STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL

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Statement for the Record of the New York State Office of the Attorney General

Before the United States Senate Committee on Homeland Security & Governmental Affairs Permanent Subcommittee on Investigations

Public Hearing

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Thank you for the opportunity to present this statement for the record to the Permanent Subcommittee on Investigations of the United States Senate Committee on Homeland Security & Governmental Affairs. On behalf of the People of the State of New York, I offer these remarks about ethics, illicit finance, investor protection, and the risks inherent in the cryptocurrency marketplace. We would like to thank the Ranking Member Richard Blumenthal for inviting our office to make this submission, and to all members of the subcommittee for hosting this very important panel.

The Office of the Attorney General regulates securities and commodities for the State of New York. Among other things, my Office is charged with protecting the 20 million people in this state from investment fraud and maintaining the integrity of our markets. As such, our work also has considerable positive impact, not just for New Yorkers, but also for all Americans who may be impacted by the fraud my Office prosecutes. For instance, we reached a settlement with Coin Café, a Bitcoin dealer, that operated as an unregistered commodities dealer, misled customers about bitcoin prices, and charged egregious amounts for its wallet-hosting services.[1] Coin Café was required to provide full restitution to all New York customers and to any resident of the United States who requested it.[2] In addition, our settlement with KuCoin for operating as an unregistered securities broker-dealer and commodities broker-dealer required KuCoin to cooperate with all U.S. law enforcement,[3] and it paved the way for DOJ's settlement with KuCoin for anti-money

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[1] Press Release, *Attorney General James Secures $4.3 Million from Cryptocurrency Company for Defrauding Investors*, N.Y. STATE OFF. OF THE ATT'Y GEN. (May 18, 2023) https://ag.ny.gov/press-release/2023/attorney-general-james-secures-43-million-cryptocurrency-company-defrauding.

[2] *Id*.

[3] Press Release, *Attorney General James Secures More Than $22 Million from Cryptocurrency Platform for Operating Illegally,* N.Y. STATE OFF. OF THE ATT'Y GEN. (Dec. 12, 2023). https://ag.ny.gov/press-release/2023/attorney-general-james-secures-more-22-million-cryptocurrency-platform-operating.

laundering violations.[4] Additionally, my Office brought the first and only enforcement action against the largest stablecoin issuer, Tether, for recklessly and unlawfully covering up massive financial losses from investors. As a result of that settlement, our office got access to Tether's finances and was able to monitor Tether's statements that it was collateralized 1:1 to the U.S. dollar, which was to the benefit of all purchasers of USDT whether they were in New York or elsewhere.[5] In another example, we reached a settlement with Gemini for its Earn product, which lured hundreds of thousands of retail investors to invest cryptocurrencies based on the promise of above-market interest rates, while misleadingly claiming that the investments were low-risk investments with a vetted and trusted third party partner, Genesis.[6] In fact, Gemini understood that the loans were high-risk, with one Gemini board member comparing Genesis's financial condition to that of Lehman Brothers shortly before its collapse. Our settlement played a crucial role in returning money to Earn investors and requiring Gemini to improve its disclosures.[7]

My Office has been leading the fight against cryptocurrency fraud. Back in 2018 we issued the Virtual Markets Integrity Initiative Report, which warned of various unique risks endemic to the purchase of cryptocurrency, including conflicts of interest.[8] Over the last decade, the risks we warned of in 2018 have materialized, and, over the last year, we have shared those lessons with Congress.[9] My Office, together with state and local law enforcement across the country, must be able to continue protecting the public against the manifold risks posed by this asset class.

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[4] Press Release, *Kucoin Pleads Guilty To Unlicensed Money Transmission Charge And Agrees To Pay Penalties Totaling Nearly $300 Million*, U.S. DEP'T OF JUST. (Jan. 27, 2025). https://www.justice.gov/usao-sdny/pr/kucoin-pleads-guilty-unlicensed-money-transmission-charge-and-agrees-pay-penalties.

[5] Press Release, *Consumer Alert: Attorney General James Ends Virtual Currency Trading Platform Bitfinex's Illegal Activities in New York*, N.Y. STATE OFF. OF THE ATT'Y GEN., (Feb. 23, 2021) https://ag.ny.gov/press-release/2021/attorney-general-james-ends-virtual-currency-trading-platform-bitfinexs-illegal.

