Coy Garrison Bio

Steptoe LLP (2022-Present)

- Coy Garrison, a former SEC counsel and career staffer, is a partner in Steptoe LLP's Government Affairs & Public Policy and the Financial Innovation & Regulation practices.
- Coy advises private fintech companies, public companies, and financial institutions on how to navigate challenging legal and regulatory issues related to crypto and blockchain technology. He also advises public companies on disclosure, securities law compliance, and governance matters.

Previous Employment

- Counsel, Office of Commissioner Hester M. Peirce, US Securities and Exchange Commission (2019-2022)
- Senior Special Counsel, Office of Director of Division of Corporation Finance, US Securities and Exchange Commission (2018-2019)
- Special Counsel, Office of Real Estate and Commodities, US Securities and Exchange Commission (2016-2018)
- Attorney-Advisor, Office of Real Estate and Commodities, US Securities and Exchange Commission (2013-2016)
- Staff Attorney, US Court of Appeals for the Fourth Circuit (2012-2013)

Bar & Court Admissions

- District of Columbia
- Maryland
- US Court of Appeals, Fourth Circuit

Education

- J.D., Pepperdine University School of Law, 2012, *magna cum laude;* Associate Editor, *Pepperdine Law Review*
- B.A., University of Maryland, 2008, Phi Beta Kappa

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In accordance with Rule XI, clause 2(g)(5)* of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

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Witness Name: ______________________________

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Witness Type: ○ Governmental ○ Non-governmental

Are you representing yourself or an organization? ○ Self ○ Organization

If you are representing an organization, please list what entity or entities you are representing:

<u>FOR WITNESSES APPEARING IN A NON-GOVERNMENTAL CAPACITY</u>

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

Are you a fiduciary—including, but not limited to, a director, officer, advisor, or resident agent—of any organization or entity that has an interest in the subject matter of the hearing? If so, please list the name of the organization(s) or entities.

Please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you or the organization(s) you represent have received in the past thirty-six months from the date of the hearing. Include the source and amount of each grant or contract.

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☐ I have attached a written statement of proposed testimony.

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* Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a non-governmental capacity, a written statement of proposed testimony shall include— (i) a curriculum vitae; (ii) a disclosure of any Federal grants or contracts, or contracts, grants, or payments originating with a foreign government, received during the past 36 months by the witness or by an entity represented by the witness and related to the subject matter of the hearing; and (iii) a disclosure of whether the witness is a fiduciary (including, but not limited to, a director, officer, advisor, or resident agent) of any organization or entity that has an interest in the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B)(ii) shall include— (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form 24 hours before the witness appears to the extent practicable, but not later than one day after the witness appears.

Testimony of Coy Garrison
Partner, Steptoe LLP
Before the U.S. House Committee on Agriculture
Subcommittee on Commodity Markets, Digital Assets, and Rural Development
April 9, 2025

Thank you, Chairman Johnson, Ranking Member Davis, and members of the Subcommittee for inviting me to testify today on American innovation and the future of digital asset regulation.

My name is Coy Garrison. I am a partner in the Washington, DC office of Steptoe LLP. For nearly three years my practice has focused on advising clients how to navigate challenging legal and regulatory issues related to blockchain technology. Prior to private practice, I was an attorney for the U.S. Securities and Exchange Commission ("SEC" or the "Commission"), including serving as counsel to Commissioner Hester M. Peirce from 2019-2022 and in multiple roles with the Division of Corporation Finance from 2013-2019. My testimony today is informed by both my private and public sector experience, but I appear before you on my own behalf and not on behalf of Steptoe LLP or any client of the firm.

