GENERAL CATALYST INSTITUTE

Response to Senate Banking Committee Digital Asset Market Structure Request for Information

Date: August 4, 2025

To: Chairman Tim Scott, Senator Cynthia Lummis, Senator Bill Hagerty, and Senator Bernie Moreno

From: General Catalyst Institute

Re: Digital Asset Market Structure Request for Information

Executive Summary: The General Catalyst Institute appreciates the opportunity to respond to the Senate Banking Committee's Request for Information on digital asset market structure legislation. As an organization focused on advancing responsible innovation and building a more resilient future, we believe that thoughtful digital asset regulation is critical to maintaining U.S. leadership in financial innovation while protecting consumers and market integrity.

With over 150 investments in financial technology and digital assets, General Catalyst seeks a framework that allows responsible innovation to flourish. We commend the Committee's efforts to build upon the foundation established by the CLARITY Act and support the goal of creating a comprehensive regulatory framework that provides clarity, promotes innovation, and ensures appropriate consumer protections. We look forward to working with the Committee to ensure that the U.S. remains a preeminent leader in the digital economy.

I. Regulatory Clarity and Tailoring

1. **Jurisdictional Balance Between CFTC and SEC:** We believe the proposed legislation strikes a reasonable balance in allocating jurisdiction between the CFTC and SEC, but recommend the following refinements:

a. Ancillary Assets Definition:

The concept of ancillary assets provides a useful framework for distinguishing between digital assets that function as securities versus commodities. However, we recommend:

- Adding specific safe harbors for tokens that have achieved sufficient decentralization as defined by Congress.

- Clarifying the treatment of governance tokens that provide voting rights but no economic benefits
- Establishing clear metrics for determining when a token transitions from security to commodity status
- Add a section that covers utility tokens that help to run critical infrastructure such as communications and data. Examples include projects that enable the storage and transmission of data on the blockchain.
- Recognize that decentralization is a spectrum, not a binary state. Establish multiple tiers of regulatory treatment based on a project's position on this spectrum combined with other protective features
- Account for technical necessity: some coordination is required for protocol upgrades, security patches, and initial bootstrapping, which should not automatically trigger securities treatment if appropriate safeguards exist

b. Reliance on Existing Concepts:

We support leveraging existing frameworks like the one set forth by the Howey Test, but recommend:

- Creating digital asset-specific guidance that addresses unique characteristics of blockchain technology. Blockchain technology is unique as it is governed by an encrypted digital ledger, with some immutable features like permissionlessly interacting with the ledger at all times.
- Establishing a presumption that *fully* decentralized networks with no central authority are not securities
- Providing clarity on the treatment of airdrops and other distribution mechanisms unique to digital assets

c. SEC Rulemaking on Investment Contracts:

We strongly support mandating SEC rulemaking to clarify the definition of "investment contract." The rulemaking should:

- Establish clear, objective criteria for determining security status
- Create safe harbors for specific token categories (utility tokens, governance tokens, etc.)
- Provide a pathway for tokens to transition from security to non-security status
- Consider areas of DeFi that could be inadvertently affected by investment contract definitions.
- This includes DeFi platforms that allow people to connect stablecoin wallets and trade tokens representing commodities, futures, and options, and that do not control the underlying assets or issuance of those tokens.

d. Revisiting Other Terms: We recommend that Congress revisit other terms within the existing definition of security, such as "note," to accommodate digital assets and prevent future SEC interpretations that could inappropriately expand the scope. This could include explicit exclusions for digital assets that function primarily as mediums of exchange or utility without investment expectations.

e. Token Taxonomy: Legislation should provide for a specific token taxonomy based on underlying characteristics, such as functionality (e.g., payment, utility, governance, or asset-backed), to remain merit- and technology-neutral. This taxonomy could categorize assets into securities, commodities, or a new hybrid class, with guidelines ensuring adaptability to evolving technologies.

f. Clarifying Technology Functions: Legislation should clarify that technology functions inherent to distributed ledger networks, such as running consensus algorithms, executing smart contracts, staking, or mining, are not inherently securities activities unless they involve investment contracts. Safe harbors should be established for participants in these functions when performed in a decentralized manner.

g. Grandfathering Existing Tokens: Existing tokens should be grandfathered into a new classification framework, with a grace period for compliance based on their issuance date and current decentralization level, allowing for self-certification or expedited review.

h. Addressing Past Violations: Congress should provide relief for alleged violations of securities laws pre-effective date through a conditional safe harbor, requiring compliance criteria such as public disclosures, no ongoing fraud, and potential disgorgement of ill-gotten gains without disqualification from future offerings.

