UNITED STATES SENATE COMMITTEE ON BANKING HOUSING & URBAN AFFAIRS

U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

FACT SHEET

The CLARITY Act Cracks Down on Fraud and Money Laundering

TOPLINE: The CLARITY Act takes a hardline approach to fraud and money laundering while protecting American investors. The bill strengthens law enforcement capabilities with clear, workable tools to prevent fraud and money laundering.

KEY FRAUD AND AML PROVISIONS INCLUDE

- Requires Treasury to assess and report on significant illicit-finance threats or vulnerabilities associated with U.S.-dependent offshore stablecoins used in a material volume of transactions.
- Establishes the Digital Asset Cyber Innovation Center to counter threats from state actors, including North Korea and Iran, and coordinate the federal response to cyberattacks and stolen digital assets. The Center will strengthen public-private information sharing, support fund recovery, establish a white-hat rewards program, and drive digital asset security standards.
- Allows for temporary holds for suspicious activity, granting digital asset service providers and permitted payment stablecoin issuers a safe harbor from private causes of action if they voluntarily pause suspicious transactions reasonably suspected of involving unlawful activity or at the request of law enforcement. This includes delaying the execution of a transaction, conversion, or withdrawal involving digital assets. These short pauses help protect customers by giving law enforcement time to determine whether to stop suspicious transactions.

Requires permitted payment stablecoin issuers to reissue replacement stablecoins, as appropriate, when a lawful order requires existing stablecoins to be seized, frozen, or burned.

- Establishes a public-private task force to identify and combat cryptocurrency scams and improve coordination among regulators, law enforcement, industry, and consumer-protection stakeholders.
- Applies BSA regulations to digital commodity brokers, dealers, and exchanges, which must maintain anti-money laundering (AML) and counter- terrorist financing (CFT) programs, monitor and report suspicious activity, implement a customer identification program, and comply with sanctions laws.
- Creates risk-based exam standards, requiring financial institutions interacting with crypto to be examined for BSA compliance under risk-based standards.

- Cracks down on digital asset kiosks (ATMs) by requiring operators to register kiosk locations; provide transaction disclosures, fraud warnings, and receipts; maintain anti-fraud programs and employ compliance officers; use blockchain analytics to detect fraud; and comply with transaction limits and a 72-hour holding period for certain new-customer transactions. New customers may cancel covered transactions during the holding period and receive a full refund, including fees.
- Provides Treasury the authority to designates digital assets as monetary instruments.
- Mandates risk management standards for digital asset intermediaries, requiring digital asset intermediaries to assess risks related to DeFi trading protocols, fraud, and market manipulation; implement policies and procedures to mitigate those risks; and make risk-based decisions about whether to execute, reject, or suspend DeFi-related transactions.
- Requires digital asset intermediaries to make educational materials publicly available explaining how distributed ledger systems function, common risks, differences between digital asset markets and traditional financial markets, and how to recognize and report fraud.
- Expands resources to protect the elderly from financial fraud by authorizing existing federal law enforcement grant funds to investigate elder financial fraud, pig butchering, and other financial scams, giving state and local law enforcement greater flexibility to dedicate resources to these investigations.
- Increases funding for FinCEN, authorizing $30M per year through 2031 and allowing for annual incentive premiums up to 20% base pay to attract highly qualified personnel.
- Empowers state and local law enforcement by expanding Law Enforcement Officers Byrne Justice Assistance Grant funding to support state and local investigations of digital asset related crime, including the purchase of blockchain analytics tools and other technologies.
- Creates a new “Special Measure 6” authority, allowing the Treasury Department to act swiftly against foreign jurisdictions, institutions, or transaction types that pose a primary money laundering concern involving digital assets.
- Establishes a pilot program that allows private sector entities to partner with federal law enforcement to share information about illicit finance violations and emerging risks related to illicit finance.
- Requires targeted studies and reports on digital asset mixers and tumblers, illicit finance risks, cybersecurity vulnerabilities, and national security threats.
- Creates a voluntary NIST cybersecurity program for DeFi protocols, which will help mitigate cyber vulnerabilities and strengthen infrastructure-security practices.

> **BOTTOM LINE:** The bill closes significant gaps in fraud and money laundering while preserving marketplace integrity.