My message to you today is straightforward: passing digital asset market structure legislation is essential to promote American innovation in blockchain technology. The status quo is unacceptable: there is no federal market regulator overseeing centralized spot market exchanges and there is a lack of regulatory clarity that only Congress can fully address. Fortunately, the 119th Congress and the Trump Administration have a unique opportunity to work together to establish sensible regulation and encourage innovation in the U.S. I provide some thoughts below to aid in this subcommittee's consideration of the six principles for market structure legislation recently published by Chairman Thompson.[1]

1. Robust Digital Asset Markets Are Vital to Blockchain Technology Innovation, But Lack a Federal Market Regulator

Blockchain technology plays an important role in society today and holds significant promise in a world of growing distrust in institutions. In 2008, the bitcoin whitepaper seeded the idea that a peer-to-peer electronic payment system could be based on cryptographic proof instead of a trusted third party.[2] Bitcoin soon thereafter became the world's first permissionless, decentralized, peer-to-peer payments technology, and served as catalyst for others to build upon the concept. Since then, developers have built blockchains and blockchain-based software seeking to provide decentralized networks for everything from payments, lending, and trading, to livestock verification, agricultural equipment financing, and mapping tools, to file storage, social media, and artificial intelligence model development.

Decentralized networks and applications built upon them need an incentive structure to drive participation in the security and operation of the network. Digital assets native to these

[1] Chairman G.T. Thompson & Chairman French Hill, *A Blueprint for Digital Assets in America* (Apr. 4, 2025), https://agriculture.house.gov/news/documentsingle.aspx?DocumentID=7875.
[2] Satoshi Nakamoto, Bitcoin: A Peer-to-Peer Electronic Cash System (Oct. 31, 2008), https://bitcoin.org/bitcoin.pdf.

networks are therefore distributed either programmatically or by a centralized entity in a number of ways, including through capital raising transactions, airdrops, rewards linked to a consensus mechanism, and developer grants, to name a few. Digital asset spot markets exist to facilitate the trading of digital assets by holders, persons wanting to participate in or use the network, and persons desiring to express a view on the price of the digital asset. Centralized spot market exchanges therefore serve a vital function of facilitating price discovery for digital assets.

However, these exchanges lack any federal regulatory oversight to promote market integrity, monitor against fraud and manipulation, or impose requirements to safeguard customer assets. While there are a number of responsible trading platforms, the lack of a federal regulator leaves open the door to another FTX-like failure in the future. Moreover, federal oversight of these exchanges will likely encourage more participation in these markets from entities hesitant to jump in absent such regulation, and in turn, encourage more innovation in the blockchain industry.

2. The Lack of Regulatory Clarity Persists and Can Only Be Solved by Congress

Entrepreneurs looking to build decentralized networks in the U.S. often choose not only to build and launch offshore, but to exclude or limit the participation of U.S. persons. Typically they do so because of uncertainty as to whether the securities laws apply, and if they did apply, there is no clear pathway to compliance. Such an outcome hurts U.S. competitiveness and lets entrepreneurs and capital flow to jurisdictions willing to provide regulatory certainty for the industry.

A closer look at the securities law analysis reveals how difficult it is for the SEC to bring clarity on whether it has authority to regulate digital asset spot market transactions, absent direction from Congress. The legal analysis of whether any particular digital asset is sold pursuant to an "investment contract," and therefore subject to the securities laws, requires a facts-and-circumstances consideration of the economic realities of the transaction. That analysis is guided by case law, anchored by the Supreme Court's *Howey* test of whether there is a "contract, transaction, or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party."[3]

The SEC under Gary Gensler adopted a broad and shifting interpretation suggesting that a digital asset embodies an "investment contract" in secondary market transactions and went so far as to coin the term "crypto asset security" in court filings alleging that major centralized spot market exchanges were operating as unregistered securities exchanges, broker-dealers, and clearing agencies. Multiple district courts reprimanded the agency for its legal imprecision, with one court describing the label "unclear at best and confusing at worst,"[4] and another court explaining how the approach is inconsistent with the statute and *Howey*:

> Insisting that an asset that was the subject of an alleged investment contract is itself a "security" as it moves forward in commerce and is bought and sold by private individuals on any number of exchanges, and is used in any number of ways over an indefinite period

[3] SEC v. W.J. Howey Co., 328 U.S. 293 (1946).
[4] SEC v. Payward Inc., et al., No. 23 Civ. 06003 (WHO), ECF No. 90 (N.D. Cal. Aug. 23, 2024) at 19.

