

**From Wall Street to Web3: Building Tomorrow's Digital Asset Markets**  
**Testimony Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs**

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Chair Scott, Ranking Member Warren, Subcommittee Chair Lummis, Subcommittee Ranking Member Gallego, and distinguished members of the Committee, thank you for inviting me to testify today on the importance of crypto market structure legislation and how to safely and equitably grow the crypto industry in America.

My name is Dan Robinson, and I serve as a General Partner at Paradigm, which is a research-driven investment firm focused on crypto. Paradigm was founded in 2018 by Fred Ehrsam and Matt Huang, and today manages over \$10B in assets across three funds. Our firm's core thesis had two components: that crypto will be one of the most significant technological developments of our times, and that the kind of investor that most crypto founders would want to work with didn't exist yet.

One way we differ from most other investors is our research function, meaning R&D work we do to advance the technical frontier of the industry for the benefit of our portfolio companies and investment process. Some of this work is theoretical, but most of it is practical, helping the founders in our portfolio design new products and protocols. This research-driven orientation has led us to hire many investors with unusual backgrounds, including myself.

I started my career as a securities litigator at Paul, Weiss, having graduated from Harvard Law School in 2013. The launch of the Ethereum blockchain, which allowed legal and financial logic to be implemented as self-executing code, helped convince me I had chosen the wrong profession. I left law to become a software engineer at a crypto startup, before joining Paradigm in 2019.

What drew me to crypto was the concept of fully programmable money—something that had never really been possible before. My research work at Paradigm focuses on market and mechanism design, particularly in decentralized finance, or DeFi. DeFi protocols are built out of smart contracts—self-executing programs that run on blockchains—and allow users to trade, borrow, and lend assets with anyone in the world, without having to give up custody or take on counterparty risk. The power of these protocols, and the kind of puzzles that need to be solved to make them work, make DeFi extremely interesting to a particular kind of researcher.

Those challenges attracted a whole generation of researchers and developers, many of whom—in the great American tradition of inventor-entrepreneurs—became founders. I've been extremely fortunate to get to collaborate with many of them, both from our portfolio and from the

broader crypto research community. These founders wanted to contribute to the economy and help upgrade the financial system. Many of them are American, are proud to have built their companies in the United States, and would never want to live anywhere else.

What most motivated me to speak at this hearing is what happened to these founders and developers under the Biden administration. The regulators in that administration, particularly the SEC and the CFTC, repeatedly declined to engage with the industry or conduct constructive rulemaking, but instead chose to regulate primarily through enforcement. This approach harmed investors and disrupted markets. This was possible not only because of overzealous regulators, but because of the lack of legislative clarity around these assets.

I'm going to talk about the benefits decentralized finance can bring to the American economy, and why its promise could be strengthened by a well-designed market structure bill. But I will also talk about why it is important to make those requirements flexible enough to accommodate the unusual nature of decentralized finance protocols and crypto assets.

### Why Do We Need Decentralized Finance?

Finance is inherently decentralized. Payments only require a sender and a recipient; trading only requires a buyer and a seller; credit only requires a borrower and a lender. But since ancient Mesopotamia, merchants have found it useful to congregate in urban marketplaces to participate in commerce and price discovery, and to rely on intermediaries to match buyers and sellers or borrowers and lenders.

These intermediaries have produced tremendous efficiencies, and in the modern era, have helped make the United States the financial capital of the global economy. But the inherent network effects of liquidity have contributed to winner-take-all dynamics in which a few exchanges, custodians, and banks dominate the financial sector.

These systems are shielded from competition, due in part to regulatory barriers. This has led to a stagnation in what they offer. Markets are open only during a narrow window. Trades can take days to settle. Collateral is often bound to one institution. The set of purchasable assets is limited, and the barriers to creating liquidity in long-tail assets are significant.

What crypto provides is an alternative system, one that gives us the efficiency of globally coordinated markets without sacrificing the competitive benefits of peer-to-peer trading. Instead of markets based in a handful of cities around the world, which have accrued disproportionate economic value over the last few decades, we could have a single layer that unifies the myriad financial systems across the globe.