2. **Modernizing Securities Regulations:** We support the proposed modernization efforts and recommend:

- Creating a new "Regulation DA" specifically tailored to digital asset securities.
- Establishing scaled disclosure requirements based on project maturity and market cap.
- Allowing for continuous offerings that reflect the dynamic nature of token economies.
- Creating expedited pathways for smaller issuers similar to Regulation A+ but adapted for digital assets.

We also recommend specific relief in areas like Regulation Crowdfunding (increasing caps for digital assets), Regulation A (streamlining for tokenized assets), Regulation D (clarifying SAFTs as valid for non-securities transitions), and Rule 144 (adapting holding periods for blockchain-tracked transfers).

3. **Determination Mechanism:** We strongly support establishing a formal determination process whereby market participants can obtain binding guidance on a digital asset's status. We recommend:
- Creating a 90-day review period for determination requests
- Establishing an appeals process for adverse determinations
- Publishing anonymized determination letters to provide market guidance
- Allowing for conditional determinations pending certain milestones

4. **Choice of Jurisdiction:** Legislation should allow market participants to choose between SEC or CFTC jurisdiction for borderline assets, provided they meet predefined criteria (e.g., via self-certification with audit), to promote flexibility while maintaining oversight through joint agency review.

II. Investor Protection

5. **Disclosure Requirements:** We believe disclosure requirements should be tailored to the unique characteristics of digital assets to ensure that innovation of all kinds can occur here, while also protecting against the negative effects of regulatory arbitrage and offshoring.

a. Information Requirements

The proposed framework provides a good starting point, but we recommend:

- Technical disclosures about smart contract functionality and security audits
- Clear descriptions of token economics and supply dynamics
- Governance structure and decision-making processes
- Interoperability with other protocols and dependencies

The specified information is generally appropriate but underinclusive in technical aspects; overinclusive elements could be scaled for smaller issuers. An example of an overinclusive element that can be scaled for smaller issuers could be an exception of information around interoperability and smart contract functionality for small memecoin issuers, such as community token projects and memecoins. This would ensure smaller scale projects aren't overly burdened or effectively pushed offshore.

b. Ongoing Disclosure

We support semi-annual disclosures but recommend:

- Real-time disclosure of material changes to protocol parameters.
- Quarterly updates for projects above certain market cap thresholds.
- Simplified reporting for smaller projects and Decentralized Autonomous Organizations (DAOs).

c. How Often: Ongoing disclosure should be semi-annual as proposed, with real-time for material events to balance burden and protection.

d. Cessation of Disclosure Obligations

We support the concept of sunsetting disclosure requirements and recommend:

- Clear metrics for determining sufficient decentralization
- Community governance as a factor in determining disclosure cessation
- Continued disclosure of material technical changes even after cessation

The proposed mechanism is appropriate but should include decentralization thresholds like network node distribution.

e. Tailoring: Information should be tailored by issuer size (e.g., exemptions for micro-cap) and offering type (e.g., less for utility tokens).

f. New Form: A new form for digital asset offerings should be required, incorporating blockchain-specific fields, rather than updating existing forms.

6. **Restrictions on Disposition:** Congress should consider restrictions on ancillary asset dispositions by related persons, such as lock-up periods or volume limits in affiliate transactions, beyond conflicts disclosures, to prevent market manipulation.

a. Factors for Common Control: The factors proposed are appropriate but should be modified to include voting power thresholds and economic interest metrics for clearer determination.

7. **Role of SIPC:** Legislation should clarify SIPC's role by extending protections to digital assets custodied by broker-dealers, with SIPC applying to digital asset securities as customer property.

a. Application: SIPC protection should apply to digital assets, distinguishing securities (full protection) from commodities (limited to custody agreements).

b. Stablecoins as Cash Equivalents: Payment stablecoins should be treated as cash equivalents for SIPC purposes if backed 1:1 by reserves of cash or treasuries.

8. **Bankruptcy Code Amendments:** The Bankruptcy Code should be amended to address digital asset intermediary failures by entity type, prioritizing customer asset segregation.

a. New Subchapter: A new "digital asset broker" subchapter should be added, similar to commodity brokers, with automatic stay exceptions for on-chain settlements.

b. Harmonization: For broker-dealers, the Code should harmonize with SIPA to exclude custodied digital asset commodities from the estate.

