid in tokens and not wish to make public how much they are paid. In addition to privacy issues, the integrity of the blockchain is deteriorating as US-based validators are avoiding reporting transactions coming through Tornado Cash, potentially bifurcating the blockchain.<sup>12</sup> Such trends have the potential to stifle innovation and push digital asset innovation outside of the United States, where it will be more difficult for the USG to have a positive impact on this space.

**a. Regulating the digital asset industry exactly like the traditional financial industry – notwithstanding the unique and distinct features of digital assets – may fracture the digital asset market by pushing innovators and business offshore.**

Active dialogue between the USG and innovators can help reduce the risk of ineffective or even detrimental regulations and shift the focus to innovations that can help address and identify risks successfully. As an example, as we previously discussed in our February and August 2022 Letters, proposals such as requiring reporting of certain transactions between digital asset exchanges and self-hosted wallets, similar to Currency Transaction Reports (“CTRs”) in the cash context, would likely be ineffective and unnecessary.<sup>13</sup> Unlike cash transactions, anyone, including USG agencies, can review a blockchain’s transaction history to understand how wallets are being used and track their transaction history. Applying CTR-like requirements to digital asset transactions will not yield the information the government seeks and will only serve to unduly burden innovation and slow progress.

Similarly, requiring know-your-customer (“KYC”) verification by VASPs of third-party self-hosted wallets with whom VASPs have no contractual relationship could be equally detrimental to the U.S. digital asset community. Contrary to a common depiction of self-hosted wallets as inherently suspicious, these wallets simply enable individuals to participate in financial activity without relying on traditional,

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<sup>12</sup> *Base Layer Neutrality*, Paradigm & Crypto Council for Innovation (Sept. 8, 2022), <https://www.paradigm.xyz/2022/09/base-layer-neutrality>

<sup>13</sup> In December 2020, FinCEN proposed “Requirements for Certain Transactions Involving Convertible Virtual Currency or Digital Assets.” The proposal would impose a reporting requirement for certain digital asset transactions deemed to be a “virtual currency analogue to the [current] CTR reporting requirement” under existing regulations implementing the BSA. *See* 31 C.F.R. § 1010.311. The rulemaking appeared in the recent Spring 2022 Unified Agenda, with an expected “Final Action” in March of 2023. <https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202204&RIN=1506-AB47>

legacy financial institutions. It would be very difficult and expensive, if not technologically impossible in some circumstances, for otherwise compliant and well-intentioned VASPs to effectively KYC all self-hosted wallets they may interact with, leaving VASPs with no choice but to either de-risk self-hosted wallets or to exit the U.S. market.

As a result, attempts by the USG to regulate the digital assets industry in the same manner as the traditional financial sector could lead to the unintentional fracturing of the digital asset ecosystem into two markets. One market would likely be dominated by existing financial institutions that are compliant but may be reluctant to transact with entities they consider to be “higher risk,” such as DeFi platforms, self-hosted wallets, and underserved and unbanked individuals. The other market would be comprised of all other entities in the ecosystem—even otherwise legitimate businesses—that may be driven offshore or underground to survive.

**b. A fractured digital assets market can undermine the USG’s enforcement efforts and have other detrimental effects.**

A fractured digital assets market will deny the USG and the broader financial system the benefits of the innovative products and extensive insights ousted industry players could have provided had they been able to continue operating in the U.S. Also, entities driven underground would pose a greater threat to the U.S. financial system and would be more likely to facilitate illicit activity.

Such a division of the digital asset ecosystem will have other potentially unintended consequences, including:

- Impeding law enforcement by driving innovative products or providers like DeFi, NFTs, certain VASPs, and certain wallet providers offshore beyond the reach and collaboration of U.S. law enforcement;
- Creating substantial privacy and security issues, for instance, by requiring consumers to turn over sensitive personal data to numerous businesses;
- Further excluding underserved and unbanked persons, particularly those in developing countries, from the global financial system; and
- Stifling innovation in new technologies that may allow for KYC-like controls while protecting privacy.

