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Before the United States Senate Committee on Agriculture, Nutrition, and Forestry

Regarding "Legislative Hearing to Review S.4760, the Digital Commodities Consumer Protection Act"

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Washington, D.C.

Good morning, Chairwoman Stabenow, Ranking Member Boozman, and members of the Committee.

Thank you for inviting me to testify today. I'm honored to speak with you, and I look forward to discussing the Digital Commodities Consumer Protection Act (DCCPA).

My name is Denelle Dixon, and I am the CEO and Executive Director of the Stellar Development Foundation. I took on this role and joined the blockchain industry three and a half years ago. In my prior role as Chief Operating Officer of Mozilla — the maker of the Firefox browser — I spent my time at the intersection of business, technology, and public policy. At Mozilla, we used our unique role in the ecosystem to advocate for the internet's core principles of openness, accessibility, privacy, security, and interoperability, along with regulations and rules that would protect and allow those principles to flourish.

Today's blockchain and cryptocurrency industry and the policymakers responsible for regulating it are navigating these same issues. How can we preserve and advance the core principles of this technology as we consider the appropriate regulatory framework for this industry? How will we encourage innovation and competition and protect consumers as they interact with this technology and all it offers? The answers to these questions will help decide this technology's future, just as they did with the internet. I believe the regulatory clarity the DCCPA seeks to create is essential to that discussion.

Before I speak about the opportunities of the DCCPA, I'd like to share more about the Stellar Development Foundation, the Stellar network, and, most importantly, the real-world solutions built with this technology.

The Stellar Network and the Stellar Development Foundation
The Stellar Development Foundation, or SDF, was established alongside the Stellar network in 2014 with the mission of using the technology to create equitable access to the global financial system. SDF is a non-stock, non-profit organization with no shareholders, no owners, and no profit motive. This unique structure allows us to be laser-focused on fulfilling our mission without competing with a profit motive or shareholder demands. To achieve this mission, we focus our work on a few top priorities: we shepherd the code base for the Stellar network,

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participate in the ecosystem surrounding Stellar, support the growth of the ecosystem and the use cases built on top of Stellar, in addition to supporting global public policy and education around Stellar and blockchain.

What is Stellar? Stellar is an open, permissionless, decentralized ledger — or blockchain network — optimized for payments and asset issuance, particularly stablecoins. No single entity, including SDF, controls the codebase of the network or its growth. You don't need permission to use the technology; just like the internet's underpinnings, it is open and ready for use.

The Stellar network has been operating for over seven years. More than 5 billion operations have been processed, with nearly a billion last quarter alone, from over 7 million accounts, and an ecosystem of products and services that grows daily. Stellar is best for asset issuance, making it possible to create, send, and trade digital assets backed by nearly any form of value. The network's design works *with* the traditional financial system to leverage the benefits of blockchain technology to enhance, not supplant, existing economic infrastructure. This critical distinction guides our work and the use cases built on the network.

Because of the headlines that dominate the crypto and blockchain space, you probably haven't heard much about the Stellar ecosystem or the real-world use cases built on Stellar. These headlines, especially from this summer, have left most believing that the world of blockchain and cryptocurrency is only lending, trading, borrowing, and speculation. So, I'd like to take my time with you today to highlight a payment service built on Stellar — launched in the dead of the 2022 "crypto winter" — with MoneyGram International (MGI). This use case represents the power and promise of the technology and its impact on those with limited access to the traditional financial system. Moreover, it is a true testament to SDF's mission to expand economic opportunity and financial inclusion.

Cash to Crypto: A gateway to the digital economy and financial inclusion
As an industry, we talk a lot about how the digital economy promises to let people freely send, receive, and hold their wealth as digital assets whenever and wherever they want. Though the reality is that today, it is nearly impossible to access the digital economy without a bank account or a credit card. While that can be an inconvenience for most crypto enthusiasts, it is an outright impediment for the unbanked and the underbanked.

Why does that matter? Because it's not enough for blockchain to only make the financial system better for those already using and benefiting from it. This is particularly important for SDF - an organization with a mission focused on boosting financial empowerment and opportunity. The true potential of this technology is to help reach those excluded from the current financial system and all that it unlocks. To do that, we need quick, secure, and affordable ways for the 60% of the world's population — or nearly 2 billion people — that rely on cash to convert their money into digital assets and back without exposing them to undue

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risk of price volatility.[1] Solving this problem is key to greater adoption and financial inclusion; building the necessary technology and finding the best partners to deliver the right solutions to address this problem has been the focus of the Stellar network since day one.

