

ADDRESSING REGULATORY GAPS IN THE DIGITAL ASSET ECOSYSTEM

# Common Requirements to Extend to Digital Asset-Related Activities

Among the common requirements that currently apply to a wide variety of regulated institutions (brokers-dealers, banks, swap dealers, exchanges and utilities), the following should be extended and adapted to apply to firms engaged in digital asset-related activities:

Entity Requirements	Regulatory Objective
ENTITY DISCLOSURES	Providing information on key facts on how the entity operates, including any material affiliates.
ENTITY FINANCIAL DISCLOSURES	Providing accurate and independently reviewed financial information through audit requirements, and controls on information is tracked via books and records requirements.
REGULATORY REPORTING	Require periodic and regular reporting of core business and financial information to regulatory authorities.
FINANCIAL RESPONSIBILITY RULES	Ensure that firms have the necessary capital and liquidity and segregation of customer funds and assets.
RISK MANAGEMENT AND CONTROLS	Requirements for understanding and managing risks, including financial, operational, and market risks.
COMPLIANCE	Ensuring that adherence to regulations and internal policies are embedded in the firms' operations.
BORROWING CONTROLS	Provide controls on how customers' borrowing against assets such as in margin trading.
BUSINESS CONDUCT RULES	Manage conflicts of interest and ensure fair dealing.
TRADING RULES	Prohibiting improper trading activities, such as front running or market manipulation.
REGULATION AND SEPARATION OF DIFFERENT FUNCTIONS AND ACTIVITIES	Where companies are involved in different businesses (such as brokering & dealing, providing central clearing, operating trading platforms, or serving as custodians or investment advisors) separate them into different entities and provide controls to prevent improper behavior.
AML AND KYC REQUIREMENTS	Extending and modernizing requirements to prevent fraud and other illicit financial activity, such as money laundering and terrorist financing, so that screening and controls on clients and transactions can most effectively monitor the novel features of digital asset infrastructure