[6] Press Release, *Attorney General James Sues Cryptocurrency Companies Gemini, Genesis, and DCG for Defrauding Investors*, N.Y. STATE OFF. OF THE ATT'Y GEN., (Oct. 19, 2023) https://ag.ny.gov/press-release/2023/attorney-general-james-sues-cryptocurrency-companies-gemini-genesis-and-dcg.

[7] Press Release, *Attorney General James Recovers $50 Million from Crypto Firm Gemini for Defrauded Investors*, N.Y. STATE OFF. OF THE ATT'Y GEN., (Jun. 14, 2024) https://ag.ny.gov/press-release/2024/attorney-general-james-recovers-50-million-crypto-firm-gemini-defrauded.

[8] N.Y. STATE OFF. OF THE ATT'Y GEN., VIRTUAL MARKETS INTEGRITY INITIATIVE REPORT § 3 (2018), https://virtualmarkets.ag.ny.gov/#section3.

[9] *See* Letitia James, *Letter to Congress on Stablecoin Legislation*, Att'y Gen. N.Y., https://ag.ny.gov/sites/default/files/letters/letter-to-congress-on-stablecoins-letters-2025.pdf; Letitia James, *Letter to Congress on Digital Asset Regulation*, Att'y Gen. N.Y., https://ag.ny.gov/sites/default/files/letters/letter-to-congress-on-digital-asset-regulation-letter-2025.pdf;Letitia James, *Statement on Digital Asset Market Structure Legislation,* Att'y Gen. N.Y., https://www.banking.senate.gov/imo/media/doc/statement_of_the_ny_attorney_general_to_the_senate_banking_committtee_792025.pdf.

A. A Flood of Cryptocurrency Scams

Cryptocurrency fraud complaints to my Office have almost tripled over the last three years. Real Americans are being victimized in pig butchering scams, romance scams, and investment frauds usually perpetuated by anonymous actors who are often overseas. We are in the midst of a flood of crypto-related scams that have caused Americans to lose billions of dollars. We received complaints about a scam targeting Haitian immigrants in church groups where the fraudsters used the Lord, the Bible, and prayer groups to get unsuspecting New Yorkers to invest their hard earned money in a multilevel marketing crypto scam.[10] We froze the assets of scammers who targeted Russian language speakers by putting click bait ads on Facebook that then redirected them to fraudulent crypto investment schemes reaching all the way to Vietnam.[11] We also put a stop to fraudsters that sent unsolicited text messages to New Yorkers promising them lucrative remote work in exchange for an initial investment of stablecoins.[12]

The explosion in complaints isn't just occurring with the states. The FBI received 21% more cryptocurrency complaints in 2025 than it did in 2024.[13]

These complaints also come with real life financial losses from real life American families. The losses reported to our office in complaints related to crypto frauds and scams is nearly half a billion over the last five years. The FBI reported $11.4 billion in losses in 2025, an increase of 22% from 2024, with an average reported of $62,604.[14] The FTC has reported $1.78 billion in losses in 2025, a 25.6% increase from 2024.[15]

Overall, according to the data analytics firm TRM Labs, there was an estimated $158 billion in illicit cryptocurrency volume in 2025, an increase of nearly 145% from 2024.[16]

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[10] Press Release, *Attorney General James Sues Cryptocurrency Companies NovaTechFx and AWS Mining for Defrauding Investors of More Than $1 Billion*, N.Y. STATE OFF. OF THE ATT'Y GEN. (June 6, 2024) https://ag.ny.gov/press-release/2024/attorney-general-james-sues-cryptocurrency-companies-novatechfx-and-aws-mining.

[11] Press Release, *Attorney General James Freezes $300,000 in Cryptocurrency Linked to Scammers Targeting New Yorkers*, N.Y. STATE OFF. OF THE ATT'Y GEN. (June 18, 2025) https://ag.ny.gov/press-release/2025/attorney-general-james-freezes-300000-cryptocurrency-linked-scammers-targeting.

[12] Press Release, *Attorney General James Stops Text Message Scam Targeting Vulnerable New Yorkers Looking for Remote Job Opportunities*, N.Y. STATE OFF. OF THE ATT'Y GEN. (Jan. 9, 2025) https://ag.ny.gov/press-release/2025/attorney-general-james-stops-text-message-scam-targeting-vulnerable-new-yorkers.

[13] *See Federal Bureau of Investigations Internet Crime Report 2025* https://www.ic3.gov/AnnualReport/Reports/2025_IC3Report.pdf at 52.