I am proud to say that in June, a lot of hard work put in by several organizations paid off. The Stellar network took a significant step forward to opening the door for more people to enter the digital economy. With MoneyGram International, Circle Financial, and a growing number of digital wallets, a first-of-its-kind global service enables anyone to convert cash to digital assets without a bank account or credit card.

How does it work? The service utilizes the Stellar blockchain and Circle's USDC Coin (USDC) to allow cash funding and payout in different currencies of the consumer's choice. The Stellar network provides the digital rails to make payments fast and secure. USDC provides a stable digital asset, a true stablecoin backed by fiat currency that is particularly well suited to payments and remittance use cases because it eliminates the risk of volatility of other types of cryptocurrencies. MoneyGram provides a global network of cash-in and cash-out locations.

What does that mean in practical terms? It means that an immigrant farm worker in Kansas, or Idaho, or California, or anywhere in the U.S., can send her hard-earned cash to family in her home country without experiencing outsized fees and uncertain wait times. She can walk into a local MoneyGram location — typically a supermarket or pharmacy — with one hundred dollars in cash and, in minutes, have one hundred virtual dollars in USDC deposited into her digital wallet. With her money available in a stable digital asset, she has the option to send it to another digital wallet anywhere in the world, like to her parents back home.

This is available to her right now, knowing that more of her money will make it to her family because MoneyGram offers this service with zero fees for the first year. She can also do it with confidence that the funds will arrive at their destination almost instantly. And all of this speed, certainty, and cost savings does not even require a bank account or credit card.

These benefits extend to the other side of the transfer; her parents could visit their local MoneyGram location and cash out of USDC into their local fiat currency when needed.

But sending digital assets is only one available option. She can also save her money in her digital wallet as USDC — a safer option than cash. Or, she can choose to engage with the growing number of products and services on the blockchain. This novel service finally gives neglected, unbanked, and cash-reliant populations a pathway to enter the digital economy with a stable currency opening the doors to new opportunities in the future.

It's been incredible to see the Stellar global community interact with the service, with testimonials from Florida to South Africa, to Canada and Mexico. With more than 420,000 agent locations in 200 countries, MoneyGram serves nearly 150 million people worldwide.

[1] Women and men in the informal economy: A statistical picture, International Labour Organization, 2018

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Today, consumers in 14 countries can cash-in or convert crypto to local currency for instant pickup at MoneyGram locations in their regions. Likewise, cash-out, or converting your crypto back into cash, is available globally at participating MoneyGram locations. In the three months since launch, we've seen cash-out happen in more than 60 countries. Millions now have a safe and secure way to send money to friends and family worldwide with zero fees and a safe way to store value. That's only today. Tomorrow, the possibilities are endless.

New partners and services

Those future possibilities come from bridging the gap between the physical and digital words so that businesses that have only been available digitally can now plug into physical locations worldwide. As a result, companies will be able to reach new users, notably those who rely heavily on cash, and, in turn, offer services that have been historically unavailable to this population. As mentioned earlier in this testimony, at SDF, we believe that collaborative ecosystems building together, including the traditional system, will take this industry further and to a much broader audience than building alone. These services are the vehicles for us to bring the most critical benefits of crypto to the people this technology was designed to include.

And we are already seeing more companies joining to offer these services. Coinme, one of the largest cryptocurrency cash networks with over 21,000 locations nationwide, announced it would also integrate with the Stellar network to offer cash-in of USDC. This integration will also expand to Latin America, giving 79 million Americans and 70% of those unbanked or underbanked a new option to access a vital pathway into digital finance and financial inclusion.[2] We hope to see more players follow.

I am hopeful that clarity from legislation, like the DCCPA, can help bring more traditional financial players to the table and enable the entire blockchain industry to continue building solutions and products to create a more equitable global financial system. With that, I would like to turn to the importance of an appropriate regulatory framework and the role of the CFTC in that framework.

The Importance of Getting it Right

Digital assets and blockchain may be one of the most meaningful technological developments of the 21st century. They will continue to foster innovation, job creation, and investment for industries and businesses with applications beyond finance and investing. As adoption grows, this technology can drive greater financial inclusion and be the catalyst for the next wave of digital innovation that unlocks economic opportunity in our nation. However, to reach its full potential and for our country to realize the benefits of this next-generation technology through use cases like what MoneyGram has built on Stellar, we must establish a policy and regulatory framework appropriate and fit for purpose. This means ensuring that key agencies, including both the SEC and CFTC, have clear mandates.