9. **Other Investor Protections in Insolvency** Legislation should mandate priority claims for customer assets, require insurance funds, and establish a federal resolution authority for large intermediaries.
10. **Proof of Reserves** We strongly support requiring monthly proof of reserves for digital asset custodians, with:

- Third-party attestation requirements
- Standardized reporting formats
- Real-time on-chain verification where technically feasible
- Clear segregation between customer and proprietary assets

III. Trading Venues and Market Infrastructure

11. **Centralized Intermediaries** We support allowing intermediaries to facilitate trading of both digital asset securities and commodities, with appropriate safeguards:

a. Mixed Trading

- Create a unified regulatory framework for digital asset trading venues
- Allow single platforms to offer both security and commodity tokens with appropriate segregation
- Establish clear market conduct rules applicable to all digital assets

b. Integration with Traditional Assets

- Support gradual integration of digital and traditional asset trading
- Require appropriate investor protections and disclosures
- Ensure interoperability standards are maintained

c. New Registration Pathways

- Create a "Digital Asset Exchange" license that combines elements of securities and commodities regulation
- Establish proportionate requirements based on trading volume and asset types
- Allow for regulatory sandboxes to test new models

d. Other Activities: Intermediaries should be permitted activities like staking services, lending, and DeFi integrations, with changes to exempt non-custodial facilitation from full broker-dealer requirements.

12. **Role of Broker-Dealers:** Legislation should clarify broker-dealer roles by allowing them to operate nodes or provide wallet services, addressing complexities like on-chain execution through tailored exemptions and tech-neutral rules.
13. **Vertical Integration:** Legislation should address vertical integration benefits (efficiency, innovation) and risks (conflicts, monopolies) by requiring disclosures, firewalls, and antitrust reviews for large entities.
14. **Market Structure Issues:** Safeguards like Regulation NMS (adapted for digital assets), Regulation SCI, Market Access Rule, and Rule 15c2-11 should apply to centralized intermediaries, with proportionality for smaller venues to enhance protection without stifling innovation.

IV. **Custody**

15. **Digital Asset Custody Challenges**

We recommend addressing custody through:

a. Differentiated Treatment

- Recognize the unique technical requirements of digital asset custody
- Allow for qualified custodians to provide services for all digital asset types
- Establish clear standards for key management and security

Digital asset securities custody should be treated similarly to non-securities but with additional disclosure for investment risks.

b. Technology-Specific Requirements

- Mandate multi-signature arrangements for customer assets
- Require regular security audits and penetration testing
- Establish insurance requirements proportionate to assets under custody

Custody of digital assets should differ from traditional assets by emphasizing on-chain segregation and tech standards for the security and management of private keys which are required to access digital assets on a blockchain. This is important because the unique characteristics of digital assets means how they are safeguarded is unique and requires important digital and physical safeguards to protect against nation state-level hackers who target digital assets.

c. Cold/Hot Storage: Legislative changes should mandate standards for cold/hot storage, such as minimum cold storage percentages for custodied assets.

d. Permitted Entities: Qualified custodians, banks, and licensed fintechs should be permitted, with state-licensed entities eligible federally.

e. Qualifications: Regulatory standards should include capital requirements, cybersecurity certifications, and FinCEN registration.

f. Commingling Exceptions: Reasonable exceptions for operational pooling in settlements, with strict reconciliation.

g. Self-Custody: Changes should explicitly preserve self-custody rights without mandates for intermediaries.

V. Illicit Finance

16. **Existing Laws and Practices:** Digital asset participants follow BSA/AML via FinCEN, state money transmitter laws, and OFAC sanctions; practices include KYC, transaction monitoring, and the use of blockchain analytics and intelligence tools.

a. Usefulness: Distributed ledger technology promotes compliance through transparency and traceability, enabling better AML/sanctions enforcement.

b. Frameworks: International (FATF), federal (FinCEN, OFAC), and state (NYDFS BitLicense) frameworks address risks via risk-based supervision.

