

2024

## DARA LITEPAPER

# Digital Asset Regulatory Authority (DARA)

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### Introduction

The Digital Asset Regulatory Authority (DARA) is a self-regulated organization dedicated to economic development in the United States through industry-led compliance frameworks that promote innovation, safety, and security. DARA provides compliance support for a diverse ecosystem of tech businesses and decentralized services that drive innovation and economic growth. DARA positions the United States as a global leader in the cryptocurrency and web3 sectors.

### Why DARA Self Regulation?

In the rapidly evolving digital asset landscape, the need for adaptive regulatory frameworks geared toward innovation is clear. With DARA, U.S. industry participants lead the framework developments. As a self-regulatory body DARA advocates for a system that not only promotes innovation but also ensures the safety and integrity of the markets for consumers, investors and businesses. DARA's role is complementary with the functions of statutory regulation. Self-regulation can achieve more focused and adaptable regulation in response to actual market developments, compared with statutory regulation. Additionally, self-regulation can establish market-wide standards that exceed those of statutory regulations.

### Vision for Economic Development

DARA promotes the United States as the premier global hub for cryptocurrency and digital asset enterprises, recognized for forward-thinking regulatory approaches. The DARA vision is to foster technological advancements that enhance market flexibility while ensuring comprehensive oversight and economic development.

# 2024 Charter Developments

## Q1 2024

### **DARA Members Draft Requirements:**

Development & refinement of comprehensive regulatory and compliance frameworks, inviting stakeholders to contribute to the DARA charter and goals.

### **Consumer Protection Research:**

Research safeguards against fraud and enhanced consumer protection through SRO precedent in other countries. Document programs on the implementation of education for professionals and consumers through the lens of a national SRO.

## Q2 2024

### **Develop Committees & Collaboration Infrastructure:**

Collaboration across different sectors to address industry challenges and leverage networks to form initial DARA Committees.

### **Technological Research & Development:**

Support for research and development efforts that create compliance efficiency through software and systems development, including auditing solutions.

## Q3 2024

### **International Research & Cooperation:**

Strengthening partnerships with international bodies to harmonize global regulation frameworks and maximize U.S. compliance functionality.

# Are there Examples of SROs in Traditional Financial Markets?

Some of the best examples of SROs have developed within the securities and commodity futures industries, including all national securities and commodities exchanges.

In particular, in the case of the securities industry, the Financial Industry Regulatory Authority (FINRA), an SRO, regulates firms and individual brokers across the country. FINRA is overseen and delegated authority by the Securities and Exchange Commission (SEC) and is authorized by Congress to protect U.S. investors by making sure the broker-dealer industry operates fairly and honestly to protect investors and promote market integrity. Though an SRO, FINRA performs all the functions expected of a regulatory authority including promulgating and enforcing rules governing the activities of all registered broker-dealer firms and registered brokers in the U.S., examining firms for compliance with those rules, recovering money for harmed investors, and removing bad actors from the brokerage industry.

Similarly, the commodities and futures industry, also known as the U.S. derivatives industry, is regulated by the National Futures Association (NFA), an SRO. Designated by the Commodities Futures Trading Commission (CFTC) as a registered futures association, NFA safeguards the integrity of the derivatives markets, protects investors, and ensures Member firms meet their regulatory obligations. The NFA regulates firms (commodity trading advisors, futures commissions merchants, commodity pool operators, introducing brokers, etc.) and individual associates. Like FINRA, the NFA also engages in rulemaking, enforcement, market regulation, and other investor protection programs.

<https://guidehouse.com/insights/financial-crimes/2023/self-regulation-for-digital-assets-industry>

# Established Regulatory Sandboxes for Digital Innovation:

The United Kingdom, Singapore, Australia, Canada, Hong Kong, United Arab Emirates, Bahrain, Japan, and Switzerland have established guidelines and sandbox utilities.

