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DIGITAL ASSETS

**Clarity Act Momentum and
the Repricing of Crypto Equities
Amid Reduced Regulatory Uncertainty**

By

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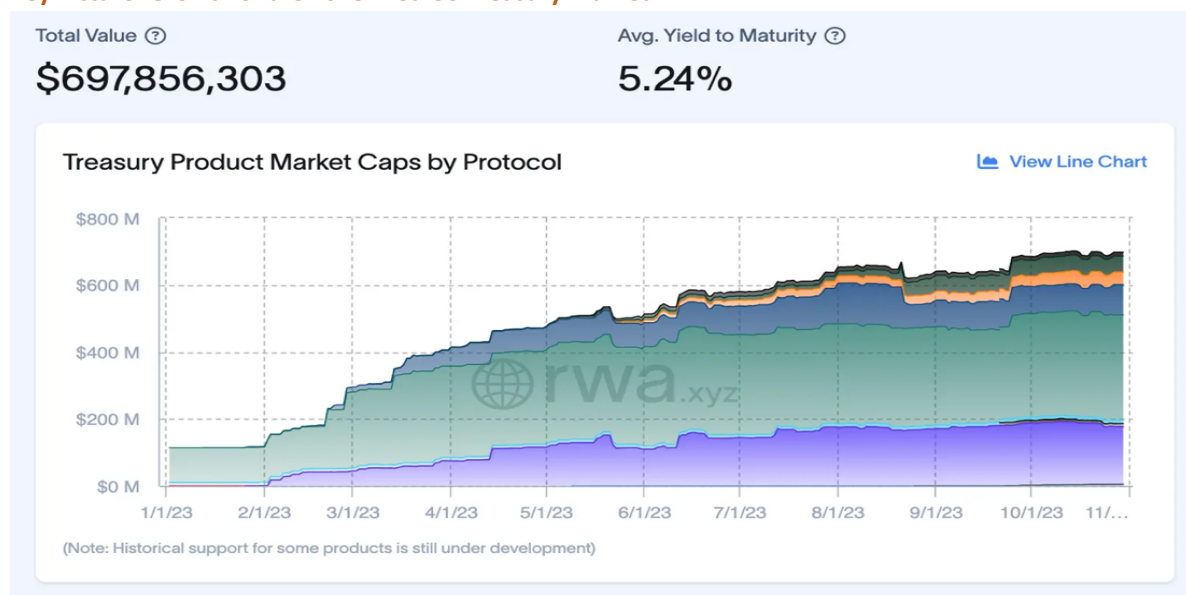
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Executive Summary

- ✦ Bipartisan momentum behind the CLARITY Act has reduced regulatory uncertainty in US crypto markets, particularly through a compromise on stablecoin yield rules and clearer jurisdictional boundaries between the SEC and CFTC.
- ✦ The draft restricts passive, bank-like interest on stablecoins while allowing usage-based rewards, aiming to balance financial stability concerns with continued innovation in digital payments.
- ✦ Markets reacted positively to improved policy clarity, with crypto-linked equities such as Circle, Coinbase, BitGo and Galaxy Digital experiencing strong gains as investors re-priced regulatory risk downward.
- ✦ The conventional explanations for fragmentation describe the surface. The structural cause is seventeen years of productivity stagnation since 2008.
- ✦ The rally reflects a broader decline in perceived regulatory fragmentation risk, leading to lower risk premiums, higher expected cash flows, and improved valuation multiples for firms tied to stablecoins, exchanges and custody services.
- ✦ Despite the positive sentiment, investors still factor in uncertainty around final legislative passage future amendments and regulatory implementation meaning re-pricing is conditional rather than guaranteed. Beyond the yield issue, there are other sticking points: protection for software developers and limitation for off-ramping activities.
- ✦ Since the original draft, the CLARITY Act has moved from compromise language into formal committee progress: on 14 May 2026, the Senate Banking Committee advanced the bill on a 15-9 vote, with two Democrats joining Republicans.
- ✦ Although floor passage remains uncertain because several Democratic concerns around DeFi, ethics provisions and the need to merge the Banking text with the Agriculture Committee track remain unresolved.¹²

