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CRYPTOCURRENCY OVERVIEW AND POLICY FRAMEWORKS

This memorandum provides a foundational overview of cryptocurrency and the policy framework in place to regulate the cryptocurrency industry. Topics covered include:

- What is cryptocurrency?
- How does cryptocurrency work?
- What is cryptocurrency used for?
- What are the risks of cryptocurrency?
- How is the federal government regulating cryptocurrency?
- How are states regulating cryptocurrency?

What is Cryptocurrency?

The Internal Revenue Service (IRS) does not define cryptocurrency directly. It states, "the tax definition of a digital asset is any digital representation of value recorded on a cryptographically secured, distributed ledger (blockchain) or similar technology." This definition can also be found in the 2021 Infrastructure Investment and Jobs Act[1].

Merriam Webster defines "currency" as something that is in circulation as a medium of exchange, and defines a "medium of exchange" as something commonly accepted in exchange for goods and services and recognized as representing a standard of value.

For the purposes of this memorandum, cryptocurrency is something that can be exchanged for a good or service that is stored digitally on a cryptographically-secured blockchain. Examples include Bitcoin, Ethereum, Tether, Solana, and USD Coin (USDC).

How Does Cryptocurrency Work?

Cryptocurrencies can be produced and exchanged using blockchain technology. A blockchain is a network of computer users certifying the legitimacy of each cryptocurrency transaction through a public ledger. The ledger shows the location of each cryptocurrency unit, the unit's prior owner, and the unit's related transactions.

1*2021 Infrastructure Investment and Jobs Act, 26 USC 6045(D)*
https://www.govinfo.gov/content/pkg/PLAW-117publ58/pdf/PLAW-117publ58.pdf

Example

Using Bitcoin as an example, a user installs a Bitcoin wallet on their computer or mobile device. That wallet contains a specific Bitcoin address that can be shared with another party to facilitate a transaction. The wallet contains a private key which is used to sign the transaction providing proof the Bitcoin came from the wallet's owner. While the key is public, the wallet's owner remains private.

Once the transaction is posted between parties, it is broadcast to the cryptocurrency's network for validation. Once confirmed through a Proof-of-Work or Proof-of-Stake process (for more details, see Coinbase's overview[2]), the transaction is assigned to a block on the blockchain as a permanent, public record and is considered completed. The cryptocurrency is then sent between parties usually with a small transaction fee given to the validator and the recipient retains control over the cryptocurrency sent.

Privacy

A key feature of cryptocurrency is the public nature of the transactions on the network. Each transacting party must provide their wallet address to transfer cryptocurrency, allowing users to see who owns which cryptocurrency unit. This prevents complete anonymity, but users can be pseudonymous since only their wallet address is listed publicly and not their name or other identifying information.

It is possible to determine users by tracing multiple transactions tied to the same address; however, new tools are being developed to mitigate this type of tracking. Additionally, exchanges that are required to follow "Know Your Customer" rules and regulations tie a wallet user's identity to the wallet, minimizing the value of those tools. There is a subset of cryptocurrency called privacy coins that make transaction parties completely anonymous, but these cryptocurrencies tend to have lower adoption and usage rates and face more regulatory scrutiny.

Benefits and Risks

Coinbase, a major cryptocurrency exchange, lists the following benefits of the cryptocurrency process:

- Independence — Cryptocurrencies are issued independent of any government or financial institution and provide an alternative to "dysfunctional fiat currencies";

- Transferability — Cryptocurrency makes global transfers cheaper and easier by reducing the intermediaries required to transfer money across borders;

- Privacy — Cryptocurrency transactions do not require a party to provide unnecessary personal information to the other party;

- Security — Almost all cryptocurrencies use a blockchain which is constantly checked and verified by a decentralized network of validators;

2*Proof-of-stake process, Coinbase.com: https://www.coinbase.com/learn/crypto-basics/what-is-proof-of-work-or-proof-of-stake*

- Portability — Cryptocurrency holdings are not tied to a financial institution or government and are available to the owner no matter their location or the state of the global financial system; and

- Irreversibility — Cryptocurrency transactions cannot be reversed which can reduce fraud and processing fees.

