

Testimony of Nathan McCauley
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Before the U.S. House of Representatives Committee on Financial Services
“Innovation Revolution: How Technology is Shaping the Future of Finance”
December 4, 2024

Chairman McHenry, Ranking Member Waters, and members of the Committee: thank you for inviting me to testify today on how crypto and blockchain technology are shaping the future of finance. I wanted to give a special thank you to Chairman McHenry for your historic work on digital asset legislation over the years, from stablecoins to market structure, your success on capital formation legislation like the JOBS Act,¹ and for serving as both Chairman of this committee and temporary Speaker of the House. I also wanted to thank the other members of the Committee that have worked tirelessly on crypto policy over the years. It is an honor to be here today.

I am Nathan McCauley, the CEO and co-founder of Anchorage Digital, an institutional crypto platform that is home to the nation’s only federally regulated crypto bank. Under the terms of our national bank charter, granted to us by the Office of the Comptroller of the Currency (the OCC), we safeguard the digital assets of over a thousand institutional clients, and provide them access to regulated services including crypto custody, staking and settlement. While being OCC-regulated means we are subject to the highest security, compliance, and customer protection standards, it also means we benefit from a level of regulatory clarity that continues to elude the industry as a whole. This is unfair, un-American, and anti-innovation. Anchorage Digital is proof that sound regulation at the federal level can both protect customers and allow businesses like ours to innovate and thrive, and we believe more crypto companies should be given the chance to operate within the regulatory perimeter.

We Must Strike the Right Balance Between Fostering Innovation and Consumer Protection

True innovation - railroads, the automobile, the internet, and of course, crypto and blockchain technology - does not come along everyday, and it is not always immediately apparent that something revolutionary is happening. But once we realize it, it is our job as a society to make sure we harness its benefits responsibly. This is not an easy task: government must strike the right balance between fostering innovation and ensuring robust customer protection. Without the appropriate balance, we risk stifling the

¹ <https://www.govinfo.gov/content/pkg/BILLS-112hr3606enr/pdf/BILLS-112hr3606enr.pdf>.

development of promising new technology, on the one hand, or failing to address the risks that emerging technology often presents, on the other.

Unfortunately, by failing to implement crypto regulatory frameworks that seek to strike this balance, the U.S. has ceded its leadership to other countries that are providing the clarity needed to foster innovation, for everything from stablecoins to crypto financial services, and protect customers. As a result, we are bleeding talent and capital, and risk falling even further behind. But it is not too late. Right now, there is real progress on the horizon - but the U.S. must get it right. Only then can we realize this technology's potential to improve the financial system and so much more.

Why Crypto and Blockchain Will Revolutionize Finance, and More

My journey to founding America's first crypto bank began in an unlikely place: Economy, Indiana – population 168. I worked at McDonald's in my youth, but at night, I tinkered with the internet and developed an interest in security systems. I began my career writing cryptographic key management software for military applications, and have worked at the intersection of security and financial services ever since. First at Square, now known as Block, where I built the security engineering team developing payment processing software, and then at Docker, where I developed the code that secures container applications, one of the core underpinnings of modern cloud computing. In the mid 2010s, when bitcoin and crypto started to take off, my Anchorage Digital co-founder and I were often asked to help crypto investors, including many institutions, recover the lost private keys to their crypto wallets. We realized that institutions would need to hold crypto assets in a way that was safe, secure, and regulated, at scale, and that we had the skills to build a solution.

That was 7 years ago. Today, we are privileged to safeguard tens of billions of dollars worth of crypto for some of the largest protocols, institutional investors, and sovereign wealth funds in the world.

Institutional participation in crypto will only grow as they increasingly realize its potential to revolutionize our financial system. Fundamentally, Bitcoin's core innovation was a method to transfer value, peer-to-peer, in a way that is secure, fast, inexpensive, reliable, and transparent, without the need for multiple centralized gatekeepers. Ethereum built on this by adding composability and smart contracts to the blockchain, allowing for the creation of new blockchains and applications. At the heart of this mechanism is a financial incentive - the crypto token itself - that is used to reward one

for validating transactions to the blockchain and securing it from attacks - that is why crypto and blockchain technology are inextricably intertwined.

The implications of this innovation are profound. If something can move on blockchain rails, that means it can move with less friction and cost, and more security and transparency. Financial transactions that would take days or even weeks to settle through traditional financial market infrastructure now take mere seconds on the blockchain, for a fraction of the cost. Blockchain also enables smart contracts: imagine a payment that is pre-set to credit from a buyer to a seller's account only after the goods are received, or artists or gig workers gaining more direct ownership of their output. Tokenized forms of non-financial assets will also benefit from blockchain's features. The state of California, for example, recently put 42 million car titles on the blockchain to cut down on lien fraud by creating a transparent and unalterable record of ownership.² This is just the beginning. As the uses of this technology continue to evolve, Anchorage Digital is excited to play a role in providing core infrastructure to help power the industry's growth.

Why the U.S. Will Get It Right

Chairman McHenry and many on this committee recognized the transformative potential of this technology early on, but also the need to provide clear rules of the road so that market participants had a way to comply, and so everyday people and institutions had the confidence they needed to participate safely in the crypto ecosystem.

At Anchorage Digital, every one of our job posts tells candidates that while not a requirement, candidates receive bonus points if they were emotionally moved by the soundtrack to the musical "Hamilton," which chronicles the founding of a new financial system. Like the historical events portrayed in the musical, the work of this committee and our government could not be more important in laying the groundwork for the new digital economy. I am confident that as a country, we will get it right. Because it is in our DNA: we are a nation of inventors and entrepreneurs, and time and again we have figured out how to harness technology responsibly, to improve peoples lives and enable innovation to flourish.

² See

<https://www.reuters.com/technology/california-dmv-puts-42-million-car-titles-blockchain-fight-fraud-2024-07-30/>.

Chairman McHenry - you have left the American people a solid foundation on which to build, and we owe you a debt of gratitude. The U.S. capital markets are the envy of the world in large part due to clear and sensible regulatory frameworks that inspire confidence among businesses and investors and support emerging technologies. As we look to the future of finance, it is imperative that America extends this tradition to the crypto markets and sets the standard for the world. Thank you to the Committee for this opportunity and I look forward to answering your questions today.