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FIN-TECH AND DIGITAL ASSETS
Battle over Clarity Act: Market
Power vs Financial Control

By

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26 February 2026

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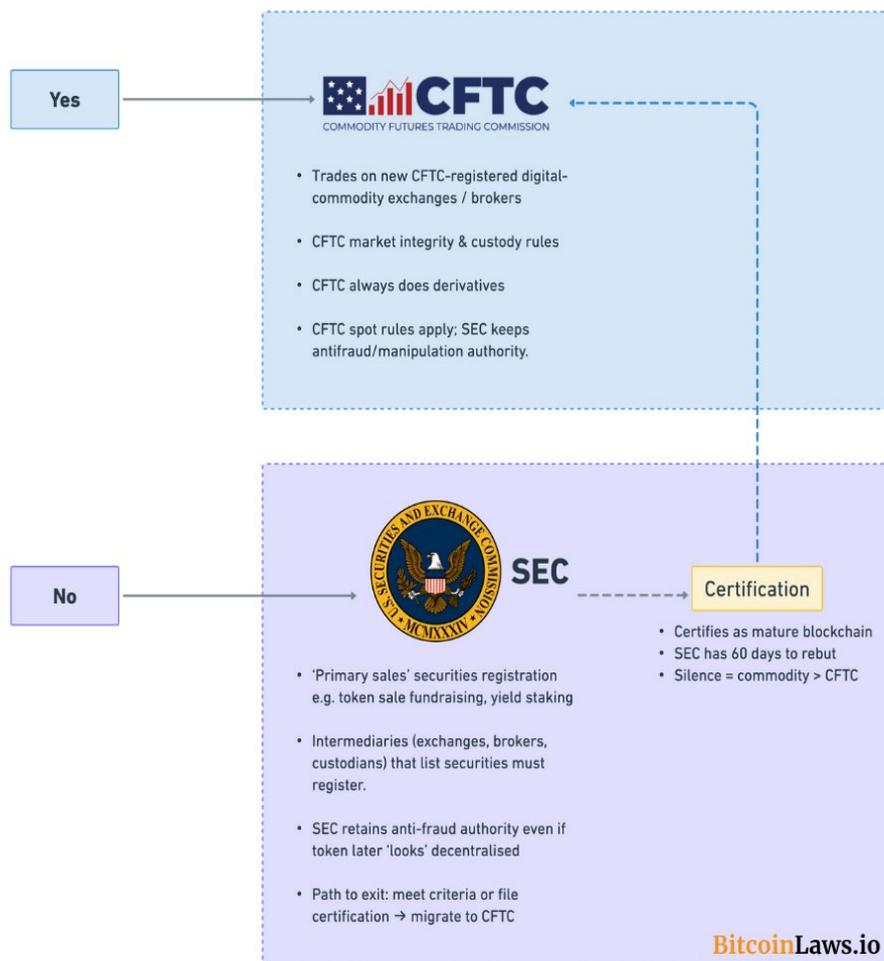
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Executive Summary

- ✦ The United States is accelerating efforts to establish a comprehensive regulatory framework for digital assets, with the CLARITY Act aimed at resolving fragmented oversight and defining the division of authority between the SEC and CFTC.
- ✦ Consensus in Washington is weakening as banks prioritise financial stability and deposit protection, while digital asset firms seek operational flexibility, innovation, and lighter-touch supervision.
- ✦ Rewards and interests on stablecoins have emerged as the primary fault line: banks warn that such rewards could draw deposits away from insured institutions, whereas digital asset firms view it as essential for adoption and competition.
- ✦ Events like the FTX collapse have strengthened the political case for stricter oversight and increasing the likelihood of SEC-style supervision over market-led solutions.
- ✦ Near-term policy is likely to proceed incrementally, with targeted stablecoin legislation advancing and efforts to bring diverse stakeholders onboard for consensus.
- ✦ Prolonged uncertainty risks pushing capital, talent, and trading activity offshore to jurisdictions such as the EU, Singapore, and the UAE, raising strategic questions about whether the U.S. will set global standards or follow them.

Key Picture: The Clarity Act’s Mature Blockchain Test

Is the Blockchain Deemed Already Mature?

