Democracy Defenders Action

WRITTEN STATEMENT OF VIRGINIA CANTER

SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

SHADOW HEARING

"Trump's Crypto Corruption"

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Ranking Member Blumenthal, Members of the Subcommittee: thank you for convening this hearing and for the opportunity to testify on President Trump's crypto ventures and the ethics requirements that should accompany any digital asset market structure legislation that would regulate those interests. My name is Virginia Canter, and I am the Chief Counsel for Ethics and Anticorruption at Democracy Defenders Action, a nonpartisan, nonprofit organization dedicated to preserving democracy and ensuring that government officials act on behalf of the people they serve.

Last week, Senate Republicans and the White House released their latest version of the Digital Asset Market Structure Clarity (CLARITY) Act, which, for the first time since it was introduced over a year ago, included an ethics title. Unfortunately, the actual language does not come close to reaching the core conflicts of interest it needs to address. The bill allows officials to own and trade digital assets. It does not apply to officials' dependent children. It gives the Department of Justice exclusive enforcement authority over the few restrictions it does impose. And, perhaps most troubling, the ethics provisions would sunset the last day of Trump's second term and prohibit investigations of violations occurring *before* the sunset date.

This is not a serious attempt to address crypto conflicts of interest. Instead, rather than closing the door on self dealing, the White House-crafted language would effectively immunize Trump from any true oversight.

President Trump just reported receiving $1.4 billion in crypto revenue last year, and he has built a portfolio of crypto ventures valued at as much as $7 billion. Entities backed by the Emirati royal family have directed roughly $2.5 billion to the President's crypto ventures—most prominently through a $2 billion investment in Binance which was settled in his company's stablecoin USD1. The deal is expected to generate roughly $80 million a year for the President's company. These conflicts of interest have no precedent in the history of the presidency. And remember: the Framers were so concerned with Benjamin Franklin accepting a snuff box from Louis XVI that they wrote the Foreign Emoluments Clause into our Constitution.

Meanwhile, investors in the Trump-affiliated enterprises have incurred significant financial losses. The New York Times reported that nearly one million owners of the Trump Meme Coin collectively lost $3.8 billion dollars. And Reuters estimated that owners of World Liberty Financial's governance token lost $674 million.

That is the backdrop against which Republicans and the White House released weak and ineffective ethics language.

First, and most importantly, it does not prohibit covered officials including the President from owning, buying, or selling digital assets. This glaring failure allows the officials who are tasked with designing the industry's regulatory framework to own the very products that framework will apply to. It will make it easier for corrupt actors and foreign governments to abuse the crypto ecosystem to buy influence–particularly because the bill continues to allow campaign donations in cryptocurrency.

It also leaves licensing fees, revenue-sharing arrangements, and royalties for name, image, and likeness untouched. These are major channels through which the President and his family currently receive crypto income.

These omissions should be disqualifying by themselves.

And for prohibitions that the ethics title does create, it seems that they were specifically written to avoid serious impact on the President. For example, the issuance prohibition would seem to have little impact on the President, because he is not directly involved in the issuance of any digital assets, the prohibition only applies to the initial offer of a specific asset, and Trump does not appear to legally "exercise control" over any person who sells any asset.[1] For example, because Trump does not hold a 50% controlling equity stake in many of the companies that issue $WLFI, USD1, and his meme coins, the provision would not appear to require him to relinquish his revenue streams in those enterprises.

There are more Trump-specific loopholes. For instance, there's a meme coin dinner exemption: it provides that appearing at an event paid for or organized by an issuer of a digital asset is not sponsorship, nor is generally promoting digital assets.[2] This would allow Trump to continue to pump up the value of his meme coin or World Liberty Financial by holding events at the White House or Mar-a-Lago for investors. Again, Trump family-linked firms have made over $600 million on the meme coin; everyday investors have lost around $3.8 billion.

The bill also permits companies to continue using an official's name, image, and likeness so long as they divest any "direct interest."[3] But the text defines direct interest only as holding the asset itself or owning at least twenty percent of a company that derives most of its revenue from

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[1] 13151(4).
[2] 13151(6)(B).
[3] 13151(4); (13152(a)(1).

issuance or sponsorship. That definition invites structuring through shell entities or trusts that return the income to the official.

And even if there is a violation of the proposed law, the enforcement provisions provide little or no real recourse.

First, the language grants exclusive enforcement authority to the DOJ–and explicitly prohibits independent enforcement by state attorneys general.[4] Trump's hand-picked Attorney General would be in charge of recovering money from Trump. It also goes a step further: it prohibits regular people who lose money from suing officials who *willfully violate the law*.[5]

Second, the bill provides that the ethics provisions sunset on the last day of the Trump Administration. Given that the provisions don't come into effect for a year from the date of passage of the CLARITY Act, it means that there would be less than a year of coverage for the bill in total.

Finally, the sunset provision provides that "no person shall be subject to any penalty, forfeiture, or liability . . . for conduct that occurs on *or before* that sunset date." This unprecedented provision essentially nullifies any attempt to enforce the act as soon as Trump leaves office.

I want to conclude by reiterating the three policy red lines that Congress must not cross if you truly want to create a strong and clear market structure, regulated and enforced by neutral arbiters, with protections for retail investors. They are:

First, divestment. Divestment by officials, spouses, and dependent children of crypto interests is the only reliable safeguard against conflicts of interest. The new language prohibits neither ownership, trading, licensing nor transaction fees, and its prohibitions on issuing and sponsoring are riddled with loopholes.

Second, disclosure. Congress should require all senior officials to report every digital asset transaction and holding, from any source. The new language requires disclosure only in a narrow category unlikely to capture meaningful activity.

Third, independent enforcement. Congress should ensure that these prohibitions are actually enforced–and the best way to do that is to empower state Attorneys General to enforce the prohibitions, and ensure that anyone harmed by these violations can bring suit to recover any money they lost from these violations. The new language does the opposite.

Thank you, and I welcome your questions.

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[4] 13153(b).
[5] 13153(b).