[14] *Id.*

[15] FTC Consumer Sentinel Network, All Fraud Reports by Payment Method for Years 2024 and 2025. https://public.tableau.com/app/profile/federal.trade.commission/viz/FraudReports/PaymentContactMethods.

[16] *2026 Crypto Crime Report,* TRM LABS (2026), https://www.trmlabs.com/reports-and-whitepapers/2026-crypto-crime-report.

Furthermore, years after the fact, victims continue their efforts to recover billions of dollars lost to cryptocurrency firms that engaged in fraud such as FTX[17], Celsius[18], Genesis[19], and Terraform Labs[20] through bankruptcy proceedings.[21] And that doesn't even account for the losses sustained from investments in failed cryptocurrency tokens, meme coins, and NFTs due to the collapse of the 2022 cryptocurrency bubble, which accounts for hundreds of billions of dollars in losses.[22]

B. State and Local Law Enforcement Remain on the Front Lines Even as Federal Law Enforcement is Standing Down

At the same moment that a massive transfer of wealth is underway from American bank and retirement accounts to illicit, foreign actors, Congress is considering legislation that will reduce the number of cops on the beat by restricting state and local law enforcement. The Digital Asset Market Clarity Act ("CLARITY") seeks to interfere with and preempt states' investor protection laws as well as dilute our ability to prosecute fraud. This is a mistake. State and local law agencies do the lion's share of law enforcement work in this country.

[17] Press Release, DOJ, *Samuel Bankman-Fried Sentenced to 25 Years for His Orchestration of Multiple Fraudulent Schemes* (March 28, 2024), available at www.justice.gov/opa/pr/samuel-bankman-fried-sentenced-25-years-his-orchestration-multiple-fraudulent-schemes.

[18] Press Release, *Attorney General James Sues Former CEO of Celsius Cryptocurrency Platform for Defrauding Investors*, N.Y. STATE OFF. OF THE ATT'Y GEN. (Jan. 5, 2023) available at https://ag.ny.gov/press-release/2023/attorney-general-james-sues-former-ceo-celsius-cryptocurrency-platform-defrauding.

[19] Press Release, *Attorney General James Sues Cryptocurrency Companies Gemini, Genesis, and DCG for Defrauding Investors*, N.Y. STATE OFF. OF THE ATT'Y GEN. (Oct. 19, 2023) available at https://ag.ny.gov/press-release/2023/attorney-general-james-sues-cryptocurrency-companies-gemini-genesis-and-dcg; Press Release, *Attorney General James Secures Settlement Worth $2 Billion from Crypto Firm Genesis Global Capital for Defrauded Victims*, N.Y. STATE OFF. OF THE ATT'Y GEN. (May 20, 2024) available at https://ag.ny.gov/press-release/2024/attorney-general-james-secures-settlement-worth-2-billion-crypto-firm-genesis.

[20] Press Release, DOJ, *Crypto-Enabled Fraudster Sentenced For Orchestrating $40 Billion Fraud* (Dec. 11, 2025), available at https://www.justice.gov/usao-sdny/pr/crypto-enabled-fraudster-sentenced-orchestrating-40-billion-fraud.

[21] Comsure, *Crypto Exchange Collapses Have Led to $30-50 Billion in Investor Losses* (Sept. 24, 2025) https://www.comsuregroup.com/news/crypto-exchange-collapses-have-led-to-30-50-billion-in-investor-losses/.

[22] *Id.*; World Economic Forum, *2022 Was a Hard Year for Crypto — But it May Have Been Just What the Industry Needed,* (Apr. 14, 2023) https://www.weforum.org/stories/emerging-technologies/2022-was-a-hard-year-for-cryptocurrencies-but-it-may-have-been-just-what-the-industry-needed/ (noting the digital asset market lost nearly $2 trillion in 2022).

We constitute 99% of all law enforcement agencies[23] and handle approximately 99.5% of all criminal prosecutions in the country.[24] State and local law enforcement are also responsible for some 98.8% of arrests across the country, in contrast with federal authorities who are responsible for around 1.2%.[25] Despite this, CLARITY would neuter state and local law enforcement by preempting states and preventing them from fully prosecuting rampant fraud and violations of law by actors in the cryptocurrency marketplace.

Though law enforcement needs to be doing more to protect Americans, federal law enforcement is instead doing less. The Department of Justice announced in April 2025 that it was going to stop prosecuting digital asset platforms, mixing services, and offline wallets "for the acts of their end users or unwitting violations of regulations" and that it would refrain from prosecuting anything which involves proving the asset is a security or commodity.[26] DOJ additionally disbanded its National Cryptocurrency Enforcement Team.