Key Picture: Growth of the Tokenized US Treasury Market



Source: [CoinDesk](https://www.coindesk.com)

Bipartisan Progress on the CLARITY Act

As momentum builds behind the CLARITY Act, investors are rapidly reassessing the outlook for the US crypto industry. A bipartisan compromise in the US Senate over the treatment of stablecoin yield³ – one of the most contentious issues holding up the legislation – has significantly reduced regulatory uncertainty surrounding digital assets.

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The legislative push behind the CLARITY Act is ultimately driven by persistent uncertainty arising from overlapping jurisdiction between the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC). In practice, many digital assets do not fit neatly into traditional securities or commodities classifications, resulting in a regulatory environment shaped more by enforcement actions and agency interpretation than by statutory clarity.

This fragmentation has contributed to elevated compliance risk for market participants and has been a key constraint on institutional participation in the US crypto sector.⁴ The Senate negotiations have produced a draft agreement that would prohibit passive, bank-like interest on stablecoin holdings while still permitting activity-based rewards tied to payments, transfers and platform usage, helping lawmakers strike a balance between financial stability concerns and crypto-sector innovation.

The draft legislation also establishes new compliance and oversight requirements for stablecoins, while further refining jurisdictional boundaries between the SEC and CFTC across digital assets, which could significantly reduce the regulatory uncertainty and improve institutional confidence in crypto markets.⁵

The latest Senate Banking section-by-section text also narrows the analytical focus for investors: it includes an ancillary asset disclosure regime, exemptions for certain crypto fundraising activity, limits on insider resales, modernization of SEC recordkeeping for distributed ledger records, and rules intended to distinguish network tokens from securities once managerial or entrepreneurial efforts have ended.

Galaxy's analysis of the May draft describes the bill as creating federal jurisdictional boundaries between the SEC and CFTC, a decentralization-based test for non-security network tokens, registration and AML obligations for digital commodity intermediaries, and software developer protections under the Blockchain Regulatory Certainty Act.⁶⁷

In this regard, the Senate negotiations reflect a broader policy tension over how digital assets should interact with the traditional financial system. Stablecoin-related provisions in particular have become a focal point as they sit at the intersection of payments innovation and banking regulation. Policymakers have been forced to balance concerns about financial stability and deposit substitution risks against arguments that overly restrictive rules could suppress competition and limit innovation in digital payments infrastructure.⁸

Last Sticking Points for the Approval of the CLARITY Act Before the Mid-Term Elections

Our latest travels to Washington DC left us with the impression that there are still some important sticking points that need to be resolved for the legislation to be approved. First of all, one needs to notice that even the most optimistic proponents of the Act are perfectly aware that this is a race against time. Senators will need to focus on the battle for re-election for the mid-term elections in November, and they will devote all their time to the electoral campaign starting from the summer

recess of Congress. So effectively by the end of June, CLARITY needs to be signed into law – hence the suggestion that Trump may sign the bill on occasion of the Independence Day, on July 4th, 2026. Even ardent MAGA senators suggest that if this does not occur, the window for the passage of the bill will close for the foreseeable future, and may re-open only in 2030 (so at the next mid-term elections, after a potential defeat by the party in the 2028 presidential race).

The last sticking points are three. One, as mentioned above, is the *treatment of the “yield” paid by stablecoins*. While GENIUS prevents that from happening, crypto-exchanges such as Coinbase pay “rewards” to the holders of stablecoins, which are de-facto indirect yields. Banks have lobbied hard to close that loophole, and the compromise that seems at hand is distinguishing on the basis of the use of the exchange facilities. If the stablecoin is simply “stored” on exchanges, funds would not be eligible for reward. If instead the exchange observe an active use of the accounts (to transfer money, or as a result of transactions in cryptos), then the account becomes eligible for reward. This seems a reasonable compromise.