**c. Before imposing new regulations, the USG should work with the digital asset industry to leverage innovative technologies to address illicit finance risks.**

We recommend that Treasury and the USG work more proactively with private industry to explore innovative approaches that could enable companies to comply with existing regulations. Such innovations can include digital identification tokens, zero-knowledge proof credentials, and sophisticated forms of encryption that may facilitate compliance processes like KYC while also protecting privacy. Zero-knowledge proof credentials show particular promise as they can allow customers to validate their identity, through an individualized token or other unique digital marker, without revealing personally identifying information. Public-private collaboration and blockchain analytics tools can also enable more dynamic and effective approaches to implementing list-based sanctions against targets in the digital asset space. For instance, OFAC could leverage these innovative tools to trace the movement of assets across different digital wallets and blockchains and use that information to continuously update sanctions lists and thwart evasion efforts. In turn, private sector players would be better equipped to detect and deter activities involving sanctions targets. Further, zero-knowledge proof credentials could allow users to prove that they are not a sanctioned party while maintaining their privacy, particularly in situations where their digital wallet is tainted by assets that were received from a sanctioned wallet without their permission (e.g., dusting).

There is a pressing need for the USG to work with the private sector to achieve privacy and compliance solutions extending beyond the mere imposition of new KYC requirements. As we discussed in our August 2022 Letter, many U.S. adults who are underserved represent communities that have historically been victim to discriminatory or exclusionary financial practices. This history of discrimination and exclusion has led many to distrust legacy financial institutions. As an alternative, many underserved people have turned to services like check-cashing services and payday loans, services that are more likely to be associated with fraud and predatory practices.<sup>14</sup> The over-regulation or mis-regulation of the digital asset industry could lead to the same mistrust of the new innovative products and solutions that the digital asset industry has to offer, suffocating the ecosystem before it has the opportunity to reach and benefit underserved individuals. Through collaboration, the USG and industry can develop mechanisms to realize the full benefits of digital assets to benefit underserved people at home and those fighting tyranny and oppression abroad.

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<sup>14</sup> <https://consumer.ftc.gov/consumer-alerts/2020/05/paying-and-paying-and-paying-payday-loans>

## V. Recommendations

For your convenience, we have summarized our recommendations below, and keyed each recommendation to one or more questions in the Request.

- a. The USG should collaborate with the private sector to establish and foster open communication to find effective solutions to the challenges posed by illicit finance. *Questions C.1., D.2., D.5., and D.6.*
- b. Prioritize financial literacy for private sector businesses and consumers to ensure that they understand the risks associated with illicit finance and are able to make informed decisions. *Question D. 2.*
- c. Allow for experimentation through exemptive relief and regulatory sandboxes, which can facilitate the development of crypto-native tools that leverage blockchain technology and transparency to create a compliant ecosystem that effectively combats illicit finance. *Questions D.2., D.3., D.5., and D.7.*
- d. Establish industry-hosted and other bidirectional information sharing programs to expand the USG's understanding of the digital asset ecosystem. *Questions D.1., D.2., and D.6.*
- e. Establish a FinCEN-hosted 24/7 rapid-response communications network to monitor for and share intelligence on illicit finance risks. *Questions D.1. and D.6.*
- f. Strategically leverage authorities under Sections 314(a) and 314(b) of the USA PATRIOT Act to deepen engagement with the digital asset industry. *Questions D.1. and D.6.*
- g. Create international digital asset coordination centers to combat illicit finance in the digital asset space and promote and understand innovation. *Questions C.1. and D.1.*
- h. Before imposing new regulations, the USG should work with the digital asset industry to leverage innovative technologies to address illicit finance risks. *Questions B.1., C.1., and D.1.*

## **VI. Conclusion**

We thank Treasury for the opportunity to weigh in on these critical issues. We believe the Request, and this response, is part of the larger dialogue between public and private institutions we seek. Ultimately, the President's goals articulated in the Executive Order can be best achieved through sensible regulation and responsible innovation. As we respectfully submitted in the August 2022 Letter, legislators and regulators should focus on common sense, pro-business policies to support private sector activity and thereby secure America's leadership in the emerging digital global financial system, promoting responsible innovation, economic growth, safety, inclusion and equity, and economic and national security. By continuing to work together and learn from each other, we believe that we can and will continue to innovate in the digital asset ecosystem to find solutions that will make the financial system more secure, innovative, inclusive, and safer for all Americans.

Respectfully submitted,

/s/ Sheila Warren

Sheila Warren  
Chief Executive Officer  
Crypto Council for Innovation

### Exhibits:

- A. August 2022 Letter
- B. February 2022 Letter