DOJ has cut back its enforcement of crimes involving digital assets, while we are also seeing the Securities & Exchange Commission roll back its enforcement of securities laws. This last year saw the fewest number of enforcement actions by the SEC,[27] no doubt in part because the SEC closed more than 1,000 investigations.[28] Since February 2025, the SEC has also dismissed seven active litigations brought by the prior Commission involving cryptocurrency assets. It did so even after federal judges in five of those cases found that basic securities laws had been violated.[29] This

[23] This was estimated using the number of federal law enforcement officers in agencies other than Offices of the Inspectors General reported in 2023 and the number of state and local law enforcement agencies reported in 2018, both of which were reported by the Department of Justice's Bureau of Justice Statistics. *See Federal Law Enforcement Officers, 2023 – Statistical Tables* Federal Law Enforcement Officers, 2023 – Statistical Tables (reporting 88 federal law enforcement agencies); *Census of State and Local Law Enforcement Agencies, 2018 – Statistical Tables* https://bjs.ojp.gov/media/67846/download (reporting 17,541 state and local law enforcement agencies).

[24] This was estimated using the total number of federal criminal defendants reported in 2025 and the total number of state criminal cases reported in 2024 (which only includes 36 states). *See Federal Judicial Caseload Statistics 2025* https://www.uscourts.gov/data-news/reports/statistical-reports/federal-judicial-caseload-statistics/federal-judicial-caseload-statistics-2025 (reporting 73,644 criminal defendants); *Court Statistics Project 2024 Snapshot* https://www.ncsctableauserver.org/t/Research/views/TrialDashboards/Criminal?%3Aembed=y&%3AisGuestRedirectFromVizportal=y&%3Aorigin=card_share_link (reporting 16.3 million incoming criminal cases).

[25] This was estimated using the number of federal arrests logged by the U.S. Marshals Service in 2023 and the FBI's crime data for state and local law enforcement arrests in 2024. *See Federal Justice Statistics, 2023* https://bjs.ojp.gov/document/fjs23.pdf at 3 (reporting 94,411 total federal arrests); *See Federal Bureau of Investigations Crime Data Explorer* https://cde.ucr.cjis.gov/LATEST/webapp/# (reporting 7,522,824 total arrests).

[26] Memorandum: Ending Regulation by Prosecution, Op. Att'y Gen., https://www.justice.gov/dag/media/1395781/dl?inline.

[27] Benjamin Schiffrin, *The SEC is Supposed to Prevent Companies from Misleading Investors, But its 2025 Enforcement Report Misleads the Public*, Better Markets (April 21, 2026, available at The SEC is Supposed to Prevent Companies from Misleading Investors, but Its 2025 Enforcement Report Misleads the Public | Better Markets.

[28] *SEC Announces Enforcement Results for Fiscal Year 2025*, U.S. SEC. & EXCH. COMM'N (Apr. 7, 2026) https://www.sec.gov/newsroom/press-releases/2026-34.

[29] *Id.*; *See* *SEC v. Binance Holdings Ltd.*, 738 F. Supp. 3d 20, 38-41 (D.D.C. 2024) (holding that the SEC plausibly alleged defendants had offered securities contracts); *SEC v. Balina*, No. 1:22-CV-00950, 2024 WL 2332965, at *9-

SEC has also determined that a large swath of cryptocurrency assets are not securities[30] despite a mountain of federal and state case law that says otherwise. [31] This conclusion creates an opportunity for regulatory arbitrage and encourages fraud and other illegal conduct to migrate to products the SEC has unilaterally decided fall outside of its jurisdiction.

C. Conflicts of Interest in the Government are Compromising Our Regulation of the Crypto Market

On April 8, 2025, my Office wrote to Congress to discuss the serious national security risks posed by cryptocurrencies and to propose commonsense steps to minimize those risks.[32] In that letter, we spelled out that the use of cryptocurrencies in illicit finance undermines national security, funds adversarial regimes, and allows for sanctions evasion. We explained how enemy state actors, terrorists, and organized crime use cryptocurrency to move at least $50 billion annually in illicit money, all while avoiding sanctions.[33] According to some reports, cryptocurrency has become a