The United States can maintain its dominant position as markets shift into this new form. Not by trying to force this technology into the existing paradigm, but by doing what the United States has always done—outpacing the rest of the world on innovation and entrepreneurship. Through its hard work on the GENIUS Act, this committee has ensured that the US dollar will strengthen

its position as the global unit of account, by making digital dollars accessible to anyone with an internet connection. You have the opportunity to do the same for the rest of decentralized finance.

## How Decentralized Finance Has Helped Crypto

Crypto users believe a better financial system is possible because we have experienced it—at least in an embryonic form. Many crypto holders use DeFi every day. Two of the most popular types of DeFi protocols are decentralized exchanges—which allow users to trade cryptocurrencies against each other without giving up custody—and decentralized lending platforms—which allow users to take out loans collateralized by other cryptocurrencies.

The appeal of noncustodial trading and lending to crypto users isn't too surprising, given the dubious track record of custodial crypto exchanges and lending platforms. But security is not the only benefit of DeFi:

- **Convenient.** DeFi is far more convenient for users whose assets are already on a blockchain, since they don't have to deposit to an exchange, trade, and then withdraw.
- **Accessible.** DeFi allows markets to be used by anyone in the world.
- **Permissionless.** DeFi allows anyone to add new assets and provide liquidity for them, leading to trading in orders of magnitude more assets.
- **Iterative.** DeFi has led to an explosion in experimentation and competition that has helped discover new ways that markets can function.

## Decentralized Exchange

Decentralized exchanges are slowly eating the market for crypto trading. In June, a record 29% of crypto spot trading volume happened on decentralized exchanges.

Decentralized exchanges work very differently from centralized ones. One illustrative example is Uniswap. Uniswap is the highest-volume decentralized exchange in the Ethereum ecosystem, with over \$1 billion in daily volume. The core of the Uniswap protocol is a set of smart contracts that allow users to efficiently provide liquidity between any two assets, using an invention known as an automated market maker. Other users can trade directly with those liquidity providers, simply by sending a transaction to the blockchain.

Unlike many centralized crypto exchanges, Uniswap does not charge a “listing fee” for the privilege of listing a token. Anyone can permissionlessly deploy their own Uniswap exchange for any pair of tokens, and can easily provide liquidity. As a result, over 400,000 distinct tokens have been traded using Uniswap.

In terms of its control over the technology, Uniswap works more like an open-source project than like any kind of traditional financial institution. The company that wrote the code has no ability to

steal assets from the protocol's users, or to control access to the protocol. While the company operates one interface that allows users to trade on the protocol, that interface is responsible for less than 7% of the volume to the protocol.

## Decentralized Lending

Another popular use case in DeFi is decentralized lending. While permissionless DeFi protocols are not well-suited for *unsecured* lending (given the difficulty of credit assessment or recourse), they are a very natural fit for *collateralized* lending. Users use lending protocols to borrow one token secured by another—say, putting down \$200 of ETH as collateral to borrow \$100 of USDC. This allows users to get access to liquidity without having to sell their assets, or even to give up custody of them. Smart contracts prevent the borrower from withdrawing their collateral without repaying their loan, and automated liquidation protocols sell their collateral to repay the lender if it falls dangerously close to the value of their loan. Because decentralized lending platforms are transparent, both borrowers and lenders can verify for themselves that the system is fully solvent at all times.

An illustrative example of this is a lending protocol called Aave, where users have deposited over \$36 billion in collateral into Aave to borrow over \$14 billion in other crypto tokens. Over \$6 billion of that collateral is Bitcoin, making it one of the most popular ways for people to borrow dollars (using stablecoins) against Bitcoin.

While decentralized lending protocols are in their infancy, we think they have tremendous potential. Lending protocols allow borrowers to be automatically matched with lenders anywhere around the world, creating a globally competitive market for secured credit, with the safety of the collateral guaranteed by code. In collaboration with a portfolio company, I helped design a lending protocol called Blend that allows peer-to-peer lending against arbitrary onchain collateral, in which borrowers are matched against sophisticated lenders who compete to offer the best terms.<sup>1</sup> Imagine a mortgage or home equity line of credit immediately accessible no matter your background, with instantaneous delivery.