> of time, marks a departure from the Howey framework that leaves the Court, the industry, and future buyers and sellers with no clear differentiating principle between tokens in the marketplace that are securities and tokens that aren't. It is not a principle the Court feels comfortable endorsing or applying based on the allegations in the complaint, particularly since the only term among the approximately twenty options included in the statutory definition of "security" that is being relied upon in this case is "investment contract."[5]

SEC Acting Chairman Mark Uyeda and Commissioner Peirce have rightly begun to reverse course, dismissing many of the cases against the centralized spot market exchanges. Accordingly, federal appellate courts will not have the opportunity to weigh in with their views on the scope of *Howey* as applied to digital assets for the foreseeable future.

The SEC Crypto Task Force, led by Commissioner Peirce, is engaged in a commendable and fruitful effort to right the ship at the SEC and provide regulatory clarity. In recent weeks, the Task Force issued clear statements scoping outside the securities laws certain transactions in stablecoins, proof of work mining, and memecoins.[6] The Task Force also hosted a roundtable last month focused on defining security status for digital assets.[7]

U.S. Commodity Futures Trading Commission ("CFTC") Acting Chairman Caroline Pham is similarly pushing forward for regulatory clarity on digital assets. The CFTC recently held its first Crypto CEO Forum, withdrew staff guidance on clearing of digital assets so as to not apply unequal treatment on digital asset derivatives, and is exploring a potential digital assets markets pilot program for tokenized non-cash collateral.[8]

There are limitations to what the SEC and CFTC can achieve absent direction from Congress, however. One significant regulatory gap is that neither the SEC or CFTC have clear statutory authority to regulate spot market trading of digital assets. The CFTC does not have regulatory oversight authority over spot trading of commodities. While the SEC has clear authority to regulate the primary issuance of a digital asset sold pursuant to an investment contract, there is significant doubt that the secondary trading of digital assets constitute investment contract transactions within the SEC's jurisdiction.

3. **Considerations for Market Structure Legislation**

Last week, House Committee on Agriculture Chairman G.T. Thompson and House Committee on Financial Services Chairman French Hill published six principles for market

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[5] SEC v. Binance Holdings Ltd, et al., No. 23 Civ. 1599, ECF No. 248 (D.D.C. June 28, 2024 at 42-43.

[6] *See* SEC Staff Statement on Meme Coins (Feb. 27, 2025), https://www.sec.gov/newsroom/speeches-statements/staff-statement-meme-coins; SEC Staff Statement on Certain Proof-of-Work Mining Activities (Mar. 20, 2025), https://www.sec.gov/newsroom/speeches-statements/statement-certain-proof-work-mining-activities-032025; SEC Staff Statement on Stablecoins (Apr. 4, 2025), https://www.sec.gov/newsroom/speeches-statements/statement-stablecoins-040425.

[7] SEC Roundtable, *How We Got Here and How We Get out – Defining Security Status* (Mar. 21, 2025), https://www.sec.gov/newsroom/meetings-events/how-we-got-here-how-we-get-out-defining-security-status.

[8] CFTC Announces Crypto CEO Forum to Launch Digital Asset Markets Pilot (Feb. 7, 2025), https://www.cftc.gov/PressRoom/PressReleases/9049-25; CFTC Staff Withdraws Advisory on Review of Risks Related to Clearing Digital Assets (Mar. 28, 2025), https://www.cftc.gov/PressRoom/PressReleases/9060-25.

structure legislation. I respectfully offer high-level considerations for this subcommittee in assessing each principle.

a. ***Legislation must promote innovation. We seek to protect opportunities for innovators to create and utilize digital assets, while ensuring users can lawfully transact with one another.***

If a digital asset native to a decentralized network were to be labeled as a security under the terms of the legislation, then each transaction in that digital asset, even outside of a centralized spot market exchange, would be subject to the securities laws. This would severely restrict the ability for that digital asset to be used as intended on the network and could drive the development of that network offshore. Legislation should focus on regulating the spot market trading of digital assets, not their use as intended within the relevant network.

b. ***Legislation must provide clarity for the classification of assets. Users of digital assets should clearly understand the nature of their holdings, including whether they qualify as securities or non-securities.***

This is the most challenging aspect of market structure given the complexities of the *Howey* analysis. Any test used to divide jurisdiction between the CFTC and SEC based on the classification of the digital asset should consider the following factors:

- The extent to which the test will upend current practice and bifurcate spot digital asset markets;
- Whether there is a compelling customer protection or market integrity reason for bifurcating spot digital asset markets;
- The benefits of simplicity in administration of the test for regulators and industry participants;
- The difficulties of coordination between the SEC and CFTC in creating and maintaining separate rules, and the resulting burdens on registered entities; and
- The capabilities of either agency to equally perform all market oversight functions.

