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BEFORE THE U.S. HOUSE OF REPRESENTATIVES FINANCIAL SERVICES COMMITTEE'S SUBCOMMITTEE ON DIGITAL ASSETS, FINANCIAL TECHNOLOGY, AND INCLUSION AND THE HOUSE AGRICULTURAL COMMITTEE'S SUBCOMMITTEE ON COMMODITY MARKETS, DIGITAL ASSETS, AND RURAL DEVELOPMENT

"THE FUTURE OF DIGITAL ASSETS: MEASURING THE REGULATORY GAPS IN THE DIGITAL ASSET MARKETS"

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Subcommittee Chairs Hill and Johnson, Ranking Members Lynch and Caraveo, Chairs McHenry and Thompson, Ranking Members Waters and Scott, and distinguished members of the Subcommittees, thank you for the opportunity to testify today on the regulatory future of digital asset markets. My name is Michael Blaugrund and I am the Chief Operating Officer of the New York Stock Exchange. The New York Stock Exchange is the world's largest equities exchange. In aggregate, companies listed on the NYSE represent approximately 30% of global public market value and employ more than 43 million people worldwide. National securities exchanges, such as the NYSE, serve a fundamental role in the capital markets ecosystem by providing a forum for companies to raise money as well as a venue for investors and other market participants to buy and sell the securities of public companies at transparent prices in a fair and orderly manner.

Next week, the NYSE will celebrate the 231st anniversary of the signing of the buttonwood agreement, the foundational document that established our Exchange. For more than two centuries since, the NYSE has worked continuously to perfect our markets and maintain the United States' position as the envy of global capital markets. In advancing this mission, we have focused on utilizing innovative technology to enhance our nation's vibrant markets and remain competitive around the world. I am here today to share some perspective from our experience.

Regulation for the Digital Assets Markets Should Foster Transparency and Trust

Although technology evolves over time, the obligation to protect investors does not. Whether trading occurs via open outcry, over telegraph, through pneumatic tubes or pursuant to complex algorithms, the public rightfully expects that their assets will be protected from fraud, theft and manipulation. The regulatory framework governing national securities exchanges brings transparency and a trusted environment for issuers and investors alike to participate in our financial markets. At the NYSE, we believe that investor confidence underpins the strength of the U.S. capital markets.

As investors increasingly seek exposure to digital assets, it has never been more important to develop a regulatory framework around digital assets that protects the public. This is not unlike the problem that Congress faced nearly 100 years ago that led to the establishment of the Securities and Exchange Act to address these same policy objectives.

So, how best to protect public investors who seek to engage in the digital assets market? The lesson to be drawn from more established markets is clear: the segregation of key functions within the financial markets ecosystem -- brokerage, exchange, clearing, and custody -- mitigates inherent conflicts of interest, promotes transparency, and facilitates competition amongst service providers. This, in turn, benefits investors and results in a more fair, efficient, and safe environment.

When investors trade on the New York Stock Exchange, they are represented by registered broker-dealers whose trades are cleared and settled by registered clearinghouses and whose assets are held by registered, bankruptcy-remote custodians. Investors have recourse if they are harmed by any of their service providers and multi-lateral clearing reduces counterparty risk. By comparison, some current day digital asset trading models, as witnessed with the collapse of FTX, co-mingle the functions in a way that raises serious questions of risk management, financial resources, and investor protection.

We believe that if investors could trade digital assets in a similarly regulated exchange environment, many of the problems we have seen in the last year would not have occurred.

Competition among securities and commodities exchanges is fierce and new entrants are a regular occurrence. There is a well-established process to launch a registered exchange, whether one with a unique listing concept, a unique trading protocol, unique operational features, or a unique market segment. To date, however, we have not seen a digital asset trading platform follow this well-worn path.

Regulatory Certainty Will Bring Discipline to the Digital Assets Market

There is a dissonance between much of the current digital asset industry's practice and the standards of investor protection established under the law and regulation for traditional markets. Resolving this disconnect would provide institutional and retail market participants the ability to engage in digital asset transactions with the same confidence they have when buying or selling an equity security on a U.S. stock exchange. Some have argued that the rules and regulations should be relaxed to accommodate current crypto practice, while others have asserted that the market for digital assets must adapt to existing standards.

Congress can determine its preferred course of action. It is our belief, however, that the exchange regulatory framework represents an established and well-known foundation that can be adjusted to accommodate the marketplace for digital assets. In this regard, there are several steps that can be taken by government agencies that would facilitate practical oversight for digital assets:

- provide a tailored registration process for investment contract tokens.
- refine the SEC conditions for Special Purpose Broker-Dealers with a more permanent solution.
- provide regulatory relief for exchanges seeking to trade securities or other digital assets that are not considered national market system securities.
- permit adjustments to applicable clearinghouse rules to accommodate the clearing of digital asset tokens.
- evaluate reciprocity for (i) SEC-registered broker-dealers, market centers and clearing agencies and (ii) CFTC registered FCMs, DCMs and DCOs so that they can effect transactions in commodity tokens.

The debate over regulatory jurisdiction for digital assets is vigorous and it is encouraging to see your two esteemed Subcommittees working together to consider these important questions. While we recognize that digital assets offer a unique investment opportunity from traditional securities, we believe there is a significant benefit to utilizing the existing framework for public securities trading and extending it to digital assets.

Ultimately, both the SEC and CFTC's willingness to embrace dual-registration or substituted compliance, as the agencies have permitted in other contexts, may also be critical to the success of developing a transparent and trusted market for digital assets. Coordination between the two agencies would work to mitigate the costs, burdens and uncertainty that can arise when more than one regulatory regime is implicated. For a dual-regulatory framework to yield real results, however, the agencies must be committed to a shared set of objectives, even if they ultimately seek to achieve those objectives via different means.

American capital markets have long benefited from evolving within the parameters of well-established rules. Our experience over the past 231 years is a testament to the ability of market participants to promote investor protections while adapting to technological innovation.

I would be happy to answer any questions. Thank you.