UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING & URBAN AFFAIRS

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

MARKET STRUCTURE LEGISLATION

# Provisions Strengthening Law Enforcement

The Senate Banking Committee's CLARITY Act provisions significantly bolster and modernize law enforcement's tools and capacity to target bad actors in the digital asset space – establishing clear obligations for digital asset companies, coordinated information-sharing mechanisms, and proactive protections that close regulatory gaps.

## ENHANCED BSA AND AML OBLIGATIONS FOR INTERMEDIARIES

- **Section 10201** clarifies that digital commodity brokers, dealers, and exchanges must comply with Bank Secrecy Act and OFAC sanctions requirements.
- **Section 10202** requires Treasury to establish examination standards to assess financial institutions involved in digital asset sectors for AML/CFT compliance.
- **Section 10307(b)** designates digital assets as monetary instruments under the BSA, ensuring financial institutions' BSA reporting includes digital asset transactions and strengthening law enforcement's ability to investigate, trace, and seize illicit digital asset flows.
- **Section 10307(d)** authorizes Treasury to issue illicit finance guidance for financial institutions that engage with self-hosted wallets.

## INFORMATION SHARING AND INTERAGENCY COLLABORATION

- **Section 10203** creates a pilot program for formal information-sharing channel between industry and law enforcement, improving the timeliness and quality of intelligence sharing on evolving digital asset fraud and money laundering schemes.
- **Section 10204** establishes a public-private working group to provide regular policy recommendations for strengthening tools to combat illicit finance, narcotics trafficking, and terrorist financing.
- **Section 10905** establishes a public-private task force between federal agencies and the private sector to coordinate identifying and combating cryptocurrency fraud.
- **Section 10507** creates an interagency task force dedicated to combating digital asset illicit activity across foreign jurisdictions, including by identifying high-risk jurisdictions and promoting U.S. AML/CFT standards globally.
- **Section 10901** authorizes existing federal law enforcement grant funds to be used 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.

- **Section 10902** expands Byrne Justice Assistance Grants (JAG) funding to support state and local investigations of digital asset-related crime, including the purchase of blockchain analytics tools and other technologies.

## COMBATING DIGITAL ASSET KIOSK FRAUD

- **Section 10205** addresses digital-asset kiosk fraud by requiring operators to register kiosk locations; provide transaction disclosures, fraud warnings, and receipts; maintain anti-fraud programs; designate compliance officers; use blockchain analytics to detect fraud; and comply with transaction limits and a 72-hour holding period for certain new-customer transactions. Covered new customers may cancel during the holding period and receive a full refund, including fees. If a customer attempts to cancel during that period but cannot contact the operator, the transaction must be treated as canceled. The section also provides transaction-fee refunds for fraud victims who submit a qualifying complaint and law-enforcement report.

## ILLICIT-FINANCE AND SANCTIONS OBLIGATIONS FOR DEFI OPERATORS

- **Section 10301** directs SEC and Treasury to issue rules clarifying how persons controlling and operating a non-decentralized finance trading protocol must comply with SEC regulations, and if applicable, BSA/AML/sanctions obligations.
- **Section 10302** requires Treasury to issue guidance for U.S. owners and operators of distributed ledger application layers (‘front-ends’).

## DIGITAL-ASSET CYBERSECURITY AND THREAT RESPONSE

- **Section 10904** establishes a Digital Asset Cyber Innovation Center that counters state-actor threats (like North Korea and Iran) to digital assets, coordinates cyber threat response and stolen fund recovery across federal agencies and the private sector, promotes real-time public-private information sharing and a white-hat rewards program, and drives digital asset security standards.

## SPECIAL MEASURE FOR MONEY LAUNDERING CONCERNS

- **Section 10303** authorizes Treasury to broadly prohibit or restrict certain fund transfers by U.S. financial institutions that involve foreign digital asset companies, jurisdictions, or transactions identified as posing significant money laundering concerns.

## TEMPORARY HOLDS ON SUSPICIOUS TRANSACTIONS

- **Section 10305** clarifies that digital asset service providers and stablecoin issuers may place a temporary hold on digital asset transactions they suspect involve illicit activity or at law enforcement’s request, without facing civil liability.

## COMPLIANCE WITH LAWFUL ORDERS

- **Section 10906** requires payment stablecoin issuers to reissue replacement stablecoins, as appropriate, when a lawful order requires existing stablecoins to be seized, frozen, or burned.

## CYBERSECURITY STANDARDS FOR DEFI

- **Section 10306** establishes a voluntary NIST cybersecurity program for DeFi protocols and related activities, allowing participants to have their adoption of applicable cybersecurity standards and best practices evaluated by NIST.

## RISK MANAGEMENT OBLIGATIONS FOR INTERMEDIARIES

- **Section 10308** requires digital asset intermediaries conducting trading activity through DeFi protocols to implement risk management standards to address any AML, sanctions, fraud, market manipulation, and cybersecurity risks, subject to coordinated rulemaking and oversight by the relevant financial and national-security regulators.

## COMBATING FRAUD

- **Section 10801** directs the SEC and CFTC to require digital asset intermediaries to provide clear educational materials to the public regarding common risks and guidance on how to recognize fraudulent schemes and report suspected fraud.
- **Section 10903** establishes a training program that educates federal, state, local, and tribal law enforcement, prosecutors, and regulators on conducting digital asset investigations, disrupting illicit finance, and identifying national security threats.

## ADDITIONAL FINCEN APPROPRIATIONS

- **Section 11003** authorizes $150 million for FinCEN over fiscal years 2026 through 2030 to implement AML/CFT regulations and increase its capacity to analyze and share financial intelligence in support of law enforcement investigations.