US lawmakers seek to clean up crypto regulation 'food fight'

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Defenders of digital currencies say regulators are stuck in the past.

The US House of Representatives on Wednesday adopted a bill that would create a new legal framework for digital currencies, in a move cheered by crypto supporters but opposed by consumer groups who say it fails to protect investors.

The Republican-backed Financial Innovation and Technology for the 21st Century Act—known as FIT21—would split responsibility for cryptocurrency regulation between the Securities and Exchange Commission and the Commodities Futures Trading Commission.

The bill would boost the regulatory authority of the CFTC, and weaken the SEC's oversight of digital assets. It is opposed by the SEC and faces a steep climb in the Democratic-controlled Senate.

Defenders of digital currencies have argued that regulators are stuck in the past and applying rules unfit to oversee the explosion in the popularity of crypto.

House Republicans say FIT21 would beef up oversight of the rapidly-growing digital assets space, strengthening transparency and accountability of crypto exchanges, brokers and dealers.

"The SEC and the CFTC are currently in a food fight for control over this asset class," Republican Patrick McHenry, the chairman of the House Financial Services Committee, said in a statement.

"They have created an impossible situation where the same firms are subject to competing and contradictory enforcement actions by the two different agencies."

SEC chairman Gary Gensler has warned the proposed law would "create new regulatory gaps and undermine decades of precedent regarding the oversight of investment contracts, putting investors and capital markets at immeasurable risk."

He said in a statement that investment contracts recorded on a blockchain would no longer be deemed securities under the legislation—removing them from SEC oversight and denying investors protection.

'Failures, frauds and bankruptcies'

Crypto firms would be able to self-certify investments and products as under a special class of "digital commodities" under the legislation, Gensler said, arguing it would allow them to avoid SEC scrutiny.

"The crypto industry's record of failures, frauds, and bankruptcies is not because we don't have rules or because the rules are unclear," he added.

"It's because many players in the crypto industry don't play by the rules. We should make the policy choice to protect the investing public over facilitating business models of noncompliant firms."

A group of 30 consumer rights organizations wrote to congressional leaders opposing the bill on the grounds that it undermines a long-standing legal framework used to determine if a transaction must adhere to strict investor safeguards.

"Much of this bill seeks to circumvent these standards, in part by creating a fast-track, rubber stamp process to designate crypto assets as 'commodities,' thus narrowing application of securities regulation to those assets and related actors," they wrote in the letter dated Monday.

But 60 crypto organizations signed a letter in support of the bill, which is also backed by former US president Donald Trump, who is running for reelection and recently said he would start accepting campaign donations in crypto.

"Regardless of what some critics claim, this bill does not create a 'lighttouch' regime for crypto crooks or prevent the SEC from being able to police its markets," said Congressman French Hill, who chairs the subcommittee on digital assets.

The Biden administration said it was "eager to work with Congress to ensure a comprehensive and balanced regulatory framework for digital assets" but added that it opposed the bill because it lacks "sufficient protections for consumers and investors."

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