

**Written Testimony
of
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Representing Polygon Labs, a Software Development Company**

**Before the U.S. House Financial Services Committee Subcommittee on
Digital Assets, Financial Technology, and Artificial Intelligence**

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Biography

Jacob Werrett is the Chief Legal Officer at Polygon Labs, a software development company building blockchain infrastructure and an aggregated blockchain network.

During the first decade of his career, Jacob practiced corporate and M&A law, initially working at a large law firm in Delaware, and then a large law firm in California. In recent years, Jacob has served as legal counsel at various companies: JMA Ventures, as General Counsel (private equity, focused on commercial real estate); Sonicwall, as Deputy General Counsel (cybersecurity); dYdX Trading, as General Counsel (crypto derivatives software developer); and Polygon, as Chief Legal Officer (blockchain infrastructure developer).

Jacob has published numerous legal and academic articles in various publications, including Law360, Corporation, The Business Lawyer, Business Court Insider, The American Bar Association, and UConn Law Review.

Jacob received a Master of Business Administration from the University of California Berkeley (M.B.A.), and Juris Doctor from the University of Connecticut Law School (J.D.).

Testimony

Chairman Hill, Ranking Member Waters, and Members of the Subcommittee:

The Internet is one of the greatest technological achievements in modern memory. It has led to advancements that would not have been comprehensible without this important infrastructure.

The Internet has evolved over time. In the early years, a few computers used the original design of the Internet to pass simple messages. Only after the creation of a standard, known as TCP/IP, could computers use a common language at scale. Thereafter, users of the Internet globally could access extensive information about almost any topic via websites.

As the Internet matured, websites emerged that democratized contribution and encouraged the decentralized public to publish data (e.g., Wikipedia), scholarly articles (e.g., SSRN), informal content (e.g., Reddit), personal pictures and statements (e.g., Instagram, Facebook, blogs), open-source software (e.g., GitHub), and personal videos (e.g., YouTube). Anyone with an Internet connection was enabled to write and publish to mass audiences through posts on social networks and other services. But the Internet experience became increasingly centralized over time as large corporations began to seize control, collect private information, and decide how and when information would be reflected on the Internet.

In recent years, blockchains have emerged as one of the most transformative architectures of the Internet. In 2008, Bitcoin marked the first decentralized Internet-native currency. Since then, the evolution of blockchain — accelerated by Ethereum and countless networks that followed — has expanded far beyond digital currency. What began as a monetary innovation has become a foundation for decentralizing all forms of native digital assets, shifting control over information, ownership, and privacy back to individuals.

1. Digital Assets Enable Beneficial Use Cases

There are numerous compelling use cases for blockchain technology — far too many to be described here. This testimony explores a small sample of promising use cases, some nascent and others that have been developed over years. Polygon Labs has worked with numerous industry participants to compile a database of valuable use cases utilizing blockchain infrastructure, which can be found at TheValueProp.¹ Use cases highlighted on TheValueProp range from financial use cases, such as DeFi, to non-financial use cases, such as media, gaming, education, healthcare, social impact, and loyalty programs.²

¹ www.thevalueprop.io.

² The descriptions herein (as well as the descriptions included in TheValueProp) are subject to the descriptions, disclosures, and terms and conditions made available via the owners and/or operators of each project. Polygon develops open-source software for blockchain infrastructure, and although certain projects referenced herein may utilize Polygon open-source software, such projects are not owned by Polygon, may not be affiliated with Polygon, and have not granted representation rights to Polygon.

a. Decentralized Finance

Decentralized Finance (DeFi) represents a financial protocol built on blockchain technology that enables individuals to interact directly with one another without relying on traditional intermediaries, such as banks or brokers. DeFi leverages public blockchain networks, allowing participants to access financial services, like lending, borrowing, trading, and investing using cryptocurrencies and smart contracts. This open infrastructure is available to anyone with an Internet connection, creating a more transparent, inclusive, and efficient alternative to conventional finance.