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*13, (W.D. Tex. May 22, 2024) (holding defendant's tokens were securities and defendant violated federal securities laws); *SEC v. Payward, Inc*., No. 23-CV-06003, 2024 WL 4511499, at *8-*16 (N.D. Cal. Aug. 23, 2024) (holding the SEC had plausibly alleged that at least some of the cryptocurrency transactions the defendant facilitated were covered by securities laws); *SEC v. Dragonchain, Inc*., No. C22-1145, 2023 WL 2428619, at *1-*2, (W.D. Wash. Mar. 9, 2023) (granting the SEC's motion to strike defendant's affirmative defenses); *SEC v. Coinbase, Inc.*, 726 F. Supp.3d 260, 286-305 (S.D.N.Y 2024) (holding the SEC plausibly alleged that "staking" was a security and that Coinbase operated a national securities exchange).

[30] *SEC Clarifies the Application of Federal Securities Laws to Crypto Assets*, U.S. SEC. & EXCH. COMM'N (Mar. 17, 2026), https://www.sec.gov/newsroom/press-releases/2026-30-sec-clarifies-application-federal-securities-laws-crypto-assets.

[31] *See* *Friel v. Dapper Labs, Inc.,* 657 F. Supp. 3d 422, 436-38 (S.D.N.Y. 2023) (holding that tokens were securities where sale proceeds were used to improve a blockchain, therefore increasing the token value); *SEC v. LBRY, Inc*., 639 F.Supp.3d 211, 217-21 (D.N.H. 2022) (holding that a token was a security where the token was sold as an investment with growth potential and where the issuer's business model intertwined the fate of the developers with the success of the project); *SEC v. Kik Interactive Inc.*, 492 F. Supp. 3d 169, 178-80 (S.D.N.Y. 2020) (*Howey* test satisfied where defendant sold tokens and used funds for operations, the strength of which was tied to demand for and the value of the tokens); *SEC* v. *Genesis Glob. Cap., LLC*, No. 23-CV-0028, 2024 WL 1116877, at *5-*9 (S.D.N.Y. Mar. 13, 2024) (*Howey* test satisfied where defendant pooled and paid interest on cryptocurrency assets); *SEC v. Binance Holdings Ltd.,* 738 F. Supp. 3d 20, 38-41 (D.D.C. 2024) (holding that the SEC plausibly alleged defendants had offered securities contracts); *SEC v. Payward, Inc*., No. 23-CV-06003, 2024 WL 4511499, at *8-*16 (N.D. Cal. Aug. 23, 2024) (holding the SEC had plausibly alleged that at least some of the cryptocurrency transactions the defendant facilitated were covered by securities laws); *People v Gemini Trust Co., LLC*, 2025 NY Slip Op 31269(U) 7–13, 2025 N.Y. Misc. LEXIS 2293 (2025), *11–*18 (Sup Ct NY County 2025); *People v Mashinsky* (2023 NY Slip Op 50826(U)), *5–*9, 2023 N.Y. Misc. LEXIS 3976, *13–*25 (Sup Ct, NY County 2023); *Diamond Fortress Techs., Inc. v. EverID, Inc.*, 274 A.3d 287, 302–04 (Del. Super Ct. 2022).

[32] Letitia James, *Letter to Congress on Digital Assets Regulation,* Att'y Gen. N.Y., https://ag.ny.gov/sites/default/files/letters/letter-to-congress-on-digital-asset-regulation-letter-2025.pdf.

[33] *Id.*

critical tool for evading sanctions, as sanctioned entities received an estimated $100 billion in 2025.[34]

Since that time, the situation has only become more dire. On May 21, 2026, *The Wall Street Journal* reported that Iran moved billions through Binance to finance its regime, even when Iran was actively engaged in war with the United States.[35] This is the same Binance that was one of the active litigations dropped by the SEC mid-litigation.[36] It is the same Binance whose founder was pardoned by this administration.[37] It is the same Binance that holds $5 billion of the USD1 stablecoin issued by World Liberty Financial, the cryptocurrency company founded by the current President's family [38] and is estimated to earn $80 million per year in passive income from those stablecoin reserves.[39] Binance, as the largest holder[40] and market maker for USD1 holding 87% of USD1's total supply, is now heavily incentivizing its customers to purchase even more of the President's family's stablecoins.[41]

The President's family's cryptocurrency businesses have raised additional concerns regarding conflicts of interest as the President earned more than $1.4 billion from World Liberty Financial and the $TRUMP "meme coin" in 2025.[42] World Liberty Financial's application for a national trust bank charter through the Office of the Comptroller of the Currency,[43] and the SEC's declaration that federal securities laws do not apply to "meme coins" like $TRUMP[44] raise

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[34] Patricia Kowsmann, *How Rogue Nations Are Using Cryptocurrencies to Evade Sanctions,* WALL STREET J. (June 4, 2026) https://www.wsj.com/world/cryptocurrency-sanctions-evasion-d02b60f1.

