FACT SHEET: The Responsible Financial Innovation Act

Republican crypto market structure bill threatens Americans' retirement savings, increases chances of a financial meltdown, fails to address illicit finance risks and presidential corruption, and leaves crypto investors vulnerable.

The Senate Banking Committee Democratic staff reviewed the text of the *Responsible Financial Innovation Act* (RFIA), a draft bill from Senate Republicans that would exempt most existing and future cryptocurrency investments from current requirements under federal securities law and create a new, deregulatory regime riddled with exemptions and loopholes for the issuance and trading of crypto tokens.

The bill would assign what little crypto oversight it prescribes to the chronically underresourced CFTC, with no additional funding to administer this new authority and no requirement that either the CFTC or SEC operate with Democratic Commissioners. Most concerningly, the bill provides a superhighway for traditional assets to escape the SEC's authority simply by converting stocks and other non-crypto securities into tokens.

Senator Warren laid out principles for a strong crypto market structure bill last month. This draft bill fails to do the following:

1. Uphold our existing securities laws for non-crypto assets;
2. Strengthen our financial stability;
3. Require commonsense safeguards against money laundering and terrorist financing;
4. Prevent the President and other public officials from engaging in crypto corruption; and
5. Ensure protections for crypto investors.

RFIA has five major flaws that the Senate must fix:

Flaw #1: Takes a hammer to our $120 trillion capital markets by shrinking the SEC's authority and risking Americans' retirement savings and stock investments. RFIA would provide a superhighway for traditional securities to escape the SEC's authority, fundamentally upending the regulatory framework that has governed our capital markets for nearly a century. It would overturn the 75-year-old test the SEC uses to determine whether the assets that companies sell to the public are "investment contracts" and thus securities within the SEC's jurisdiction, by creating the concept of an "ancillary asset." RFIA's ancillary asset definition—which is not limited to crypto—allows companies to sell assets to investors without any of the protections afforded by federal and state securities laws. The bill would allow companies to "self-certify" that they are issuing ancillary assets and thus are not subject to SEC rules, with little to no opportunity for the SEC to contest those certifications. Even for Americans who invest in non-crypto companies, this would mean exposing their retirement accounts and investments to greater volatility while stripping away existing federal and state enforcement tools to protect and help investors who get scammed.

Flaw #2: Increases the risk of a financial meltdown. RFIA would open the floodgates for FDIC-insured banks and bank holding companies to directly engage in a broad range of crypto activities on behalf of customers and for their own accounts. For example, bank holding companies would be allowed to trade crypto and even operate their own crypto hedge funds. Banks would also be permitted to lend against volatile crypto collateral, establish wallet software businesses, and deal in crypto derivatives, among other activities. The bill would bring crypto activities firmly within the taxpayer safety net, threatening the Deposit Insurance Fund, the safety and soundness of the banking system, and the ongoing availability of the critical non-crypto banking services that businesses and households rely on.

Flaw #3: Fails to address illicit finance and other national security risks. During debates over the GENIUS Act, Republicans promised to address risks of money laundering, terrorist financing, and sanctions evasion in this market structure legislation. But RFIA does not close any of the serious gaps that experts have warned would undermine our national security, instead simply requiring further studies and task forces on crypto illicit finance risks. The bill fails to address decentralized finance or extend basic obligations to exchanges, mixers, and other entities that have been used by criminals, rogue nations, and terrorists to launder billions of dollars to fund illicit activity.

Flaw #4: Fails to rein in presidential crypto corruption. RFIA fails to apply any safeguards that would prevent the President and his family from continuing to profit off his memecoin and other crypto ventures, while turbocharging his corruption by expanding the reach of his crypto tokens. Crypto now comprises the majority of President Trump's wealth. Since last year, he and his business partners have received at least $620 million in payouts from his crypto tokens alone, not including his other crypto investments. Congress should stop the most egregious presidential financial corruption in the history of our nation.

Flaw #5: Fails to provide crypto investors with enforceable protections. RFIA's exemptions and loopholes mean that it would only cover a fraction of existing or future tokens, shunting the vast majority of crypto transactions over to the CFTC's weak, underresourced, deregulatory regime. From there, under current proposals likely being considered by the Senate Agriculture Committee, most tokens would likely have a pathway out of federal or state regulation entirely. For the tokens that RFIA purports to regulate, the investor protections that apply are dangerously weak. Most concerningly, it provides weak protections against fraud, such as investment fraud, corporate fraud, market manipulation, and insider trading. Though RFIA purports to maintain the SEC's antifraud authority for crypto tokens, it prohibits the SEC from collecting the types of disclosures that would allow the agency to meaningfully enforce antifraud laws. For example, by prohibiting the SEC from requiring financial statements from crypto issuers, the SEC cannot identify when crypto companies cook the books or steal investors' money.