b. Gaming on Blockchain

Blockchain technology is revolutionizing gaming by offering true ownership of in-game assets, allowing players to own, trade, or use digital items across multiple games.³ Transparency and security prevent cheating and fraud, ensuring players' assets are safe and verifiable. The play-to-earn model creates new revenue streams, aligning players' efforts with real-world value, while blockchain's interoperability allows assets to be used across different games, fostering cross-game innovation. Blockchain also introduces community governance, enabling players to shape game development and updates, making gaming more democratic. Smart contracts ensure fair, automated rewards that enhance gameplay experiences, while the technology's transparency combats fraud and piracy by securing ownership. Blockchains transform gaming by providing ownership, security, rewarding economies, and immersive environments, transforming the way we play and interact with games.

c. Title and Certificates

Blockchains are now being integrated into real estate and certificate transfer systems. Increasingly, property titles will be securely recorded on the blockchain, providing an immutable and transparent history of ownership. This eliminates the risks of fraud, double-selling, and disputes over ownership. For instance, in countries like Estonia, property transactions may be completed on the blockchain, offering buyers and sellers an efficient, fraud-proof process that can be transacted entirely online. Sweden's land registry authority is at the forefront of integrating blockchain technology into property transactions. In collaboration with various partners, Sweden's land registry authority has conducted a pilot project demonstrating the use of blockchain for recording property-related transactions to enhance transparency, reduce manual errors, and expedite the property transfer process.⁴

d. Collectibles, Baseball Cards, Pokémon, Video Highlights

Baseball, basketball, and Pokémon cards hold significant cultural value, and blockchains are revolutionizing how these collectibles are managed, and authenticated, preventing counterfeits and

³ <https://polygon.technology/blog-tags/gaming>.

⁴ www.cointelegraph.com/learn/articles/how-governments-use-blockchain-for-public-services; www.forbes.com/sites/laurashin/2017/02/07/the-first-government-to-secure-land-titles-on-the-bitcoin-blockchain-expands-project/; www.idefy.ai/estonias-blockchain-based-digital-identity-system-a-model-for-the-world.

enabling better liquidity. Blockchains provide proof of ownership through NFTs, allowing for more secure and efficient transactions without the need for intermediaries. For instance, Topps released digital baseball card collectibles as NFTs, ensuring authenticity and ownership.⁵ Similarly, Pokémon cards have been tokenized by platforms like Courtyard.io, ensuring secure trading and ownership verification.⁶ Blockchains enhance security, transparency, and ease of transfer, making it ideal for the collectibles market, including baseball and Pokémon cards.

e. Identification

Privado ID is a decentralized identity solution built on the Polygon blockchain, designed to provide users with secure and privacy-focused identification.⁷ By leveraging blockchain technology, it enables individuals to control and manage their personal data without relying on centralized authorities or third-party services. Privado ID uses cryptographic techniques to ensure that users' information remains private, while still being verifiable by trusted entities when necessary. This approach aims to give users greater control over their identity, ensuring that personal data is protected and shared only when explicitly allowed, contributing to a more secure and privacy-centric digital ecosystem.

f. Real World Assets

Real-world assets (RWAs) on the blockchain enable efficiency, fractional ownership, and increased liquidity. Blockchain technology offers unparalleled transparency, security, and efficiency, making it easier for investors to buy, sell, and trade tangible assets. Platforms like Securitize are at the forefront of this advancement, enabling the issuance and management of tokenized RWA that offer greater access to previously illiquid markets.⁸ By reducing reliance on intermediaries and ensuring transparency through immutable records, these platforms make asset ownership more efficient, accessible, and secure.

2. Key Blockchain Features That Must Be Preserved in Future Legislation

Important characteristics of blockchain technology include permissionless participation, transparency, self-custody, open-source code, transactional control, and governance control. These benefits of blockchains are typically achieved on a spectrum. At one end of the spectrum blockchains may be very decentralized. At the other end of the spectrum, blockchains, protocols, and tokens may reflect some (or many) centralized attributes.

a. Permissionless

A major advantage of decentralized blockchains is the permissionless nature of the technology, meaning anyone with an Internet connection can access and transact on the blockchain. Unlike traditional financial services, blockchains do not typically require users to meet specific eligibility criteria such as credit checks, geographic restrictions, or minimum financial thresholds. This

⁵ www.topps.com.

⁶ www.courtyard.io.

⁷ www.privado.io.