[35] Angus Berwick, Patricia Kowsmann, and Ben Foldy, *Iran Moved Billions Through Binance to Fund Regime—Continuing Into This Month,* WALL STREET J. (May 21, 2026), https://www.wsj.com/world/middle-east/iran-binance-crypto-military-e755b218.

[36] *SEC Announces Enforcement Results for Fiscal Year 2025*, U.S. SEC. & EXCH. COMM'N (Apr. 7, 2026) https://www.sec.gov/newsroom/press-releases/2026-34.

[37] Rebecca Ballhaus et al., *Trump Pardons Convicted Binance Founder,* WALL STREET J. (Oct. 23, 2025), https://www.wsj.com/finance/currencies/trump-binance-changpeng-zhao-pardon-7509bd63.

[38] David Yaffe-Bellany, *Binance Gives Trump Family's Crypto Firm a Leg* Up, N.Y. TIMES, February 7, 2026, https://www.nytimes.com/2026/02/07/business/binance-trump-crypto.html.

[39] Angus Berwick and Patricia Kowsmann, *The Recipe Behind the Trump Family's Crypto Riches: Pancake Swap*, WALL STREET J. (Aug. 12, 2025), https://www.wsj.com/finance/currencies/trump-family-crypto-1e7ab14a.

[40] Zach Everson, *Binance—Whose Founder Was Pardoned—Now Holds 87% of Trump's Stablecoin,* FORBES (Feb. 9, 2026), https://www.forbes.com/sites/zacheverson/2026/02/09/trump-stablecoin-usd1-binance-holds-87-percent/.

[41] Yaffe-Bellany, *supra* note 20.

[42] Ben Protess et. al., *Trump Pulled In at Least $2 Billion After Returning to the White House*, N.Y. TIMES (June 30, 2026), https://www.nytimes.com/2026/06/30/us/politics/trump-financial-disclosure-crypto-windfall.html.

[43] Jason Brett, *The Trumps and Witkoffs Are Building A Crypto Bank At the OCC for USD1*, FORBES (Jan. 9, 2026) https://www.forbes.com/sites/jasonbrett/2026/01/09/the-trumps-and-witkoffs-are-building-a-crypto-bank-at-the-occ-for-usd1/.

[44] SEC Division of Corporation Finance, Staff Statement on Meme Coins (Feb. 27, 2025) ("Staff Statement on Meme Coins"), https://www.sec.gov/newsroom/speeches-statements/staff-statement-meme-coins.

concerns regarding the ability of federal regulators to influence outcomes in favor of the President's family's business interests. Even as the current draft of the CLARITY Act proposes to ban Presidents and federal officials from issuing or sponsoring cryptocurrencies and other digital assets, the so-called "ban" would allow President Trump to place his existing crypto-businesses into a blind trust and would not begin for a full year after enactment.[45]

D. Americans Deserve Good, Clean Government Unencumbered by the Personal Interests or Personal Profit of Elected Officials.

In the midst of this flood of scams, Congress should not allow cryptocurrency to remain opaque. Cryptocurrency transactions are traceable from wallet to wallet, but the blockchain does not allow law enforcement to identify the persons, organizations, or countries that own the wallet.[46] So-called decentralized finance or "DeFi" transactions do not currently carry real-world identities with them. There is almost no way to tell who is who in cryptocurrency transactions, or which side of the planet they are on.

This anonymity creates a host of problems. My testimony focuses on the most significant. First, without the ability to know who is transacting, we don't know if the financial disclosures of our elected officials are accurate, we cannot assess whether bribes are being paid and received, and we cannot ensure the American public is receiving the honest services to which they are entitled. Second, by allowing this kind of anonymity we don't know whether, how, and to what extent elected officials are violating the Constitution's emoluments clause, which prohibits financial gifts from foreign actors. Third, this kind of secrecy prevents us from fully enforcing the conflicts-of-interest laws and campaign finance laws the federal government has in place. Fourth, it prevents us from identifying the people, institutions, cartels, and organized crime organizations that are stealing money from our residents. And, finally, it creates a shroud over the financing of our enemies while permitting sanctions evasion.