## The U.S. Innovation Sandbox

May 2024 - Commissioner Peirce of the United States Securities and Exchange Commission independently discussed the establishment of a “Micro-Innovation Sandbox” in the U.S.

Central to DARA’s mission is the implementation of such regulatory sandboxes that provide a controlled environment for firms to test and refine new services & technologies. DARA is positioned to oversee the sandbox operations, ensuring firms comply with specific regulatory conditions. This oversight includes:

**Setting Entry Criteria:** DARA will establish clear entry criteria for firms entering the sandbox, focusing on the potential benefits of the innovation and its alignment with broader financial and technological standards.

**Monitoring Progress:** Throughout the sandbox period, DARA will monitor the activities and developments of participating firms to ensure compliance and mitigate potential risks.

**Assessing Outcomes:** At the end of the sandbox period, DARA will assess the outcomes and scalability of tested innovations, determining which can transition into the broader market under existing or newly adapted regulations.

**Compliance Support:** Throughout the sandbox program support & feedback is provided to participants.

Pierce outlines several key components of the Sandbox in a response to a joint proposal from the Bank of England and the Financial Conduct Authority for a digital securities sandbox (“DSS”). More information available at:

<https://www.sec.gov/newsroom/speeches-statements/peirce-boe-fca-comment-05302024>

# Compliance Burdens & Economic Impacts

The economic landscape of regulatory compliance, particularly in the digital asset sector, presents both significant challenges and substantial opportunities. The establishment of DARA profoundly impacts this landscape, aiming to streamline compliance processes and reduce associated costs.

## A Costly U.S. Economic Landscape For Compliance

### Soaring Compliance Costs

In the U.S. and Canada, businesses are grappling with compliance costs totaling approximately **\$61 billion** annually. These expenses represent a significant financial burden, particularly for small to medium enterprises (SMEs) that struggle to allocate resources effectively in compliance with existing regulations.

<https://risk.lexisnexis.com/about-us/press-room/press-release/20240221-true-cost-of-compliance-us-ca>

### Broad Economic Impact

The overall cost of federal regulations to the U.S. economy is estimated at **\$3.079 trillion**. This staggering figure highlights the pervasive impact of regulatory demands across all sectors, underscoring the need for more streamlined and efficient regulatory frameworks.

<https://nam.org/wp-content/uploads/2023/11/NAM-3731-Crains-Study-R3-V2-FIN.pdf>

### Impact on Federal Funding and Development Goals

Billions in federal funding are sidelined each year, as compliance burdens slow the pace of commerce and development goals. This diversion of resources hampers innovation and economic growth, making the need for regulatory reform more acute.

# DARA's Role in Enhancing Economics Through Compliance Efficiency

## 1. Reducing Compliance Costs

By introducing clearer, more adaptable guidelines to support the development of industry oriented regulations and other administrative rules , DARA aims to lower the compliance costs for businesses, especially within the burgeoning cryptocurrency and digital asset market.

## 2. Streamlining Processes

DARA's commitment to leveraging innovative technology in regulatory processes—specifically blockchain and AI-enhanced systems—seeks to streamline compliance operations.

## 3. Enhancing Economic Opportunities

With clear guidelines for operating and growing a digital asset business, the U.S. economy can capitalize on the information and data economy globally to prevent the migration of businesses to other jurisdictions.

## 4. Compliance Industry Demand

Spending on compliance, as a percentage of business category expense, is expected to rise, reflecting the increasing complexity and importance of effective compliance strategies in the digital asset space.

The establishment of DARA represents a significant step forward in regulatory compliance in the digital asset industry. By reducing compliance costs and streamlining processes, DARA alleviates the financial burden on businesses & enhances the overall economic landscape unlocking considerable economic potential, and promoting a healthier, more dynamic market environment.

# Precedent for DARA

Historically, there is precedent for the establishment of DARA. Nations have recognized that self regulated organizations are needed in response to the growth and adoption of digital assets and innovative technologies like blockchain.