However, the process also poses substantial risks to users and the general public. According to the U.S. Government Accountability Office[3], these risks include:

- Resources — It can be costly to operate a blockchain. Some cryptocurrencies require large amounts of computing power and energy to generate new currency units;

- Collusion — Network security relies on consensus protocol to maintain the ledger. Users who collude could gain enough influence to manipulate the ledger to their benefit;

- Security — Cryptocurrency holders can have their digital wallets hacked and cryptocurrency stolen; and

- Opaqueness — Since cryptocurrency can be exchanged without a central authority, governments may be hesitant to allow cryptocurrencies to be used as a method of exchange or contracting since they cannot easily be tracked and could be used to facilitate illicit activity like tax evasion or money laundering.

What is Cryptocurrency Used For?

Cryptocurrencies are typically used as an investment asset or as transactional currency.

Investment Asset

Since Bitcoin started gaining popularity in the mid-2010s, its main use case has been as an investment alternative. Bitcoin and other cryptocurrencies' volatile pricing make them a risky investment and a poor option to transact with since the value underlying one unit can fluctuate by 10 percent on a given day. Over the past decade, Bitcoin's price volatility is 4.8 times higher than the S&P 500 and 5.3 times higher than gold.

To illustrate the volatility, in late 2022, Bitcoin lost 75 percent of its value compared to its price a year earlier as a result of one of the largest cryptocurrency exchanges going bankrupt. Since that low, Bitcoin has gained 615 percent in value.

3*U.S. Government Accountability Office, Blockchain & Distributed Ledger Technologies: https://www.gao.gov/products/gao-19-704sp*

Exchanges

Most cryptocurrency users use a cryptocurrency exchange to convert their assets into cryptocurrency, transfer one cryptocurrency for another, and transfer from cryptocurrency back to a fiat currency (like the U.S. Dollar). Exchanges like Coinbank and Binance match buyers and sellers of cryptocurrency and charge a fee to facilitate the transfer. Additionally, these exchanges may also act like stock brokerage accounts where users can store and trade their cryptocurrency.

Transactional Currency

Originally, Bitcoin and other cryptocurrencies were created to facilitate online payments. Over the years, as those cryptocurrencies became an investment alternative and the resulting volatility ensued, a new subset of cryptocurrency emerged called stablecoins.

Stablecoins

Unlike Bitcoin, and other similar cryptocurrencies, stablecoins attempt to maintain a fixed, or "pegged" exchange rate, in which their value is fixed against the value of another currency or asset with the aim of maintaining stability in value. [*Note:* For more information about stablecoins, see KLRD's Stablecoin Overview memorandum[4].]

These stablecoins focus on facilitating transactions between parties. Currently, there are two major use cases for stablecoins:

- International transfers — Stablecoin users do not need multiple bank accounts in two countries to transfer money from one country to another; they just need one cryptocurrency wallet that transfers their stablecoin to another user's wallet.

- Peer-to-peer digital transfers — Stablecoins allow users to complete digital transfers without the need for third parties to facilitate the transaction.

While stablecoins' value are tied directly to another asset, they do pose risks like other cryptocurrencies:

- False claims that a stablecoin is fully backed by reserves;
- False claims that reserves are fully backed by a specific asset;
- Unauthorized use of consumer funds;
- Volatility in the reserve asset's price;
- A "digital bank run" on certain stablecoins;
- A run on the bank holding a stablecoin's reserves;
- Inability to convert reserves into liquid assets to maintain the stablecoin peg; and
- Use of stablecoins for illicit activities.

4*KLRD, Stablecoin Overview: https://klrd.gov/2024/11/15/stablecoin-overview/*

Cryptocurrency Kiosks

Cryptocurrency kiosks or ATMs are machines where users can buy and sometimes sell cryptocurrencies using cash or debit cards. Users typically can send the acquired cryptocurrency to a digital wallet by scanning a QR code or entering the wallet's address. There are two types of kiosks, unidirectional (buy-only or sell-only) and bidirectional (both buy and sell). While convenient for users to turn cash into cryptocurrency, these kiosks pose a significant risk to consumers.