[2] CoinMe announces USDC-powered global, borderless digital cash and P2P payments, June 2022

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When Bitcoin was created over a decade ago, few envisioned the numerous use cases we see today that stem from the blockchain, let alone those that will develop in the next decade. Just as the internet required regulations for the explosion of new products and services built on new technology, digital assets and blockchain need rules based on future use cases rather than regulations aimed at legacy products and institutions. As a country, we have always been successful by regulating the *use* of technology rather than the underlying technology itself, putting safeguards in place without stifling innovation. This approach has allowed the U.S. to foster the growth of internet technologies and in doing so, realize the social and financial benefits of the digital age.

Lack of Regulatory Clarity

Today, no single federal regulator is responsible for digital assets in the U.S. Instead, entities and individuals engaged in the digital asset business are subject to a confusing, complicated patchwork of rules from federal and state regulators. Regulation is often inconsistent and duplicative. Each regulator views the industry and claims jurisdiction over it through its unique lens, its own set of rules, and its own authorizing statutes, often without regard to the burdens imposed by other related regulators.

As a result, one entity can interact with scores of state regulators, the CFTC, the SEC, FINCen, the OCC, and others. The costs can be crippling or even prohibitive for new and existing businesses. Worse still, the lack of clear and consistent regulations across the industry has given rise to "regulation by enforcement," an approach that is often so narrowly tailored to specific facts and circumstances that it fails to provide actionable guidance to the industry. It is an approach that also sidelines many compliance-oriented businesses hesitant to embrace this new frontier until more regulatory clarity is available and could encourage new businesses in the U.S. to move to other jurisdictions where lawmakers set the ground rules early and clearly.

These reasons have pushed the digital asset community to seek regulatory clarity from U.S. lawmakers and regulators. It may seem like the industry pushes for clarity because it's an easy thing to lament or because it doesn't agree with current proposals. Neither is true. The truth is, we are stuck. We all agree that the public deserves transparency, disclosures, and protections when buying particular items, no matter if those items are consumer products, commodities, or securities. The challenge comes in the correct method of ensuring these protections exist. When it comes to digital assets, many of which are necessary components to make a network run, the "how" the protections are imposed is crucial. It must be done in a manner that does not interfere with the intended use of those digital assets to keep the networks operating as they were designed. Our laws are here to protect and inform people, not to deprive them entirely of the opportunity to benefit from new technologies, services, or products in the name of that protection.

As CEO of a foundation supporting the growth of one of the most mature blockchain protocols, I talk to people across industries about solving their problems or enhancing product offerings through blockchain technology. When I started this role, it was sometimes hard to get in the

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door to have those conversations. Then, over the last three plus years, understanding of the utility and impact of this technology has grown and doors have begun to open. Today, when I sit with some of the most well-known financial services and fintech companies, I'm no longer convincing them that blockchain is worth considering as they are eager to incorporate blockchain into their business. Instead, I'm spending our time together talking about stablecoins and whether there are regulatory concerns if they use them in their products. I tell them that the regulatory clarity we need, along with the necessary guardrails and oversight, is coming. These are the required steps and reassurances these companies need to take the plunge with this technology, to bridge traditional and digital finance and help bring it to the masses.

The call for greater regulatory clarity is a real one because it is existential. It's not because we are looking for a different answer; we are looking for clear, definitive rules that are not subject to one's interpretation. We need it. We need it to build and operate with the knowledge that we are making the right decisions. We need it to understand how best to protect consumers. We need it to bring the full power of this technology to the masses with the collaboration of companies and institutions already integrated into our everyday lives. That is why the DCCPA is a welcome step forward.

Digital Commodities Consumer Protection Act

Clear Regulatory Structure

This legislation focuses on ensuring that the CFTC has the authority to oversee digital commodities, with the understanding that both the SEC and CFTC have key roles to play in regulating digital assets, depending on their specific attributes. The most crucial aspect of the DCCPA is the creation of a spot market regulator in the CFTC. The agency has a long history of vetting and approving new types of exchanges to trade new innovative products, including climate, interest rate, and event contracts. In addition, it already regulates a large swath of digital asset markets by regulating digital asset futures markets. The CFTC has also exercised its anti-fraud and anti-manipulation spot market authority by bringing several enforcement cases against fraudsters in the digital asset space over the last seven years. With this experience in mind, the CFTC is ideally suited to take on the responsibilities set out in the DCCPA.

A more robust CFTC, working alongside the SEC, will provide consumers and the industry a clearer path forward.

