

July 18, 2018

The Honorable Andy Barr  
Chairman  
Subcommittee on Monetary Policy and Trade  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Gwen Moore  
Ranking Member  
Subcommittee on Monetary and Trade  
2129 Rayburn House Office Building  
Washington, DC 20515

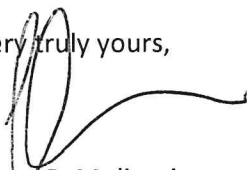
**Re: Written Testimony before the Subcommittee on Monetary Policy for the hearing on the  
Future of Money: Digital Currency**

Dear Hon. Andy Barr and Hon. Gwen Moore,

Templum Markets, LLC submits the attached written testimony to the Subcommittee on Monetary Policy and Trade of the House Financial Services Committee for the Committee's July 18 hearing entitled "The Future of Money: Digital Currency." Templum is very familiar with the regulatory challenges faced by FinTech firms that are issuing and trading digital assets and using blockchain technology. We thank the Chair, the Ranking Member and other members of the Committee for their efforts in addressing these regulatory challenges and for the opportunity to submit this written testimony.

Please do not hesitate to call me at 646-595-1737 or our counsel, Richard B. Levin of Polsinelli PC at 202-772-8474 if you have any questions regarding the testimony or any other matter.

Very truly yours,



Vince R. Molinari  
Chief Executive Officer  
Templum Markets, LLC

## STATEMENT OF VINCENT MOLINARI

Chairman Barr, Ranking Member Moore, and the distinguished members of the Committee, thank you for the opportunity to submit testimony for the record. I offer my testimony as a representative of Templum Markets, LLC ("Templum Markets"), a financial technology ("FinTech") company and broker-dealer registered with the U.S. Securities Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA"). Templum Markets is the operator of an alternative trading system ("ATS") for the secondary trading of digital assets that are securities.<sup>1</sup> Given our experience in the industry, we commend the Chair and the Ranking Member for holding this hearing on this important issue and the role of Congress in helping to ensure that FinTech and the growing field of digital assets are properly regulated. We believe that FinTech represents a sea change in traditional financial services.

FinTech, including digital assets, have tremendous potential. However, as this technology develops, it is critical for regulators to foster innovation without stifling it through unclear regulations. U.S. and foreign regulators have noted the disruptive potential of FinTech, and in particular blockchain technology. They have also recognized the potential of FinTech to revolutionize the financial services industry.<sup>2</sup> We share this belief in the potentially transformative nature of FinTech and support the critical role of regulators in ensuring that this revolutionary technology develops in a sustainable manner that promotes fair and orderly markets, protects consumers, and benefits industry participants. As Congress and the government agencies consider how to regulate FinTech, we believe digital assets should be regulated as securities because of their attributes that are analogous to traditional securities. We believe such an approach will promote these innovative financial products and promote the legitimacy of the industry.

For the purposes of this testimony, we will limit our comments to the securities laws of the United States because it is the area in which we have the most experience. The SEC has been very active over the past year, making its position on the regulation of digital assets as securities increasingly clear through informal means, including speeches and investor alerts, and innovative guidance such as the simulated Howey Coin offering.<sup>3</sup> The SEC has also provided guidance to the industry through formal enforcement actions and policy statements.<sup>4</sup> We agree with the Chairman of the SEC that most, if not

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<sup>1</sup> The terminology used by the FinTech industry and regulators to refer to these types of assets has varied between agencies, including property with the Internal Revenue Service, cryptocurrency with the Commodity Futures Trading Commission, and digital assets or property with the SEC. For the purposes of this testimony, we will refer to such assets as digital assets.