## Stablecoins

Stablecoins are an integral part of DeFi, and DeFi in turn helps drive demand for stablecoins. By our count, over \$9.3 billion of USDC—over 15% of its total supply—is currently held by DeFi protocols. It is also worth noting that while the dominant stablecoin on most centralized crypto exchanges is USDT (or Tether), the most-used stablecoin *in DeFi* is USDC—which, as you all know, is issued by Circle, a public company based in the United States.

We believe that decentralized exchanges and automated market makers will play an essential role in making stablecoins usable. If a user holding USDC wants to make a payment to

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<sup>1</sup> Dan Robinson, transmissions11, Galaga, Toad, Pacman. Blend: Perpetual Lending With NFT Collateral. Paradigm, May 1, 2023. <https://www.paradigm.xyz/2023/05/blend>.

someone who wants to accept USDT, it makes no sense for the sender to have to deposit it into a centralized exchange, trade it for USDT, and withdraw the USDT before making the transfer.

I helped Uniswap design a feature for their Uniswap v3 protocol called concentrated liquidity, which increased the capital efficiency of their automated market maker, particularly for correlated assets like stablecoin pairs.<sup>2</sup> Today, DEXes do over \$450 million in volume between pairs of stablecoins, largely driven by Uniswap v3 and other stablecoin-optimized AMMs.

We anticipate that there ultimately could be thousands of stablecoins in regular usage. This poses a challenge for liquidity providers, but we think DeFi has the tools to provide the answer. A recent paper by my colleague Dave White, coauthored by myself and Paradigm advisor Ciamac Moallemi from Columbia University, presents an AMM design that extends the concept of concentrated liquidity to pools with more than two assets, allowing even greater capital efficiency.<sup>3</sup>

### How DeFi Could Help Traditional Finance

All of these systems, as they run on blockchain rails, are open and verifiable — and have instantaneous and absolute, or “atomic”, execution and settlement. This is a far cry from the opaque back-end systems of today’s Wall Street, where trades execute sometimes on NYSE—but more often in bank-run dark pools—and then take days to settle at DTCC, with markets closing overnight and on weekends.

With crypto, and especially with DeFi, we have a chance to radically upscale our markets to make them more robust, more liquid, and more integrated across our economy. Traders can find more counterparties for uncommon trades via tokenized stocks. Hedge funds and pensions can engage in targeted proprietary trading without the need to do so via a bank, saving money for their investors and beneficiaries. And prediction markets can be more broadly brought to bear across the economy, improving our ability to foresee unexpected outcomes and hedge risk accordingly. Just last month, one of the earliest sources of information that Zohran Mamdani would win the mayoral primary election in New York came from Kalshi, a prediction market platform that is registered with the CFTC.

Not unsurprisingly, traditional finance, or TradFi, is closely monitoring DeFi and preparing to jump in feet first. According to our recent DeFi report on TradFi adoption, over two-thirds of TradFi firms are currently looking into or actively experimenting with DeFi technology, and nearly 95% of TradFi firms expect DeFi to be moderately, very, or critically important within 11-15 years to their operations, with 28% answering it will be critically important.<sup>4</sup> With millions of traders

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<sup>2</sup> Hayden Adams, Noah Zinsmeister, Moody Salem, River Keefer, and Dan Robinson. Uniswap v3 Core. Uniswap, March 2021. <https://uniswap.org/whitepaper-v3.pdf>.

<sup>3</sup> Dave White, Dan Robinson, and Ciamac Moallemi. Orbital. Paradigm, June 2, 2025, <https://www.paradigm.xyz/2025/06/orbital>.

<sup>4</sup> Paradigm Policy Team. TradFi Tomorrow: DeFi and the Rise of Extensible Finance. Paradigm, March 20, 2025. <https://www.paradigm.xyz/2025/03/tradfi-tomorrow-defi-and-the-rise-of-extensible-finance>.

using DEXs and growing, the period of DeFi as primarily a crypto native-only story is already drawing to a close.