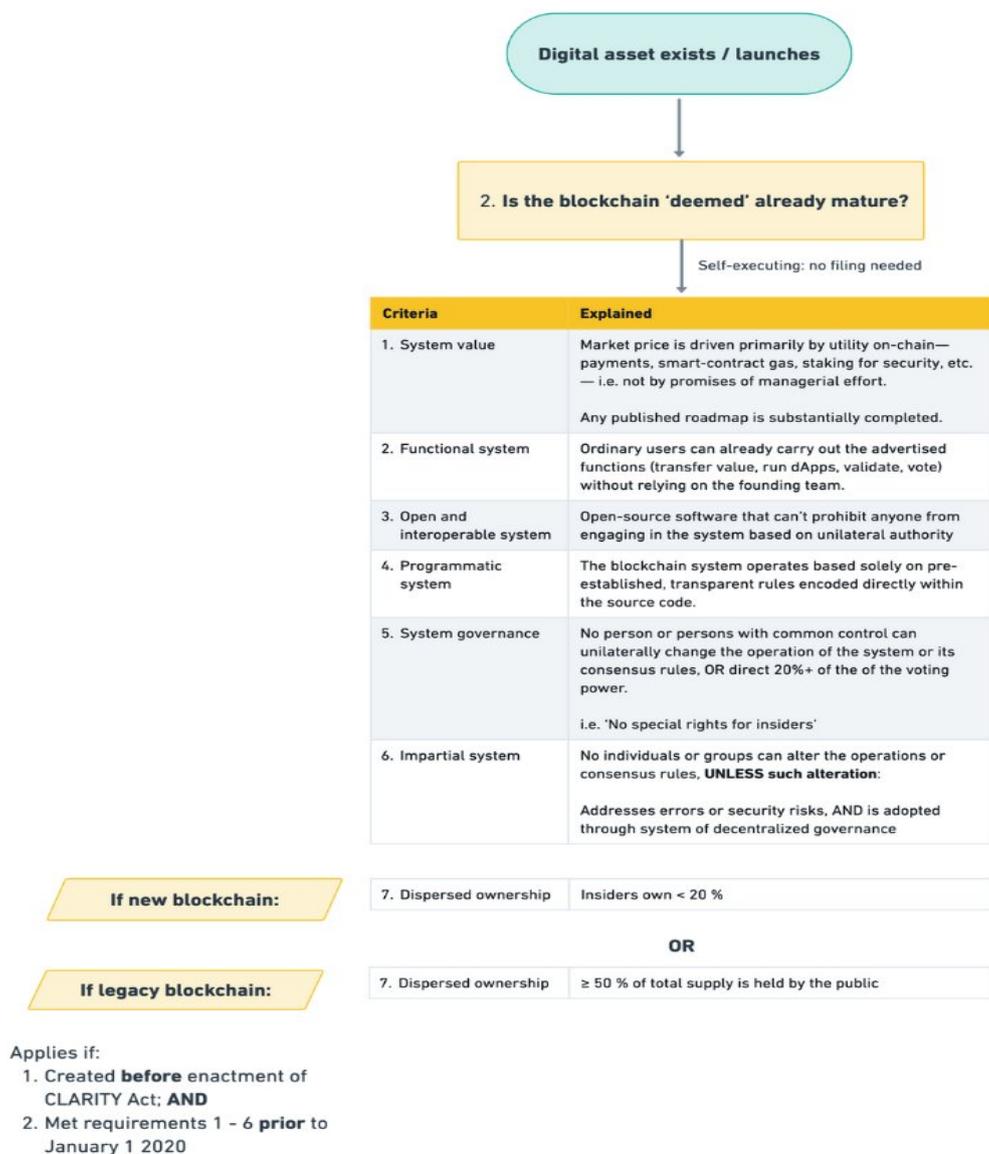


A Fracturing Consensus in Washington

The World Economic Forum accentuates that one of the key accelerators for the adoption of any emerging technology is to bring regulatory clarity¹. Contemplating the potential growth within the digital asset market with a current market capitalisation of more than \$3 trillion, the United States of America seeks to bring a coherent regulatory oversight². The GENIUS Act, currently a US federal law, that explicitly focused on stablecoins prompted the administration to accelerate the CLARITY Bill - bringing clarity towards the market structure of digital assets.

By acting as an early bird in formulating a comprehensive regulatory policy, the country is expecting to exert its dominance over the cutting-edge technology. Taking the hegemonic stability perspective, a leading power benefits from setting institutional architecture of a new market³. Similar to the post war financial institutions - early regulatory leadership in digital assets allow the US to export standards and keep dollar centrality.

Figure 1: The Discriminant Factor Behing Clarity Act



Source: BitcoinLaws.io

To bridge competing interests, the White House convened a stakeholder meeting that included the American Bankers Association, the Independent Community Bankers of America, the Blockchain Association, the Digital Chamber and the others⁴.

The negotiation, which was expected to bring all parties on the same page, stalled over critical disagreements on stablecoin rewards and interests. Representatives of the banking institutions pushed for a blanket prohibition of any form of rewards and interests paid to the customers. On the other side, the digital asset firms stood their ground re-emphasising the significance of rewards that is expected to act as a protection for new customers and re-affirmed that a blanket prohibition is anti-competitive in nature.

The whole debate revolved around the structural tradeoff between safety of deposit-funded banking and efficiency gains promised by digital asset infrastructure.

A Law Targeting The Market Structure

Policymakers argue that the prevailing system suffers from fragmented oversight and outdated rules. Hence, the CLARITY Act seeks to introduce enforceable safeguards, protect retail participants, and keep innovation and investment onshore. Central to the proposal is a formal taxonomy distinguishing which tokens qualify as securities and which as commodities — a classification that determines which agency sets the rules, Securities and Exchange Commission (SEC) or Commodity Futures Trading Commission (CFTC)⁵, as explained in the **Key Picture** and in **Figure 1**.