This kind of anonymity is entirely unique to cryptocurrency. The obligation to "Know Your Customer" is a bedrock element of our financial system and the trust that comes with the obligation is a big part of what makes American financial markets the center of the financial world.

In the real world, if a nurse practitioner from Long Island falls victim to a fraudulent scheme, there is often a check or wire transfer to a bank that can be tracked down. We can subpoena the bank for information and follow the trail, because each bank knows the identity of the accountholder

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[45] H.R. 3633 §§ 30101-30106; *See also* Emily Wilkins, *Senate Crypto Bill Would Ban Federal Officials – Including Presidents – From Issuing Digital Assets*, CNBC (July 22, 2026) https://www.cnbc.com/2026/07/22/senate-crypto-bill-would-ban-federal-officials-from-issuing-digital-assets.html.

[46] The National Sheriffs' Association opposes Section 604 of CLARITY. The organization has written to the Senate Committee on Banking, Housing, and Urban Affairs to share its concerns about the threat this section would pose to law enforcement's essential ability to track, arrest, and prosecute fraud. *See* Sheriff Chris West and Justin Smith, *Letter on HR 3633, CLARITY Act, and Senate Banking's Proposed Amendment,* Nat'l Sherrifs Ass'n, https://www.banking.senate.gov/imo/media/doc/national_sheriffs_association_letter_to_senate_banking_re_hr_3633_clarity_act.pdf.

and the address associated with that person. The bank will give the information to law enforcement and temporarily freeze funds at law enforcement's request. Law enforcement can even obtain video footage of the person who opened the account.

Major DeFi platforms claim they cannot assist law enforcement in breaking through the veil of identity. They pretend they are not intermediaries and claim to have no technical ability or legal obligation to stop bad actors. But these DeFi platforms, in fact, act as intermediaries for these frauds. They either control the underlying software but choose to do nothing or they operate front-end solutions but choose to do nothing. As we have previously advocated, we need Congress to hold these platforms responsible for instituting the same safeguards as their traditional counterparts, including surveillance and detection, irrespective of the gloss of "technology" and "innovation."[47] Nothing inherent to the technology of cryptocurrency or blockchains prevents DeFi platforms from complying with KYC obligations or otherwise taking steps to prevent fraud and assist law enforcement as other financial institutions already do. This is a policy choice, and it's a choice we should reject when enacting a federal regulatory system to govern these entities. Congress must ensure that when law enforcement looks to solve a crime, we have the tools to do so, and that requires the cooperation of financial intermediaries, no matter the underlying technology.[48]

E. Congress Can Stop the Continued, Unabated Harm to Americans by Cryptocurrency's Bad Actors

Effective legislation must protect the public and stop the flood of scams. We offer the following potential legislative solutions:

- Similar to the restrictions set forth in 18 U.S.C. § 208, prohibit elected officials (including the President, Vice President, members of Congress), Special Government Employees (as defined in 18 U.S.C. § 202(a)), and federal employees and officers, from regulating any industry from which they currently profit, reasonably expect to profit within 1 year after leaving public service, or which they or their immediate family members (including children, stepchildren, parents, spouses and domestic partners) have a personal financial

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[47] Letitia James, *Statement on Digital Asset Market Structure Legislation,* Att'y Gen. N.Y., https://www.banking.senate.gov/imo/media/doc/statement_of_the_ny_attorney_general_to_the_senate_banking_committtee_792025.pdf.

[48] The Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025 ("GENIUS") did not solve the problems discussed here. GENIUS requires stablecoin issuers to perform KYC on their customers; however, stablecoin issuers only consider direct, institutional purchasers to be their customer. That means stablecoin issuers do not currently know who the ultimate retail purchasers of their tokens are, and GENIUS gives them cover to continue to bury their heads in the sand about who is actually using its products. This is a problem. Stablecoins are the cryptocurrency of choice for scammers, terrorists, and other criminals because stablecoins allow price certainty as each token purports to have a one-to-one ratio with fiat currency. *See Record $17 Billion Estimated Stolen in Crypto Scams and Fraud in 2025 as Impersonation Tactics and AI Enablement Surge*, CHAINALYSIS (2026), https://www.chainalysis.com/blog/crypto-scams-2026/; *Category deep-dive: Use of crypto in terrorist financing expanded in 2024,* TRM LABS (2025), https://www.trmlabs.com/resources/blog/category-deep-dive-use-of-crypto-in-terrorist-financing-expanded-in-2024.

interest. All violators should be subject to mandatory penalties, including disgorgement of all ill-gotten gains plus interest and a civil penalty of $50,000 per violation, and state and local regulators should be permitted to enforce the provision. Such restrictions would continue to apply for two years after leaving public service. This will reduce the lucrative nature of the revolving door between government service and the private industry and deter individuals from using their position of trust for personal gain.

