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Authored by: Jason Rozovsky Head of Legal, Interop Labs **&**
Lewis Rinaudo Cohen Partner, Cahill Gordon & Reindel

To regulate cryptocurrencies, treat the tech as a tool, not a threat

Decentralized blockchain networks are a continuation of technological evolution

For digital ledgers tracking ownership & transfer of assets: As information becomes widely available & distributed, the ledger no longer needs to be private, centralized, or maintained by a single entity on an electronic database

Financial regulators & policymakers can embrace decentralized blockchain technology to further their own objectives

- Technological innovation historically has required new financial regulations
- Regulators have used technology to advance safe & stable markets

Regulatory Concern | Current Approach | Blockchain Benefits

Maintaining Market Data Reliability

Need: Accurate & nearly real-time view into state of a specific market

Achieved Today By: Reporting obligations imposed on market participants

Challenges of Current System:

1) Piecemeal - Institutions and financial intermediaries report their own actions to regulator → *No single source of truth; Incorrect data can skew the picture*

2) Stale data - Regulations require quarterly reports → *Market views can now be several months old*

Blockchain Ledger is:
- Always-on
- Tamper resistant
- Publicly available

Regulators can:
- Ascertain current state of a blockchain-based market
- Act on accurate information tailored to market conditions

Safety of Customer Assets

Need: If a customer entrusts a 3rd party with assets—cash, stocks, or bonds—this 3rd party must act properly

Achieved Today By: Targeting centralized third parties with specific regulations for various activities (e.g., custody, money transmission, etc.) and holding intermediaries accountable

Challenges of Current System:

1) No way to verify that an intermediary does what they claim

2) Regulators rely on representations, becoming aware of wrongdoings after the fact

Blockchain can:
- Verify association between a token held by an individual/entity and a wallet on a blockchain network
- No third party can change ledger data once entered

Regulators can:
- Trust data recorded on blockchain ledger

Keeping Bad Actors out of Financial Markets

Need: Ensuring sanctioned entities do not access legitimate markets

Achieved Today By: Identity related regulatory requirements (e.g., KYC), and relying on intermediaries to monitor compliance

Challenges of Current System:

Lack of full transparency

Blockchain can:
- Track all assets moving between wallets

Regulators can:
- Access a consistently verifiable audit trail of any asset back to its genesis
- Determine if an asset has passed through a sanctioned wallet

Regulators can maintain oversight of markets on a "self-sovereign" basis: eliminating need to rely solely on intermediary disclosures; enabling direct access to accurate, updated, and verified network data; unlocking new opportunities

Questions to be Answered

- How will "on-chain" identity be tied to "off-chain" identity?
- How do we build systems that simultaneously use the benefits of public blockchains while maintaining transaction privacy?
- What security measures can be implemented to better safeguard private keys from theft or inadvertent loss?

Regulators can evaluate how the answers to these questions will help bring insights and further benefits

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