The SEC Crypto Task Force will be a valuable resource to Congress in articulating the SEC's current views on how it intends to evaluate digital asset spot market trading, and whether there are specific types of assets or transactions with which they believe the SEC has jurisdiction over. Ultimately, however, it is for Congress to decide where to draw the line between the two agencies.

c. ***Legislation must codify a framework for the issuance of new digital assets. The framework should permit issuers to raise capital through the sale of new digital assets under the jurisdiction of the SEC. It should protect retail investors and require developers to disclose relevant information to help users understand the unique characteristics of digital asset networks.***

This approach would be consistent with the well-established position that token offerings conducted to raise capital for a project involves the sale of investment contracts and are subject to the securities laws. Many token issuers avoid selling to U.S. investors because the existing

registration and exempt offering framework is a poor fit for the realities of the projects they are building.

Bold reforms to the existing disclosure requirements and restrictions on secondary trading under the Regulation A and Regulation Crowdfunding exemptions should be considered for token offerings sold pursuant to investment contracts. For example, audited financial statement requirements appropriately form the cornerstone of the SEC's disclosure system for public companies. However, for many development teams looking to build a decentralized network, the financial information that is relevant to a token holder is likely not the financials of the development team, but rather the wallet address(es) of the project's treasury and transparency into how and why tokens move from that address. A streamlined exemption that leverages the benefits of blockchain for transparency and contains disclosure requirements that are carefully crafted for token holder protection would be an ideal outcome.

d. ***Legislation must establish the regulation of spot market exchanges and intermediaries. Centralized, custodial exchanges and intermediaries facilitating transactions with non-security digital assets should adhere to similar requirements as other financial firms.***

Imposing the same type of regulation on digital asset intermediaries as CFTC-registered or SEC-registered firms is a reasonable approach for regulation. Some modifications to existing CFTC or SEC rules may be appropriate to allow spot market exchanges and intermediaries, and their customers, to benefit from disintermediated trading and real-time settlement of digital assets.

e. ***Legislation must establish best practices for the protection of customer assets. Entities registered with the SEC or CFTC should be required to segregate customer funds and hold them with qualified custodians. Customer funds should also be protected during bankruptcy.***

Protection of customer assets is a core function for any centralized, custodial spot market exchange and should be prioritized in legislation. Preserving flexibility in the type of federal or state regulator that may have oversight over the qualified custodian will be an important factor.

f. ***The legislation must protect innovative decentralized projects and activities. Congress should ensure that decentralized protocols, which pose different risks and benefits, are not subject to regulations designed for centralized, custodial firms. In safeguarding decentralized activities, Congress must also protect an individual's right to self-custody their digital assets.***

DeFi is a growing, but nascent industry that raises different issues from centralized spot market trading. Truly decentralized protocols typically allow disintermediated, peer-to-peer transactions and do not exercise control over transactions or a user's assets. They therefore don't pose the same risks that centralized spot market trading does to market participants. Of course, centralized entities that masquerade as decentralized protocols should be regulated in a manner that addresses the risk of their actual activities, not of the label they use to market themselves.

Limiting the legislation to the issue at hand: centralized spot market trading of digital assets, is a prudent course of action.

4. Conclusion

Despite the welcome change in regulatory approach by the SEC and CFTC under the Trump Administration, Congressional action is needed to implement oversight of spot market digital asset trading because there are limits to the regulators' existing authorities. In addition to bringing regulatory clarity and customer protection benefits to the marketplace, market structure legislation is likely to encourage American innovation in blockchain technology. Thank you for your leadership on this important topic and I look forward to your questions.