<sup>2</sup> See Written Testimony of Chairman Jay Clayton before the Senate Banking Committee, Washington, D.C. (February 6, 2018), available at: [https://www.banking.senate.gov/public/\\_cache/files/a5e72ac6-4f8a-473f-9c9c-e2894573d57d/BF62433A09A9B95A269A29E1FF13D2BA.clayton-testimony-2-6-18.pdf](https://www.banking.senate.gov/public/_cache/files/a5e72ac6-4f8a-473f-9c9c-e2894573d57d/BF62433A09A9B95A269A29E1FF13D2BA.clayton-testimony-2-6-18.pdf).

<sup>3</sup> ICO – HoweyCoins, U.S. Securities and Exchange Commission, available at: <https://www.investor.gov/howeycoins>.

<sup>4</sup> See Munchee Inc., Securities Act Release No. 10445 (Dec. 11, 2017) available at: <https://www.sec.gov/litigation/admin/2017/33-10445.pdf>; *SEC v. REcoin Group Foundation, LLC, DRC World Inc. a/k/a Diamond Reserve Club, and Maksim Zaslavskiy*, 17 Civ. [ ] (Sept. 29, 2017) (Complaint); Public Statement,

all, digital assets that have been offered to the public through initial coin offerings (“ICOs”) and other means are securities, and should have been offered pursuant to a registration with the SEC or an exemption from registration. While we believe the existing laws can be applied to the regulation of blockchain technology and digital assets, we believe there is a need to modernize the laws, many of which were enacted by Congress in the 1930s and 1940s, to keep pace with these new technologies and to not stifle innovation.

*A. The SEC and other regulators are taking important steps in regulating digital assets.*

Our commitment to the regulation of these new technologies as securities is evidenced by the petition for rulemaking by the SEC we filed on March 13, 2017, asking the SEC to publish a concept release and proposed rules for public comment on changes to existing rules to better address the regulation of digital assets.<sup>5</sup> As we noted in the petition, we support the SEC and other agencies’ efforts to legitimize the use of digital assets through more comprehensive regulatory oversight. While we applaud the SEC for having taken significant steps over the past year to provide guidance to the industry regarding the regulation of digital assets, through enforcement actions, investigative reports, investor alerts, testimony, and public speeches, such actions are not formal rulemaking that afford the industry and a public to comment on how the industry should be regulated. Such actions have played an important role in shaping innovation and indicating to the industry that the sale and dissemination of digital assets cannot occur without regulation.<sup>6</sup> Though valuable first steps, we believe the size and continuing expansion of this industry demands more tailored and comprehensive regulation. In particular, we believe that digital assets that are both securities and currencies need to be provided with regulatory attributes that are analogous to traditional securities.

*B. Digital assets that are securities should be required to have a standard identifier such as a CUSIP.*

The Committee on Uniform Security Identification Procedures (“CUSIP”) identifiers are nine-digit alphanumeric identification codes that are given to securities in order to track issuances and secondary trading.<sup>7</sup> A CUSIP number identifies most financial instruments, including: stocks of all registered U.S. and Canadian companies, commercial paper, and U.S. government and municipal bonds., through the CUSIP system (formally known as CUSIP Global Services). A similar system is used to identify foreign securities (CUSIP International Numbering System or “CINS”). CINS employs the same

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SEC Chairman Jay Clayton Statement on Cryptocurrencies and Initial Coin Offerings, SEC (Dec. 11, 2017), *available at*: <https://www.sec.gov/news/public-statement/statementclayton-2017-12-11>.

<sup>5</sup> See Petition for Rulemaking (Mar. 13, 2017), *available at*: <https://www.sec.gov/rules/petitions/2017/petn4-710.pdf>. At the time this petition was published, Templum Markets operated as Ouisa Capital, LLC.

<sup>6</sup> See *supra* note 4; see also Clayton Testimony; Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The DAO (July 25, 2017) (the “DAO Report”), *available at*: <https://www.sec.gov/litigation/investreport/34-81207.pdf>; Dave Michaels and Paul Vigna, SEC Chief Fires Warning Shot Against Coin Offerings, Wall Street Journal, Nov. 9, 2017, *available at*: <https://www.wsi.com/articles/sec-chief-fires-warning-shot-against-coinofferings1510247148?mq=prod/accounts-wsi>.