According to the Federal Trade Commission, kiosks contributed to $65 million in fraud for the first half of 2024, with a reported median loss of $10,000. Scammers typically target senior citizens who are more than three times as likely as younger adults to report a loss using a kiosk. After a bogus claim, scammers inform victims that depositing cash into the kiosk will fix the purported problem. Victims then withdraw cash from their bank, deposit it into the kiosk, and use the scammer's cryptocurrency wallet QR code that is texted to the victim.

Policy Framework

With the rise of cryptocurrency exchanges, scams involving cryptocurrency kiosks, and continued use of cryptocurrency, federal and state governments have started to establish statutory and regulatory frameworks to manage the risks of cryptocurrency and instill more confidence in the industry as rules are created for businesses and consumers alike.

Federal Regulation

GENIUS Act of 2025

In July 2025, the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act was enacted, creating a regulatory framework for stablecoins. The bill allows permitted issuers to issue a stablecoin for use by U.S. persons and those issuers must be regulated by the appropriate federal or state regulator.

The GENIUS Act allows states to regulate only those issuers who issue $10 billion or less in stablecoins. State regulators would "have supervisory, examination, and enforcement authority over all" of these smaller state issuers. State regulators may delegate or relinquish these authorities to the Federal Reserve (Fed).

While the rulemaking process is ongoing, the GENIUS Act requires issuers, among other things, to:

- Maintain reserves backing the stablecoin on a one-to-one basis using U.S. currency or other similarly liquid assets;
- Publicly disclose their redemption policy; and
- Publish the details of their reserves on a monthly basis.

The GENIUS Act does not consider payment stablecoins as securities under securities law, but permitted issuers are still subject to the Bank Secrecy Act (BSA) for anti-money laundering and related purposes.

CLARITY Act of 2025

The Digital Asset Market Clarity Act of 2025 (CLARITY Act or Act) has currently passed the House floor and is in the Senate Committee on Banking, Housing and Urban Affairs. The bill would create a regulatory framework for cryptocurrency and clarify the Securities and Exchange Commission's (SEC) and Commodity Futures Trading Commission's (CFTC) regulatory roles.

According to the Congressional Research Service's memo, *Potential Effects on SEC Jurisdiction*, the SEC is the primary regulator overseeing security offerings, trading, and investment activities. The Act would provide an exemption for investment contracts involving certain digital commodities on mature blockchains from the Securities Act of 1933 registration requirement. The bill would also allow SEC-registered market participants to engage in secondary market trading of digital assets like cryptocurrency.

The Act would give the CFTC exclusive regulatory jurisdiction over digital commodity transactions by any entity registered or required to be registered with the CFTC. The bill would require centralized platforms that currently make up the cryptocurrency trading market, as well as digital commodity brokers and dealers, to register with the CFTC. The bill would require such platforms and brokers/dealers to:

- Monitor trading;
- Keep records and report out;
- Address antitrust considerations;
- Minimize conflicts of interest;
- Prohibit exchanges from commingling assets in most circumstances;
- Prohibit exchanges from trading for their own accounts in most circumstances; and
- Offer only blockchain cryptocurrencies that are certified as mature.

State Regulation

Currently, Kansas has several areas it could implement its own cryptocurrency policy framework, including:

- Regulating small stablecoin issuers in the state under the GENIUS Act's provisions;
- Implementing the Uniform Commercial Code (UCC) 2022 revisions;
- Regulating the use of cryptocurrency kiosks; and
- Including digital currency into its abandoned property laws.