## A Strong Market Structure Bill Can Protect DeFi

Markets are a critical source of truth in the world, one of the last ones that we can broadly agree on. Crypto helps us enhance, protect, and deepen markets.

At the same time, markets do need rules. We at Paradigm believe that it is important that crypto have regulations that are clear, fair, and equitable and help this space expand in a manner that is positive for users, investors, start-ups, and ordinary Americans. I also feel that it has been an unforced error for the U.S. to be one of the last major developed countries to enact legislation on crypto market structure—trailing behind the EU, UK, UAE, Tokyo, Hong Kong, and Singapore. My hope is that today's hearing represents the beginning of a real effort to pass comprehensive legislation on market structure through the U.S. Senate.

We also respect that the specific design of legislation should not be the work of any one individual, company or stakeholder. It is a task best left to you, our elected officials. In the hopes of providing some hard-won wisdom from our experience in crypto, we released seventeen principles for market structure legislation.<sup>5</sup> I believe these would be a good starting point for discussions on how legislation should be broadly designed — and that, above all, regulation should be flexible and evergreen, capable of evolving with technology, rather than ossifying the market advantage of any incumbents. We were encouraged to see the recent principles released by this committee drew similar conclusions about market structure legislative priorities.<sup>6</sup>

I will spare you from running down our list in order, but let me briefly stress a few of the most important principles. First, most crypto assets should be commodities. Crypto assets are designed to be used—to interact with smart contracts and in some cases to pay for onchain operations — not merely for investment. These are a new form of asset that is native to the internet, and their regulatory classification should fit that. Admittedly, this does not mean that *all* crypto tokens by definition should be commodities. If an asset has all the form and aspects of a security, such as an onchain version of Apple stock, then that should of course be a security. But the vast bulk of assets should be treated as commodities, befitting the goal of making these assets useful and productive.

In terms of operationalizing this point, it's our view that the best approach for token classification devised in legislation so far is the “ancillary assets” concept in the Lummis-Gillibrand Responsible Financial Innovation Act. Above all, rules for token classification need to be clear

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<sup>5</sup> Paradigm Policy Team. Market Structure Legislation Principles. Paradigm, April 1, 2025. <https://www.paradigm.xyz/2025/04/market-structure-principles>.

<sup>6</sup> Chairman Tim Scott, Senator Cynthia Lummis, Senator Thom Tillis, and Senator Bill Hagerty. Senate Banking Committee Crypto Market Structure Principles. U.S. Senate Banking Committee. [https://www.banking.senate.gov/imo/media/doc/6-24-25\\_market\\_structure\\_principles.pdf](https://www.banking.senate.gov/imo/media/doc/6-24-25_market_structure_principles.pdf).

and simple to use. If a token classification rubric can't be used by a small startup without requiring \$2 million in legal fees, a decision flow chart, and 100 hours of internal firm time debating how a certain classification test works, that test has failed its core task of enabling competition and innovation.

Additionally, making the classification of an asset depend on complex details of the issuer's business or product effectively turns the system from a disclosure-based framework into a substantive regulatory regime that can end up undermining its own goal of investor protection. We saw under the Gensler SEC how their novel interpretation of the efforts-based Howey test, in which anything that accrues value to a token is interpreted as evidence that the network's token is a security, perversely incentivizes companies to minimize their efforts toward adding value to a network once a token is launched. We are concerned that the same thing could happen with regulatory frameworks that hinge classification on similar considerations.

As the primary regulator of crypto, the CFTC should be empowered to set regulatory requirements for manipulative trading of all crypto assets. Fraud is, always has been, and always must be illegal, regardless of which type of asset may be involved. Similarly, market manipulation must always be policed against and deterred. To fail to fight market manipulation is to imprison markets and rob them of their full potential for discerning truth. By the same token, the CFTC should be authorized to require custodial trading facilities that offer markets in crypto assets to register with the Commission and follow the same kind of basic core mandated principles of the kind that futures and swaps exchanges already follow. This list of core principles should include such mandates as regular recordkeeping, prohibiting manipulation of the assets in which they offer markets, appropriate conflicts of interest rules, and robust cybersecurity protections.