- Require cryptocurrency platforms to expressly comply with anti-money laundering laws, know-your-customer regulations, and cybersecurity protocols to prevent the use of cryptocurrency to finance terrorism, adversarial regimes, and crime. For example, as our Office first suggested in our letter to Congress last year, zero knowledge proofs allow for digital identity, while simultaneously preserving privacy.[49] Under current securities laws, exchanges and dark pools know the identities of broker-dealers and institutional investors that participate on their platforms, and broker-dealers know their customers. A similar structure should exist for crypto.

- Require a closed-loop market so noncompliant institutions, companies and countries cannot participate.[50]

- Prohibit cryptocurrency that cannot be fully traced, such as those going through money laundering mixers, from being converted to U.S. dollars.

- Do not exempt crypto from existing money transmission, commodities and securities laws. This requires reasonable state and federal registration for cryptocurrency platforms and intermediaries.

- Require crypto platforms to engage in surveillance to identify anomalous patterns, ward off manipulation and locate bad actors. Recognizing that surveillance gaps in complex markets create opportunities for bad actors to cloak their manipulations, federal regulators have said robust surveillance of cross-market and cross-product activities is essential.[51]

- Require platforms and intermediaries to protect Americans from fraud and scams and hold cryptocurrency companies financially liable for failing to do so, similar to the Electronic Funds Transfer Act.

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[49] *Introduction to Zero-Knowledge Proofs,* CHAINALYSIS (Jun. 12, 2024) https://www.chainalysis.com/blog/introduction-to-zero-knowledge-proofs-zkps/;
What Is Zero-Knowledge, CHAINLINK (Feb. 11, 2026) https://chain.link/article/what-is-zero-knowledge-identity.

[50] Letitia James, *Letter to Congress on Digital Assets Regulation,* Att'y Gen. N.Y., https://ag.ny.gov/sites/default/files/letters/letter-to-congress-on-digital-asset-regulation-letter-2025.pdf.

[51] Robert W. Cook, President and CEO, Fin. Indus. Regul. Auth., Equity Market Surveillance Today and the Path Ahead, As Prepared for Delivery (Sep. 20, 2017), https://www.finra.org/media-center/speeches-testimony/equity-market-surveillance-today-and-path-ahead.

- Require cryptocurrency platforms and stablecoin issuers to temporarily freeze wallets and accounts upon request from law enforcement and return those assets or the underlying collateral upon a judicial finding of fraud from a federal, state, or local court.

- Designate persons doing business with users located in the United States to be a United States person[52] for purposes of enforcement.

- Do not preempt the state securities and commodities registration laws, antifraud laws and other unlawful conduct provisions and ensure that decisions about further preemption are left to Congress rather than federal agencies. Effective legislation should preserve a cooperative federal-state regulatory framework.[53] Now more than ever, we need state and local law enforcement to stand any chance of fighting against foreign criminal actors.

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We call upon Congress to take action and protect Americans from this flood of scams. We have rules and regulations that make our markets the envy of the world, developed from raw experience over the last 136 years. Our rules-based market system gives people confidence that they can do business here. Without adequate laws and regulations, financial crises ensue. In 2008, the financial crisis devastated the American economy and required extremely costly government bailouts after financial deregulation failed. In 2023, the government had to step in again to stop losses and shut down banks that failed due to excessive exposure to crypto companies. We must not forget these lessons. We urge Congress to safeguard our financial markets and protect America's investors, their future, our economy, and national security.

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[52] *See* "BSA Electronic Filing Requirements for Report of Foreign Bank and Financial Accounts (FinCEN Form 114) (2017)" at 5–6, available at BSA Electronic Filing Requirements For Report of Foreign Bank and Financial Accounts (Form TD F 90-22.1).

[53] Marni Rock Gibson, *Letter to Congress to Vote NO on the Digital Asset Market Clarity Act*, President of N. Am. Sec. Adm'r Assoc., Inc., https://www.nasaa.org/wp-content/uploads/2026/05/NASAA-Urges-a-No-Vote-on-the-CLARITY-Act-as-Currently-Drafted-5.12.26-F.pdf.