Stablecoins

Stablecoins are an essential ingredient for safe, secure, and fast payments. Because of that, consistent and transparent regulation of stablecoins is a priority. Regulated businesses are already issuing stablecoins on Stellar. Those stablecoins move value from one fiat currency in one country to another fiat currency in another quickly, at low cost, and without exposure to the signature volatility of other cryptocurrencies. Backed by fiat currencies held in insured

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bank accounts, these *true* stablecoins are a bridge between traditional finance and blockchain networks.[3]

Given the importance of stablecoins in payment use cases, we support sensible legislation that acknowledges both the role of open-source software and technology companies (in addition to insured depository institutions), and safeguards that protect consumers and the public trust.

In fact, it was encouraging to see the DCCPA set out a process for stablecoins, or “fixed value” digital commodities, to be listed on Digital Commodity Trading Facilities, as stated in Section 5(i)(d) of the Act. We appreciate the drafters’ focus on the key considerations for stablecoins such as the identity of the issuer, the collateral or reserves backing the stablecoin, and the terms by which the issuer will redeem the stablecoin.

Consistent with this legislation, SDF has publicly stated that stablecoins should be required: (1) to be fully reserved, and (2) those reserves should be held at insured depository institutions in bankruptcy remote segregated accounts. A regulatory framework should also set standards for the regular audit and public disclosure of stablecoin reserves to help inform consumers and establish eligibility parameters for stablecoin reserve assets. For example, reserve assets could be limited to cash, cash equivalents, and other high-quality, highly liquid assets like short-dated U.S. Treasuries and investment-grade debt securities. Additionally, we believe that some standardization of key contractual terms between stablecoin issuers and stablecoin holders around redemption would benefit the market. This bill implicitly notes, consistent with the President’s Working Group on Financial Markets’ Report on Stablecoins, that payment stablecoins are not securities. We agree. As such, it is appropriate that they be regulated and traded as commodities under the DCCPA.

While some have advocated for legislation that focuses on the status of the stablecoin issuer (i.e., issuers should be limited to insured depository institutions), to the extent other lawmakers are considering the regulation of stablecoins, we encourage them to focus on stablecoin reserves in a manner consistent with this bill rather than the status of the issuer.

Energy

The DCCPA calls for a study of the energy impact of digital assets. This study is an essential bill provision that we at SDF welcome. Recently, SDF enlisted a major international consultancy to develop a framework to assess electricity consumption and emissions of blockchain protocols. The first-of-its-kind assessment framework is meant to enable blockchain and financial services organizations to consider further measurement of their environmental footprints. The framework aims to quantify the material environmental impacts of blockchain, building on existing research in the market. Within the framework, quantitative considerations include electricity use, greenhouse gas emissions, e-waste/embodied carbon, and differences in consensus mechanisms.

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[3] We refer to the conversion to and from fiat USD to USDC as the “onramps” and “offramps” of the blockchain network.

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In evaluating the Stellar Consensus Protocol through this framework, we confirmed that this consensus mechanism (proof of agreement) — a form of Federated Byzantine Agreement unique to the Stellar network — is incredibly efficient. Guided by these findings and to address the environmental footprint the network does have, SDF, together with the Stellar ecosystem has established an ongoing Carbon Dioxide Removal (CDR) commitment for the removal of the carbon footprint of the network.

We believe that a transparent, consistent environmental assessment framework is critical to reducing emissions in any industry. SDF is proud to help bring such a framework to the blockchain industry, and true to our open-source roots, we have shared the methodology. Additionally, we actively engage with others in the industry through direct conversations, trade associations, and membership in the World Economic Forum's Crypto Impact and Sustainability Accelerator (CISA). We aim to establish a common approach so that all blockchain networks can determine their carbon impact with a consistent methodology for measurement. We also hope to encourage greater transparency from legacy players to share their data so we can all have visibility into the sustainability of financial services as a whole. We would welcome the opportunity to share our work with the CFTC and this Committee on this issue as part of any study conducted under the DCCPA.

Customer Protection, Education, and Historically Underserved Customers

We are pleased that the DCCPA requires the CFTC to engage and promote customer outreach and education. And we are especially attuned to the requirement to focus and report on ways to reach and craft appropriate protections for historically underserved customers participating in digital markets. As an organization with a mission of financial inclusion, we could not agree more that consumer protection and education are necessary to achieve that goal. And we believe this is accomplished best in partnership between the public and private sectors. Like many technologies, blockchain can be complicated, but the products and services that leverage the technology don't have to be. We use the internet to ease our daily activities — but we don't need a detailed understanding of how it works. Companies have harnessed the power of the internet with the consumer in mind ensuring that knowing how the technology works is not a requirement for its use. We in the blockchain industry have some work to do in this area — making the technology simple and safe with a focus on solving everyday problems with the user and user's needs in mind. We support user-centric design through our relationships with builders in the Stellar ecosystem and advocacy. We would be honored to serve as a resource and, in turn, also learn from the CFTC as they execute this mission.