The second sticking point is on the *protection for software developers*. On the one hand, Republicans would like to take off the hook any software developers for producing an instrument that is later used for illicit activities, such as money laundering. The case in point is Tornado Cash, which was subject to investigation for laundering money linked to North Korea. The inventor of Tornado Cash [xxx] was sentenced to xxx years of prison, but his defense has always rotated around the fact that he was a software developer, not a money launderer. The Democrats suggest that somebody needs to be made accountable for the instruments used for illicit activities. On this point, it seems that a compromise would be harder to achieve.

The final sticking point became more focal in recent weeks, when it emerged that Iran was asking for the toll to pass through the Strait of Hormuz, to be paid in Bitcoin, China’s e-CNY or in USD-stablecoins (such as Tether or Circle). Later, Iran refined this request (which is illegal under international maritime laws) by saying that this is not a toll, but rather an *“insurance premium”*.

The crucial point to understand here is that as long as this fee (toll or insurance premium) remains in digital currency (CBDC, stablecoin or crypto), it remains harder to be utilised for other uses, such as the purchase of weapons from legitimate producers. So the crucial passage is the off-ramping of the value of the transaction from on-chain digital currency status to traditional currency in traditional banking rails. So, the only defense in this case would be preventing such off-ramping activity.

In order to do that, the US authorities would want to authorise US entities (but one imagine also foreign entities under the US sphere of influence – imaging a German bank, for the sake of the argument) to refuse such an off-ramping activity, in an attempt to force this money to remain on-chain and therefore harder to be recycled into the traditional world.

We understand that this would require a modification of the PATRIOT act that was first approved in the aftermath of the 9/11 attacks on New York. This would be the first extension, instead of reduction, of the scope of the Patriot act since its approval. One can imagine how sensitive this is for all senators, but in particular for the Democrats, that would really have to swallow a lot (and ask their voters to digest such a choice). So also this is a massive sticking point that can derail the final approval of the CLARITY ACT in these remaining weeks before the summer recess.

Crypto Stocks Rally on Reduced Regulatory Uncertainty

Following the bipartisan compromise, equity markets delivered a rapid re-pricing in digital asset names because the deal materially altered the probability distribution investors use to value firms tied to stablecoins and custody services.

Circle's one day jump reported at 19.9% higher⁹ reflected a direct update to expected future cash flows for an issuer whose core product USDC and related commercial use-cases were previously threatened by ambiguous legislative language. Secondary gains in names such as Coinbase (+6.1%), BitGo (+10.3%) and Galaxy Digital (+3.8%) while smaller in magnitude¹⁰ still show that the impact of regulatory clarity extends beyond issuers to the wider crypto ecosystem.

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As uncertainty around stablecoin rules diminishes, exchanges and custodians benefit indirectly because stablecoins underpin trading activity, settlement flows and institutional access to crypto markets. This reduces the risk of adverse regulatory outcomes that could have disrupted these revenue channels, leading investors to reassess the stability of future earnings across the sector even for firms that do not issue stablecoins themselves.

From a structural perspective, this repricing reflects a decline in perceived regulatory fragmentation risk. Investors have historically assigned in higher risk premium to crypto related equities due to uncertainty around token classification, custody rules and the scope of federal enforcement authority. As legislative progress reduces ambiguity around jurisdictional boundaries between the SEC and CFTC, market participants begin to reassess the stability and predictability of future cash flows, particularly for firms operating across exchanges custody and settlement infrastructure.¹¹

From an asset-pricing perspective the move reflects two effects. Lower regulatory uncertainty reduced the risk premium investors apply to future earnings, while improved expectations around stablecoin adoption and institutional access increased projected revenues. Together, these factors led investors to assign higher valuation to firms whose earnings are heavily tied to a small number of crypto-related business lines.

Furthermore, the compromise also reduced narrative risk in the market. Investors viewed bipartisan progress as a sign that a workable regulatory framework was becoming more likely, which helped reduce uncertainty around crypto-related businesses. This encouraged capital to move toward larger firms perceived to be prepared for regulatory compliance, contributing to the sharp rally in the crypto stocks. Short-term momentum trading and broader investor optimism likely amplified the move, while institutional investors appeared to favour firms viewed as better positioned for a clearer regulatory environment.