17. **Anti-Money Laundering Framework:** We support proportionate AML/KYC requirements that:

- Leverage blockchain's transparency for enhanced compliance
- Avoid requirements that would eliminate privacy-preserving technologies
- Focus on risk-based approaches
- Support development of privacy-preserving compliance tools

a. Additional Authorities: Provide FinCEN/OFAC with enhanced data-sharing tools and blockchain analytics funding, without broad bans on innovation.

b. Mixers and Tumblers: They warrant attention; combat illicit use via licensing for compliant services, while protecting privacy through zero-knowledge proofs.

c. Financial Institutions: Intermediaries like exchanges, custodians, and stablecoin issuers should be considered financial institutions under BSA. Non-custodial software developers, validators, and people who publish open source code should not be.

d. IEEPA: Presidential authority under IEEPA should apply to digital assets for foreign threats, with clear guidelines.

e. Promoting Use: Legislation could mandate pilots for blockchain in BSA/KYC compliance, like shared ledgers for identity verification.

f. Pig Butchering Challenges: Challenges include cross-border coordination, anonymity tools, and rapid fund movement.

g. Existing Tools: Government can use enhanced blockchain tracing, international partnerships, and public education.

h. New Tools: New authorities for real-time transaction freezing and dedicated task forces. This includes ensuring FinCEN, OFAC, and other relevant regulators are appropriately funded and staffed to acquire, develop, and monitor new tools and analytics to address risks through technology utilizing the unique characteristics of blockchain technology.

VI. Banking Integration

18. **Banking Activities Authorization:** We support explicit authorization for banks to engage in digital asset activities:

- Custody services with appropriate safeguards
- Payment and settlement services
- Digital asset lending with prudential requirements
- Stablecoin issuance under appropriate frameworks
- This clarity is necessary; add activities like tokenization services and DeFi participation.

19. **State-Chartered Institutions:** State-chartered institutions should not require state-by-state licenses for payments and custody if federally supervised, with preemption for non-lending activities.
20. **Enabling Traditional Financial Institution Participation**

We recommend:

- Clear guidance on capital treatment of digital assets
- Compliance requirements tailored to the size and scope of companies business and risk profile.
- Support for bank-fintech partnerships
- Innovation offices within regulatory agencies
- Supervision reforms include dedicated fintech examiners and streamlined approvals.

21. **Rehypothecation:** Financial institutions should be permitted to rehypothecate digital assets with consent, restrictions on risk levels, and collateral haircuts.

VII. Innovation

22. **Foreign-Issued Digital Assets:** Legislation should address foreign-issued assets traded by U.S. consumers via extraterritorial application of disclosure rules and bans on sanctioned issuers.
23. **Financial Services Integration:** We strongly support the concept of integrated financial services platforms that can offer multiple asset types and services. This would:

- Reduce friction for users
- Enable innovation in financial products
- Promote financial inclusion
- Enhance competition with traditional financial institutions
- To encourage, Congress should amend laws for unified licensing and interoperability standards.
    - This ensures that instead of separate licences for different types of digital assets or services, a single comprehensive licence could be established.
- Congress could also introduce or mandate standards that ensure different digital asset protocols and platforms can communicate and interact seamlessly.

24. **Tokenization Barriers:** Barriers include unclear SEC rules on tokenized funds and custody.

a. Changes: Clarify via exemptions for tokenized securities and updated fund regulations.

b. Retail Access: Facilitate via lower thresholds for accredited investors in tokenized MMFs.

25. **Interest or Yield-Bearing Assets:** Legislation should regulate yield-bearing stablecoins like MMFs with reserve requirements.

a. Regulation: Yes, regulate similarly, with changes for on-chain transparency and redemption rules.

b. Rewards: Do not prohibit rewards; regulate as interest with disclosures.

26. **Decentralized Finance (DeFi):** We recommend a nuanced approach to DeFi regulation:

a. Exemption Structure

- Create clear exemptions for truly decentralized protocols
- Focus regulation on centralized points of control
- Establish objective criteria for determining decentralization
- Common sense threshold for smaller projects to be limited in regulatory burdens.

b. Safe Harbors

- Provide safe harbors for DeFi developers who follow best practices
- Distinguish between protocol developers and front-end operators
- Support responsible innovation while addressing risks
- Provide progressive safe harbors that recognize projects evolve toward decentralization over time
- Create a "Path to Decentralization" framework where projects can operate under safe harbor provisions while meeting transparency and user protection standards, even if not fully decentralized
- Clear pathway for protocol developers to have live projects with safe harbor provisions for early stage protocols.
    - Tests should be focused on transparency and responsible disclosures versus token ownership distribution.