Early drafts suggested granting the CFTC primary authority over spot crypto markets. More recent language, however, appears to expand the SEC's remit. This distinction is consequential. CFTC oversight is typically principles-based and focused on market integrity, while SEC supervision brings stricter disclosure, registration, and compliance requirements. Where that jurisdictional line is drawn will likely shape the structure of the entire industry.

Competing Interests

Digital asset firms broadly support legislation that improves trust in the market and legal credibility. However, Coinbase, the largest U.S. exchange, has taken a step back, citing concerns over restrictions on stablecoin rewards and what it views as a shift towards the expansion of SEC authority⁶. For firms, the difference between CFTC and SEC oversight is not semantic but operational: former implies flexibility while the later infers, higher compliance burdens and stricter norms⁷.

Banks, meanwhile, frame the issue through the lens of maturity transformation model⁸. If stablecoins begin offering deposit-like products with yield, customers may shift funds away from traditional banks. Reduced deposits could force lenders to rely on more expensive wholesale funding or liquidate assets, compressing margins and amplifying liquidity risks during stress periods. From this perspective, tighter stablecoin regulation is less about market protection and more about systemic stability.

Digital asset companies counter that fully collateralised stablecoins function as efficient payment rails and savings tools, not shadow banks. Overly bank-like regulation, they argue, risks stifling competition and slowing innovation. The dispute therefore extends beyond prudential risk management to a broader contest over who intermediates money in the digital economy.

The collapse of FTX in 2022 further hardened regulatory instincts⁹. Beyond the financial crime itself, the event exposed weak governance, and the absence of prudential supervision for firms performing exchange and broker-like functions. For many policymakers, it justified a more assertive, SEC-style approach to oversight.

Likely Pathways for the Administration

Washington is expecting to capitalise the innovative market and protect financial stability. It is imperative for the administration and policymakers to keep all major stakeholders onboard, especially the biggest market player like Coinbase. Moreover, few senators advised the banks to embrace stablecoin and view digital assets as a new business opportunity.

In practice, Washington is unlikely to pursue sweeping reform in the coming term. Moreover, stablecoins sit closest to the traditional banking system and attract bipartisan concern around reserves, custody, and payment system risk. A targeted stablecoin framework therefore offers a more tractable first step than comprehensive market structure legislation. Jurisdictional questions — including the SEC–CFTC split — are likely to be resolved only gradually through negotiation with the major players and incremental compromise.

Implications For the US Competitiveness in Digital Assets

Digital asset markets are inherently mobile. Exchanges, liquidity providers, and developers can relocate far more easily than traditional financial institutions. When compliance burdens become excessive or uncertain, capital and talent tend to migrate to favourable destinations rather than adapt. Other jurisdictions are already moving faster: the European Union’s MiCA regime provides passportable licensing across member states, while Singapore and the UAE have positioned themselves as predictable, rules-based hubs¹⁰¹¹.

Against this backdrop, prolonged ambiguity risks pushing activity offshore rather than bringing it within the U.S. regulatory perimeter. Ultimately, the question is not only about investor protection, but about who sets the standards that will define the next generation of financial market infrastructure.

NOTES

¹ Waliczek, Sandra. 2026. “What to Expect for Digital Assets in 2026.” World Economic Forum. January 13, 2026. <https://www.weforum.org/stories/2026/01/digital-economy-inflection-point-what-to-expect-for-digital-assets-in-2026/>.

² “Digital Assets.” 2025. S&P Global. 2025. https://www.spglobal.com/en/research-insights/market-insights/capital-markets/digital-assets#g=&rows=20&pagenum=1&sort=es_unified_dt%20desc&facets=.

³ Webb, Michael C., and Stephen D. Krasner. 1989. “Hegemonic Stability Theory: An Empirical Assessment.” *Review of International Studies* 15 (2): 183–98. <https://doi.org/10.1017/S0260210500112999>.

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⁵ “Myth vs. Fact: The CLARITY Act | United States Committee on Banking, Housing, and Urban Affairs.” 2026. Senate.gov. January 13, 2026. <https://www.banking.senate.gov/newsroom/majority/myth-vs-fact-the-clarity-act>.

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⁷ Carlson, Debbie. 2025. “Britannica Money.” *Www.britannica.com*. February 14, 2025. <https://www.britannica.com/money/financial-market-regulators>.

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⁹ Reiff, Nathan. 2024. “The Collapse of FTX: What Went Wrong with the Crypto Exchange?” *Investopedia*. October 10, 2024. <https://www.investopedia.com/what-went-wrong-with-ftx-6828447>.

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¹¹ Simmons-Simmons.com. 2026. <https://www.simmons-simmons.com/en/publications/cm7wvy2iy00esuxucm9moe50g/digital-gold-rush-decoding-singapores-crypto-regulation-blueprint>.