⁸ www.securitize.io

inclusivity allows people from underserved or unbanked communities, often excluded from traditional financial systems, to access financial products and services. Whether for saving, investing, or borrowing, blockchains offer the opportunity for greater financial freedom and access, particularly in regions where traditional banking infrastructure is lacking or unavailable.

b. Transparency

Transparency is a foundational characteristic of blockchains. Blockchain transactions are permanently recorded and widely accessible to the public, making the blockchain verifiable and auditable. This transparency eliminates the need for trust in intermediaries and allows participants to independently verify transactions, balances, and activities within the ecosystem. The open nature of blockchain records fosters confidence among users, as they can monitor and trace all actions in real time without relying on the oversight of a centralized authority.

c. Immutability

Blockchain's immutable ledger ensures that once a transaction is completed, and the data is validated and recorded, it cannot be altered or deleted, providing a high level of trust and accountability.

d. Self-Custody

Self-custody is a core feature of blockchain, which provides users complete control over their digital assets. In a traditional financial system, assets may be held by banks or custodial platforms, which may control, leverage, and hypothecate user funds. In blockchains, however, users may retain ownership, control, and custody of their assets, which are only accessible to the user. By using self-custodial wallets and decentralized protocols, individuals have the autonomy to manage their own funds and maintain full control over their digital assets. This not only reduces the risks associated with relying on third-party custodians, but also promotes greater financial freedom and security, as users are not vulnerable to centralized entities' actions, failures, or fraud.

e. Open Source Code

A key advantage to blockchain technology is that much or all underlying code is open source or source available. This means that the software used is freely accessible to anyone, enabling users and developers to examine, verify, and even improve upon the code. Built upon open source software, blockchains and protocols offer a level of transparency that fosters trust within the ecosystem. Anyone can audit the code to ensure that it functions as promised and does not contain vulnerabilities or malicious features. This openness also encourages innovation, as developers can contribute to the codebase, introduce new features, or even fork the code to create custom versions. Ultimately, open-source code makes the entire ecosystem more secure, collaborative, and resistant to manipulation, as no single party has exclusive control over the system's design or functionality.

f. Transactional Control

Decentralized blockchains and protocols typically place transactional control in the hands of validators and stakers. Unlike traditional finance systems, where intermediaries such as banks or payment processors act as the middlemen to verify and execute transactions, decentralized protocols rely on smart contracts to automatically execute transactions once certain conditions are met. This system offers individuals more autonomy over their financial actions, allowing for faster, cheaper, and more secure transactions. Additionally, since these transactions are programmed and automatically enforced by smart contracts, they reduce the risk of human error, subjectivity, fraud, or the delays typically associated with centralized financial institutions.

g. Governance Control

Control over the material aspects of a protocol is often held by a decentralized group of digital asset holders that may take action to manage the protocol, direct fees, or make other governance decisions. The voting threshold for causing a material change to a protocol varies, but often requires a supermajority vote. Routine decisions often require a simple majority vote.

3. Guiding Tenets for Drafting Digital Asset Legislation

To preserve the use cases and important blockchain features discussed above, successful legislation should accommodate and encourage decentralization. In some cases, thoughtful legislation could actually strengthen decentralization in projects, increasing the benefits of the technology to digital asset holders, and users.

Various tests can be applied to determine whether a blockchain, protocol or token are decentralized. Legislation should consider all parts of the technology stack, such as blockchains, protocols built on those blockchains, applications associated with various protocols, and governance of blockchains and protocols.

Legislation pertaining to decentralized blockchains should contemplate that decentralization is a process, and some blockchains or protocols may require a certain amount of time before successfully achieving key decentralization milestones.

4. Conclusion

By following the suggestions set forth herein, we can enact legislation that preserves the potential of blockchain technology and benefits those for whom the technology was created. Conversely, legislation that forces decentralized technology into centralized structures could undermine the benefits of this important technology.

Decentralized blockchain technology, and the protocols thereon, are uniquely “of the people, by the people, and for the people”. The core tenets of decentralized blockchain invoke the most important principles of our nation: the right to representation, the right to participate in democratic governance structures, the right to custody and control one’s own property, freedom of speech (by expression of code, or otherwise), and the right to privacy.

We have an opportunity to enact law that embraces innovation, while protecting investors, encouraging capital formation, and maintaining fair, efficient, and orderly markets. We cannot afford to be left behind, or to push valuable innovation offshore. Drafting and passing thoughtful blockchain legislation will maintain the strength of our economy, shore up the dollar as the global currency via dollar-backed stablecoins, and maintain our country's position as a global leader.