- Safe harbor for pre-token projects that meet best practices and disclosure criteria (being open and transparent about their structure, code, and points of control.)
- **Example criteria for safe harbor eligibility:**
    - Published roadmap toward decentralization with measurable milestones
    - Non-custodial architecture from day one
    - Open source code with security audits
    - Clear disclosure of current centralization points and plans to address them
    - No ability to arbitrarily change core protocol rules
- Platforms like Ostium Labs demonstrate that projects can provide robust user protections through non-custodial architecture and transparency, even while still developing their decentralization mechanisms

- Platforms such as Ostium Labs demonstrate how DeFi can provide sophisticated financial services (like derivatives trading) in a truly decentralized manner, without centralized control points that would warrant traditional securities regulation. Such protocols should benefit from the proposed safe harbors when they meet decentralization criteria.

Changes to prior attempts: Refine decentralization tests to include code openness/transparency and governance diffusion. These factors are crucial for determining whether a digital asset is sufficiently decentralized, which has significant implications for its regulatory classification, particularly concerning its status as a security or commodity, and for cessation of disclosure obligations.

The shortcomings of previous legislative efforts, including the CLARITY Act's foundation, are that they may not have:

- Provided sufficiently clear metrics for determining when a token transitions from security to commodity status based on decentralization.

- Explicitly defined or mandated the consideration of code openness and governance diffusion as concrete, measurable factors in decentralization tests.

- Fully articulated how to assess a "fully decentralized network with no central authority" in a way that provides digital asset-specific guidance and accounts for the unique characteristics of blockchain technology, such as its encrypted digital ledger and immutable features.

27. **Non-Fungible Tokens:** Legislation should exempt NFTs from securities rules if not fractionalized or yield-bearing, treating them as collectibles with AML applicability.
28. **Tokenization of Real-World Assets:** Support via safe harbors for tokenized RWAs, with tailored disclosures and integration into existing frameworks for the underlying assets (commodities, securities, etc.).

29. **Decentralized Physical Infrastructure Networks:** Address via exemptions for DePINs as utilities, focusing regulation on centralized operators.
30. **Mandating Innovation Consideration:** Congress should mandate the SEC consider innovation in rulemakings to balance with protection.
31. **SEC Innovation Office:** Create a new office at the SEC for promoting innovation, with staff for guidance and relief requests.
32. **Interoperability:** Encourage via standards-setting bodies and incentives for cross-chain protocols.
33. **Regulatory Sandboxes:** We strongly support the creation of regulatory sandboxes:

a. Structure

- Multi-agency sandboxes covering SEC, CFTC, and banking regulators
- Clear graduation criteria and pathways to full authorization
- Time-limited exemptions with possibility for extension

b. Cross-Border Considerations

- Mutual recognition agreements with other jurisdictions
- Support for global sandbox initiatives
- Streamlined processes for multi-jurisdictional operations

c. Tokenizing Securities: Structure to test tokenization with waived disclosure rules.

d. Interstate Sandbox: Create an interstate sandbox for licensing relief.

e. Joint Operation: Run jointly with CFTC, SEC, OCC, FDIC, and Treasury Department.

34. **SEC-CFTC Cooperation:** Encourage via joint rulemaking mandates and a digital asset SRO with dual participation.

VIII. Preemption

35. **Preemption of State Laws:** Federal legislation should preempt state laws on registration and disclosure for nationally traded assets, while preserving state fraud enforcement, to ensure uniformity.

Conclusion: The General Catalyst Institute believes that thoughtful digital asset regulation can position the United States as the global leader in financial innovation while protecting consumers and market integrity. We stand ready to provide additional

input and support the Committee's efforts to create a comprehensive regulatory framework for digital assets.

We sincerely appreciate the Committee's leadership on this critical issue and look forward to continuing engagement as this legislation develops.

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About GCI: Our mission is to promote global resilience by backing transformative technologies and shaping public policy that advances our societal impact. GCI's top priority will be to work with and serve as a trusted partner to governments and public policy leaders on how to respond, leverage, and adopt cutting-edge technology, like applied AI, during these transformative times.

About GC: General Catalyst is a global investment and transformation company with over $36 billion in assets under management. We partner with the world's most ambitious entrepreneurs to drive resilience and applied AI, investing in transformational companies and industries such as financial technology, digital assets, defense technology, healthcare, artificial intelligence, and energy innovation.