Next, in the spirit of supporting DeFi's growth, and because true DeFi is noncustodial software, any decentralized crypto asset exchange should not be required to register with the CFTC, SEC, or any other regulator. At base, a true DeFi protocol is software. Trades occur through it but it does not hold assets or off-ramp crypto assets into fiat currency. Just as we do not ask Microsoft to register Excel with the SEC just because companies use it to track their IPOs, we should not demand the engineers of DeFi protocols register their software just because others use it to trade. To set a regulatory requirement that some types of pure software should register with a market regulator or any financial regulator would set a dangerous precedent that would chill development, overwhelm the market regulators with new registrants for no clear benefit, and ultimately harm both crypto, finance, and ordinary Americans.

On the other hand, there should be rigorous requirements on CFTC registrants that *do* have custody of their users' crypto. When a person holds assets for another person, it is reasonable to have robust mandatory requirements to ensure those assets are kept safe. This is an area where there is no substitute for legal requirements that carry consequences if a person or company fails to follow those requirements. Among the requirements that should be placed on centralized crypto platforms are the use of a separate custodian, segregation of funds, and

holding of customer assets in Treasuries and other regulated financial products allowed by the CFTC.

Note, however, that there should not be similarly rigorous requirements on self-custody. What a person or company chooses to do with its own assets is a matter of personal choice. If a person wants to self-custody their bitcoin in whatever wallet they choose, that is their prerogative, just as it is their prerogative to hold a bundle of cash under their floorboard.

We need to trust Americans to make at least some of their own financial choices and not engage in theatrical paternalism. For similar reasons, I believe people should be allowed to choose to opt-out of some of the requirements on how custodied assets will be handled. But any such choice must be one that is actually free and fair, not as fine print that is bundled in as a mandatory requirement to custody assets. Every custodian should be required to offer its users custodial services that follow all the regulatory requirements laid out above.

Crypto should receive the same protections in bankruptcy as other financial products like cash and commodities. Part of the job of drafting market structure legislation may be the difficult discernment of how to define complex concepts. But another part is the banal process of simply updating how we treat crypto in our legal system to bring it into parity with how we treat many other assets. Granting crypto assets the same protection in bankruptcy as all other financial assets is a way to help the industry, ordinary consumers, and our frequently overtaxed legal system.

Finally, DeFi should be protected and supported around the globe. It should be the policy of this government and written into our laws that no national government should be allowed to prohibit trading of crypto assets on DeFi globally. I recognize that the U.S. does not have the power to actually stop all other countries from taking actions that only impact their own populace. Every sovereign state has the right to decide how their own citizenry can work, trade, and live. But as the predominant financial market, it is in the U.S.'s power to guarantee that no other country can make DeFi illegal for the rest of the world. In this way, the U.S. would be resurrecting the work done by our forefathers to protect the freedom of the seas in prior centuries. Just as having open sea lanes was critical to the growth of global commerce and freedom in the 19th and 20th centuries, having open access to DeFi will be critical to the expansion of financial commerce and freedom in this century.

Let me close by stressing the tremendous potential opportunity that lies before you on market structure legislation. Already, crypto has a market capitalization of over \$3 trillion despite the absence of any regulatory clarity. Every day, we at Paradigm see new ways that crypto will support economic growth and free markets, from prediction markets and DeFi to tokenized stocks and even the use of Bitcoin mining to support the electric power grid. We are now even seeing crypto markets emerge for the trading of credits in AI compute, potentially further supercharging the advancement of that critical industry. There is a whole new world of economic opportunity and financial freedom that lies just beyond our reach at present, behind the clouds of regulatory uncertainty. By enacting market structure legislation that is supportive of crypto,



supportive of entrepreneurs, supportive of investors, and supportive of consumers, you can blaze the trail to those new markets for all Americans.

Thank you, and I look forward to your questions.