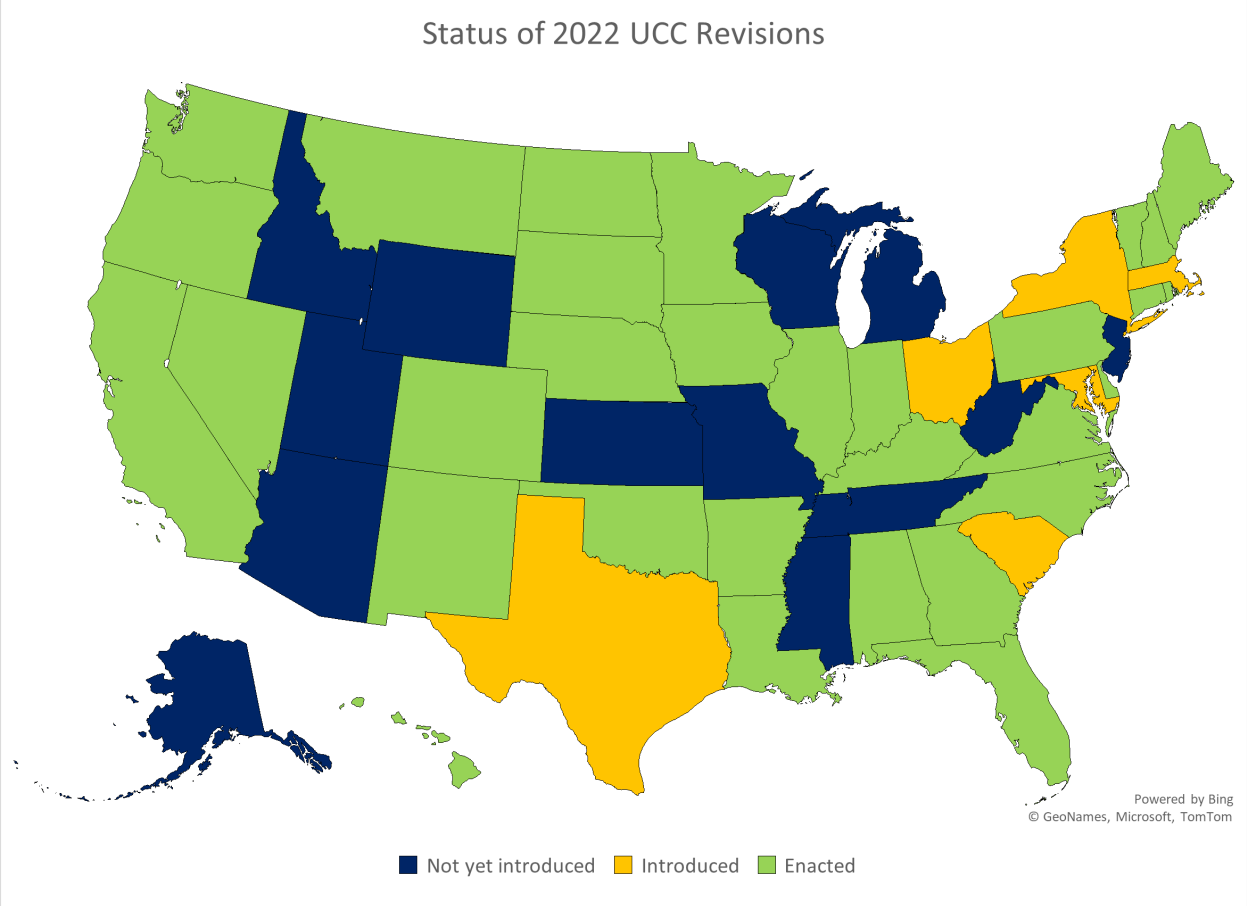
UCC 2022 Revisions

The UCC is a uniform state law applied to voluntary, commercial transactions between private parties. Being state commercial law, these amendments do not address federal or state regulations, taxation, money transmitter, or money laundering laws.

In 2022, the Uniform Law Commission (ULC) made several recommendations to amend the UCC to create a new article concerning controllable electronic records (CERs) and to

amend various other articles of the UCC to update language governing commercial transactions with respect to certain digital assets, including cryptocurrency.

Currently, the ULC lists Kansas among 19 states that have not enacted the revisions. In 2025, 6 of the 19 states introduced legislation to incorporate the revisions into their respective UCC statutes.



New York

New York's cryptocurrency regulatory and statutory policy framework, among the most comprehensive in the United States, is designed primarily to ensure market integrity and consumer protection. The state's Department of Financial Services (DFS) is the main regulator and was established in 2015 under the BitLicense framework in 23 NYCRR Part 200 under the New York Financial Services Law.

DFS requires virtual currency businesses to obtain a license to operate legally and subjects them to scrutiny regarding capital requirements, cybersecurity, anti-money laundering (AML) programs, corporate governance, and disclosure requirements. Additionally, DFS approves cryptocurrencies that can be listed or custodied under the framework. DFS also provides ongoing cryptocurrency guidance and industry letters.

2025 NY A7788, currently in the first chamber's committee, would allow state agencies to accept virtual currencies as payment.