## Switzerland:

### **Swiss Financial Market Supervisory Authority (FINMA)**

Because FINMA is functionally independent of Switzerland's political authorities, neither Swiss Parliament nor the government can issue directives on how it carries out its regulatory duties. While FINMA acts as an independent authority, it nevertheless forms part of Switzerland's political structures and the balancing and control mechanisms they incorporate. Most notably, it is subject to parliamentary scrutiny and must account to the parliamentary commissions overseeing its work.

<https://www.finma.ch/en/finma/finma-an-overview/>

## Malta:

### **Malta Digital Innovation Authority (MDIA)**

The MDIA was officially established on July 18, 2018. The MDIA was created as part of Malta's initiative to become a leading jurisdiction for blockchain and digital innovation. The authority is tasked with certifying and regulating innovative technologies, including blockchain, and ensuring that Malta remains at the forefront of digital innovation.

<https://www.mdia.gov.mt/what-we-do/>

## Japan:

### **Japan Virtual Currency Exchange Association (JVCEA)**

The JVCEA was established on April 23, 2018. The JVCEA was formed by 16 registered cryptocurrency exchanges in Japan to self-regulate the industry and ensure compliance with national laws, particularly following several high-profile security breaches and hacks. The association was later recognized by Japan's Financial Services Agency (FSA) as a self-regulatory organization (SRO) in October 2018.

<https://www.sygnia.io/blog/japan-crypto-asset-regulation-guide/>

# Problem - Solution, In U.S. Compliance

## Regulatory & Compliance Problems in the U.S. Marketplace

### 1. Lack of Consistent Regulatory Standards

The U.S. market is characterized by a mosaic of regulatory frameworks, which vary from state to state and at the federal level. Businesses must navigate multiple regulatory bodies, which increases operational costs, particularly for startups and firms that may lack the resources to manage such complexities.

According to the WEF, the fragmented regulatory environment has led to significant challenges in international cryptocurrency operations, necessitating a streamlined approach to regulatory harmonization.

[https://www3.weforum.org/docs/WEF\\_Pathways\\_to\\_the\\_Regulation\\_of\\_Crypto\\_Assets\\_2023.pdf](https://www3.weforum.org/docs/WEF_Pathways_to_the_Regulation_of_Crypto_Assets_2023.pdf)

### 2. High Risk of Fraud and Security Breaches

Instances of exchange hacks, phishing scams, and fraudulent ICOs are frequent and pose serious challenges to market integrity. These security issues not only cause direct financial losses but also undermine consumer confidence in the cryptocurrency and digital asset market. A report by Chainalysis highlights that over \$1 billion was lost to cryptocurrency fraud and theft in the previous year alone.

<https://www.chainalysis.com/blog/crypto-hacking-stolen-funds-2024/>

### 3. Uncertain Market Conditions

Volatility affects both businesses and consumers by creating risky investment and operational environments, limiting economic development, and the use of cryptocurrencies as a stable medium of exchange. Regulatory announcements and the unclear interpretation of vague comments by commissions or persons related to agencies, have the potential to trigger immediate and significant market movements, underscoring the impact of regulatory uncertainty on market stability.



# DARA Industry-Led Regulatory Frameworks

## 1. Introduction of Clear Regulatory Guidelines by Industry Committees

Industry lead guidelines serve as a benchmark for best practices and compliance standards across the industry. By providing a consistent set of expectations, these guidelines reduce the regulatory burden and enhance transparency.

Adaptable regulatory frameworks developed through industry consensus more effectively respond to the evolving nature of blockchain technologies and digital assets.

## 2. Promotion of Self-Regulation and Best Practices Among Industry Participants

Implementation and evolution of a rule book that industry participants agree to follow, which includes standards for transparency, security, and consumer protection. Self-regulation allows for more flexible and rapid adaptation to new developments within the industry, promoting innovation while maintaining high standards of conduct.

Self-regulation has been effective in improving standards within the industry, with many leading firms adopting higher than mandated levels of consumer protection and security measures.