However, it is important to note that the market reaction reflects a higher expectation that a workable regulatory framework will eventually emerge, rather than certainty about the final outcome. Investors will still account for risks such as future amendments, regulatory rulemaking by agencies, and delays in implementation, any of which could affect crypto-related stocks later on.

The most recent market action also shows that the policy-driven re-rating is fragile when macro conditions deteriorate. By 18 May 2026, Bitcoin had fallen below \$76,700, its lowest level of the month, while crypto liquidations were reported at more than \$850 million over 24 hours and spot Bitcoin ETFs recorded around \$1 billion in weekly net outflows after six consecutive weeks of inflows.

The shift coincided with a renewed global bond sell-off, higher oil prices and expectations that the Federal Reserve could remain tighter for longer, underlining that regulatory clarity can compress policy risk while macro stress can still expand discount rates and pressure high-beta crypto equities.¹²¹³

The Growing Role of US Policy in Digital Asset Valuations

The crypto share price reaction to the bipartisan CLARITY Act compromise reveals how US legislation is actively reshaping market expectations, valuations and institutional confidence in digital assets by turning regulatory ambiguity into a quantifiable reduction in policy risk and by unlocking previously constrained commercial pathways for firms tied to stablecoins and custody services.^{14 15}

When investors observe credible legislative process, they update probability weights on outcome states: scenarios that once included severe restrictions or outright bans now carry lower probability which raises the expected present value of future cash flows for issuers, exchanges, and custodians and thereby compress the regulatory risk premium embedded in equity multiples.^{16 17 18}

This has two reinforcing effects. First, it increases expected revenues by preserving commercially valuable use-cases (payments rails, tokenised settlement, programmable cash management) and by making it feasible for incumbents to design compliant products that institutional clients will adopt. Second, it lowers the effective cost of capital because clearer statutory boundaries reduce the likelihood of enforcement actions, litigation and protracted compliance uncertainty – each of which has previously translated into higher borrowing spread and discounts rates for the sector. Together these effects produce powerful valuation leverage in a concentrated industry. Modest upward revisions to growth expectation or modest declines in the policy risk premium can yield large percentage changes in market capitalisation, which explains why a concentrated group of public firms experienced a surge when the compromise was announced.^{19 20}

In addition, improved regulatory clarity enhances institutional participation by reducing uncertainty around compliance obligations, custody arrangements and product structuring. Institutional investors, including asset managers and banking intermediaries are more likely to allocate capital to digital asset-linked firms when the legal classification of underlying assets is better defined and enforcement exposure is more predictable. This shift can amplify valuation effects because incremental institutional inflows tend to disproportionately benefit firms with established regulatory infrastructure and compliant operational frameworks.²¹

This makes the current valuation backdrop more two-sided than the initial rally suggests. US CPI accelerated to 3.8% year-on-year in April 2026, according to Trading Economics, reflecting the inflationary impact of higher energy prices and reinforcing a higher-for-longer rates narrative. At the same time, the tokenised Treasury market has continued to grow as investors seek on-chain access to yield-bearing collateral: RWA.xyz showed tokenised US Treasury value at roughly \$15.49 billion, while Bitcoin.com reported an early-May figure of \$15.20 billion across 71 tracked assets.

That growth supports the thesis that compliant, yield-bearing on-chain cash equivalents are gaining institutional relevance, but it also means digital asset valuations are increasingly sensitive to the same rate, liquidity and collateral dynamics that drive traditional fixed-income markets.²²²³²⁴

Finally, the market reaction suggests that investors are beginning to view US crypto regulation as more predictable rather than highly uncertain. This shift improves confidence in the sector and may

encourage more long-term institutional investment, although the positive outlook still depends on future amendments, regulatory rulemaking and how the legislation is ultimately implemented.

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