Areas for Further Consideration

By designating the CFTC as the market regulator for the spot market in digital assets, the DCCPA creates a regulatory structure that will move us towards the clarity the industry needs. However, we also know that creating the "rules of the road" at a principles level is crucial. With that in mind, we offer two suggestions where we believe additional structure could help foster innovation in the U.S., and lead to better products serving more people.

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Commodity vs Security

Rightfully, the DCCPA has defined a Digital Commodity while recognizing the SEC's jurisdiction over securities. However, unfortunately, it fails to address the fundamental question that has plagued the industry for far too long: when is a digital asset considered a commodity versus security? Since at least 2017, courts and the SEC have applied the Howey Test on a case-by-case basis to digital assets and their issuers or promoters in enforcement actions. Yet, the industry still has no clear way to determine when a particular set of facts and circumstances amount to an "investment contract." The Howey Test does not, nor has it ever, offered regulatory clarity. It is a court-made test created based on facts and circumstances far afield from digital assets. It is not a principles-based rule. The industry desperately needs a practical definition not a multi-factored "test" susceptible to results-oriented application. The DCCPA is the perfect vehicle to deliver such a definition. Again, we hope to have the opportunity to work with this Committee to supplement the language to ensure that the bill addresses how to bring clarity to determining the classification of all digital assets.

As a first step, we hope this definition acknowledges that all digital assets are not created equal. Time and again, we have raised the importance of considering the activity and purpose of each asset — not just that it is digital — when evaluating the appropriate rules or regulations, because many tokens and digital assets serve different purposes. For instance, many tokens in this space are core to the workings of the blockchain. Others run on top of the networks, but are not essential to the networks' functionality. These differences call for different approaches to attaining the regulatory goals of consumer protection, transparency, and disclosure.

What exactly does it mean for a digital asset to be "core to the workings of the blockchain"? Take the Minnesota or Iowa State Fair. When you arrive at the fair, your entrance fee gives you access to the grounds, but you must buy tickets to play the games, ride the rides, or, my personal favorite, buy a delicious funnel cake. These tickets are essential if you wish to experience the full value of the fair through engaging with the attractions - much like you need certain digital assets to engage with particular networks. These tickets serve as a tool for fair attendees and the fair - and they may even be sold peer-to-peer when an attendee departs from the grounds. Alternatively, an attendee may hold her unused tickets hoping that she will be able to use them at the following year's fair when the ticket prices may be higher. However, these tickets do not give attendees any ownership stake in the fair, nor does the peer-to-peer sale or decision to hold the tickets turn the tickets into investment contracts. These tickets exist only to keep the fair running smoothly. While it is important for the fair organizers to ensure that fair-goers understand what the tickets are and how to use them, we can all agree that the organizers need not register them as securities. Much like understanding the attributes of these tickets, the definition of digital asset must include a framework for assessing the asset's functionality vis-a-vis the relevant network.

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Regulating Activity, Not Technology

As discussed above, the DCCPA would give entities and individuals engaged in the business of digital assets a clear path through the maze of regulators that claim jurisdiction over their products, services, and activities today. Consolidating the oversight responsibilities would be a tremendous step towards establishing clear and consistent guardrails that will allow these businesses to thrive. However, as currently drafted, some could interpret the text to cover aspects of the technology rather than the participants offering products and services that leverage the technology. As I mentioned above, technology is a tool that evolves so quickly and can bring about previously unimagined benefits if allowed to flourish. Regulation aimed at the technology itself, rather than its use, will only stifle the innovation we all invariably want to see. Finally, reaching a definition that can provide clarity regarding the businesses and individuals who would be subject to these regulations is a priority for the industry. We look forward to participating in any way necessary to achieve it.

Conclusion

With an appropriate and clear policy and regulatory framework, digital assets and blockchain have great potential to usher in a new era of innovation and economic opportunity for the U.S., in a way that improves access to financial services for millions of people. I believe that the DCCPA is a consequential step towards creating this innovative and inclusive financial system. The proper tools and legislative authority paired with a coordinated federal approach, will promote American innovation and demonstrate our leadership on this technology to the many around the globe considering similar regulatory questions. SDF looks forward to working with Congress, and with this Committee specifically, to determine and craft the appropriate regulatory structure, one that clearly delineates regulatory roles for the digital assets industry and ultimately allows this industry to achieve its potential.

Thank you again for the opportunity to testify today.