## 3. Support for Technological Innovation and International Cooperation

Industry frameworks should support ongoing technological innovation and foster international cooperation to address global challenges in cryptocurrency regulation.

Several successful examples of international regulatory cooperation have led to improved security standards and more consistent enforcement across borders.

# DARA Committees

## **1. Regulatory Development Committee**

Engage with industry stakeholders to draft guidelines, gathering feedback on new policy directions. Ensure that DARA policies are adaptable to technological advancements, market changes and SRO goals.

## **2. Education Committee**

Foster educational programs for businesses, consumers, legislative staff, and educational institutions. Organize workshops and seminars for various professional sectors of the digital asset and crypto- currency industry in collaboration with institutions.

## **3. Finance Committee**

Manage funding, budgeting, and financial reporting to secure financial resources through partnerships, fees, grants, and federal funding. Work with US lawmakers to direct funding to support innovations that drive economic development.

## **4. Exchange Committee**

Set standards for exchange operations (Centralized, Hybrid, Dex, and exchange-type operations), security, and consumer protection. Address challenges to exchange operations, such as secure connectivity to tangential services, liquidity issues, market manipulation, and cross-border transactions.

## **5. Operations Committee**

Oversee the day-to-day operations of DARA. Implement operational best practices and innovations. Coordinate between different committees to ensure smooth execution of projects and initiatives.

## **6. International Committee**

Represent DARA in international forums. Develop strategies for international alignment with the U.S. industry in negotiations and collaborations. Support data collection from around the globe to inform the SRO of international regulatory pieces that benefit the U.S.

# Agencies, Regulators, and U.S. Oversight

To effectively implement frameworks and achieve goals, DARA collaborates with established financial agencies, regulators, and U.S. government committees.

## Key Financial Agencies and Regulators

### 1. Securities and Exchange Commission (SEC)

As the primary overseer of the securities market, the SEC's involvement is crucial for regulating security-like digital assets and security related instruments.

**Objective:** Collaborate on defining and enforcing security classifications for digital assets, sharing insights on compliance and investor protection.

### 2. Commodity Futures Trading Commission (CFTC)

The CFTC regulates commodity, futures, and derivatives markets in the U.S., which includes certain types of digital assets like Bitcoin.

**Objective:** Compliment the CFTC by supporting the digital asset and cryptocurrency ecosystem in compliance with regulation and with oversight.

### 3. Financial Crimes Enforcement Network (FinCEN)

FinCEN combats money laundering and financial crimes, an area of particular concern in the digital asset space.

**Objective:** Educate and collaborate to enhance the effectiveness of anti-money laundering (AML) and know-your-customer (KYC) regulations for digital assets.

### 4. Federal Reserve

As the central bank of the U.S., the Federal Reserve has a vested interest in the financial stability of digital asset markets.

**Objective:** Engage in discussions on monetary policy implications of digital assets and potential integration of digital currencies into the U.S. banking system.

# U.S. & Int. Economic Committees & Commissions

## 1. Senate Committee on Banking, Housing, and Urban Affairs

This committee oversees issues related to the financial markets and their key players, including banks and financial institutions that are increasingly involved in cryptocurrency.

**Objective:** Work with the committee to influence and inform future legislative measures affecting the digital asset market.

## 2. House Committee on Financial Services

This committee deals with all components of the nation's housing and financial services sectors including banking, insurance, real estate, public and assisted housing, and securities.

**Objective:** Engage with the committee to ensure that digital assets are considered in broader financial services regulations.

## International Regulators

### 1. International Organization of Securities Commissions (IOSCO)

As a leading international body of securities regulators, IOSCO plays a critical role in setting global standards.

**Objective:** Align DARA's regulatory frameworks with international standards, facilitating smoother cross-border cryptocurrency transactions and operations.

### 2. Financial Action Task Force (FATF)

FATF sets international standards for combating money laundering and terrorist financing.