<sup>7</sup> This testimony addresses only CUSIP identifiers, though there are several equivalents that are also used including the International Securities Identification Numbers (“ISIN”) and Stock Exchange Daily Official List (“SEDOL”) identifiers.

nine character identifier as CUSIP, but also contains a letter in the first position to signify the issuer's country or geographic region.<sup>8</sup>

The use of these identifiers has increased standardization across the securities industry and helped to streamline communication between issuers and potential investors. CUSIP identifiers allow computer systems of independent financial firms, market data vendors, and trading platforms to track various securities through the supply chain. This facilitates simple archiving of transaction flow, as well as auditability. As a result of these benefits, CUSIP identifiers have become recognized universally as the industry standard for traditional financial instrument identification. We believe that CUSIP identifiers are an attribute of traditional financial services that must be integrated into the issuance and trading of digital assets that are securities.

The proliferation of digital assets that has taken place over the past 24 months has resulted in innumerable individual assets, which are not at this time necessarily well-suited to be integrated into traditional financial services infrastructure. We firmly believe, however, that these digital assets, when issued pursuant to a registration statement or applicable exemption under the federal securities laws, have a critical role to play in the financial services industry. Digital assets that are securities represent a critical development in transparency and democratization in investing, facilitated by blockchain technology. However, the use of digital assets as securities requires their integration into the traditional financial services industry. Such integration includes providing digital assets the attributes of traditional securities, such as CUSIP identifiers.

While blockchain technology is well-suited for tracking the issuance and transfer of assets through the use of distributed ledgers, this functionality is not designed for use in the current financial services infrastructure and also carries a degree of risk, particularly related to hacking. In the context of digital assets in particular, CUSIP identifiers will help facilitate traceability and ownership authentication of digital assets to a degree that currently does not exist. Digital assets are vulnerable to hacking, and once stolen, digital assets cannot be recovered. CUSIP identifiers will allow digital assets that are hacked to still be held by the rightful owner, as they can be used to track legal ownership of the securities. This traceability will help to legitimize the FinTech industry by reducing potential threats to ownership. The ability to track ownership through CUSIP identifiers also allows for stop transfer orders, which will reduce the incentive for hacking, knowing that if a hack is detected the transfer of the applicable security can be stopped. It also provides for increased investor protection as it leaves investors less vulnerable to having their assets stolen. CUSIP identifiers have the potential to also benefit digital assets that are currencies by providing for easier anti-money laundering compliance and combatting cyber-terrorism and illicit activities through record-keeping and auditability.

In order for digital assets that are securities to be widely adopted by investors and issuers, it is critical that they can be integrated into existing securities industry processes and communications channels. We believe that mandating the use of CUSIPs or other standard identifiers for digital assets that are securities is a critical step in this regard. Assigning all digital assets that are securities a standard

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<sup>8</sup> CUSIP, U.S. Securities and Exchange Commission (Apr. 27, 2015) available at: <https://www.sec.gov/answers/cusip.htm>.

identifier will allow such assets to be tracked through existing infrastructure and promote more widespread adoption of FinTech. At Templum Markets, we have partnered with CUSIP Global Services, a leading provider of security and entity identifiers, to provide CUSIP identifiers for all digital assets that are securities that are traded over our platform. We believe that this is an important step in providing legitimacy to digital asset that are securities and encouraging more widespread adoption in the traditional financial services industry.

### *C. Conclusion*

Innovation drives the American economy, and distributed ledger technology is at the heart of innovation in the financial services industry. We firmly believe that the vast majority of digital assets must be regulated as securities, and as a result must be given attributes that are analogous to more traditional securities. Such attributes should include the use of standardized identifiers, in order to facilitate ease of communication between parties to digital asset transactions, as well as provide easier archival of transaction flow and auditability.