Wyoming

Wyoming's cryptocurrency regulatory and statutory policy framework is considered the most pro-innovation in the United States. The framework strives to provide legal clarity for digital assets and attract blockchain businesses while maintaining consumer protection. Areas of statutory policy related to cryptocurrency include:

- Digital asset classification — In their UCC, Wyoming established the legal nature of digital assets, including ownership, custody, securities/investment, and currency/money components.

- Special Purpose Depository Institutions (SPDIs) — Wyoming enabled chartering of state-chartered banks specializing in digital asset custody, payments, and related services. SPDIs must hold 100 percent reserves and cannot make loans. While SPDIs may focus on digital assets, they can also provide traditional banking services.

- Bankruptcy Protection — Wyoming established protections for cryptocurrency and fiat customers whose assets are held by trust companies and SPDIs, and clarified bankruptcy treatment for those assets.

- State Stablecoin — In 2025, Wyoming authorized the issuance of a state-backed stablecoin to help generate revenue for the state. The coin is only issued in exchange for U.S. Dollars. While not sold directly to the public, the coin is deployed on seven blockchains.

Other States

California recently enacted the Digital Financial Assets Law which will require digital asset businesses to obtain a license. However, the state is still in its rulemaking process to implement the program. States like California, Nebraska, New Jersey, and Texas provide statutory clarity and legal definitions for digital assets, enable specific financial institutions to provide digital asset custody, and provide for state regulatory supervision and enforcement rather than relying on their state money transmitter law to govern cryptocurrency.

According to the National Conference of State Legislatures, at least 40 states introduced legislation regarding cryptocurrency, digital or virtual currencies, and other digital assets during the 2025 legislative session. Below is a table of legislation enacted in 2025.

State	Bill Number	Description
Arizona	HB 2387	Regulates the operation of cryptocurrency kiosks.
Arizona	HB 2749	Includes cryptocurrency in the state's unclaimed property laws.
Arkansas	HB 1467	Regulates the operation of cryptocurrency kiosks.
Arkansas	HB 1746	Incorporates UCC 2022 revisions into the state's UCC.
Connecticut	HB 6970	Incorporates UCC 2022 revisions into the state's UCC.
Florida	HB 515	Incorporates UCC 2022 revisions into the state's UCC.
Iowa	SB 449	Regulates the operation of cryptocurrency kiosks.
Kentucky	HB 701	Regulates cryptocurrency payments and staking of transactions.
Maryland	SB 305	Regulates the operation of cryptocurrency kiosks.
Missouri	HB 754	Regulates the operation of cryptocurrency kiosks.
Montana	SB 265	Establishes cryptocurrency regulatory framework and prohibits a Central Bank Digital Currency (CBDC).
Montana	SB 330	Creates a Blockchain and Digital Innovation Task Force.
Montana	SB 426	Incorporates UCC 2022 revisions into the state's UCC.
Montana	SB 535	Allow certain medical centers to accept digital currencies as payment.
Nebraska	LB 609	Regulates the operation of cryptocurrency kiosks.
Nevada	SB 258	Includes virtual currency in the definition of total amount covered for certain industrial insurance claims.
New Hampshire	HB 302	Allows the state treasury to invest in certain digital assets.
New York	SB 7672	Includes virtual currency in the definition of cybersecurity ransom payment.
North Carolina	HB 40	Incorporates UCC 2022 revisions into the state's UCC.
North Dakota	HB 1149	Includes virtual currency in the state's unclaimed property laws.
North Dakota	HB 1447	Regulates the operation of cryptocurrency kiosks.
Oregon	SB 167	Incorporates UCC 2022 revisions into the state's UCC.
South Dakota	HB 1196	Includes virtual currency in the state's unclaimed property laws.
Texas	SB 1	Creates the Texas Strategic Bitcoin Reserve.
Utah	HB 230	Allows the state treasury to invest in certain digital assets.
Vermont	HB 137	Regulates the operation of cryptocurrency kiosks.
Vermont	HB 206	Incorporates UCC 2022 revisions into the state's UCC.
Washington	SB 5316	Includes virtual currency in the state's unclaimed property laws.
Wyoming	HB 264	Prohibits state agencies from requiring a CBDC as payment.