**Objective:** Collaborate on guidelines for cryptocurrencies to prevent their misuse for money laundering and terrorism financing.

# U.S. State Agencies & Services

Effective regulation of digital assets requires local engagement. Collaboration with state-level regulatory agencies and attorneys ensures that local regulations align with federal standards and effectively address region-specific challenges.

## Key State-Level Agencies

### 1. State Securities Regulators

Agencies responsible for enforcing state securities laws and protecting investors from fraud.

**Objective:** Ensure that digital asset offerings comply with both state and federal securities laws, sharing information on emerging threats and enforcement actions.

### 2. State Banking Departments

Oversee state-chartered banks and financial institutions, which may get involved with digital asset transactions.

**Objective:** Develop and enforce guidelines for the involvement of state-chartered financial institutions in the cryptocurrency space.

### 3. State Departments of Financial Services

Regulate insurance, banking, and financial services within the state, often with a focus on consumer protection.

**Objective:** Align state-specific regulations with federal guidelines for digital assets, ensuring consumer protection and operational transparency.

# District Attorneys & AG Offices

Effective collaboration with state-level agencies and district attorneys ensures DARA has comprehensive and cohesive regulatory frameworks for digital assets across the United States.

## **Major Economic Centers (e.g., New York, California, Texas)**

District Attorneys in these regions often deal with complex financial crimes and have specialized units for economic crimes.

**Objective:** Engage with DAs in major economic centers to address and prosecute digital asset crimes effectively, such as fraud and money laundering.

## **Collaborative Initiatives**

### **1. Joint Task Forces**

Joint task forces of state regulators, district attorneys, and DARA representatives focus on high-priority areas such as anti-money laundering (AML) efforts and consumer protection.

### **2. Training and Education Programs**

Training programs for state regulators and law enforcement agencies keep them updated on the latest developments and best practices in digital asset regulation.

### **3. Information Sharing Agreements**

Formal agreements for sharing data and insights related to market trends, regulatory compliance, and enforcement activities, foster a collaborative approach to regulation and oversight.

# Education: Professionals & Lawmakers

DARA implements comprehensive education initiatives targeted at key professional groups including state bar associations, accountants, financial planners, industry professionals, lawmakers, and their staff.

## 1. Education Programs for State Bar Associations

Provide legal professionals with the knowledge required to navigate the complexities of digital asset law. **Seminars and Workshops:** Conduct regular seminars and workshops focusing on the legal aspects of digital assets, including compliance, tax implications, and emerging legal trends.

## 2. Initiatives for Industry Professionals

Ensure that professionals within the digital asset industry are well-versed in regulatory requirements and best practices. Equip financial professionals with the skills to advise clients on digital asset investments and compliance. Formulate detailed guidance and updates on the taxation of cryptocurrencies and other digital assets, including implications for personal and corporate finance.

## 3. Educational Outreach to Lawmakers and Staff

Aid in the crafting of informed, effective legislation and regulatory policies for digital assets through policy and US Government support.

**Legislative Briefings:** Regular briefings for lawmakers and their staff on the current state of the digital asset market, technological advancements, and regulatory challenges.

**Fact Sheets and Issue Papers:** Provide concise, easily digestible information on key issues related to digital assets to help inform policy decisions.

Cross-Sector education fosters a multidisciplinary understanding of digital assets that spans various professional sectors.

# DARA Evaluation and Feedback

Enhance and refine DARA's regulatory effectiveness based on industry feedback and evolving needs. Implement robust feedback mechanisms to gather input from program participants to refine and adjust the DARA guidelines and management of the SRO.

**Impact Assessments:** Regularly assess the impact of programs on professional practices and regulatory compliance to ensure they are meeting their goals.

## Feedback Mechanisms

1. **Participant Surveys:** Gather feedback through periodic surveys.
2. **Public Comment Periods:** Allow public input for comment on regulatory proposals.
3. **Stakeholder Meetings:** Conduct mandated meetings for in-depth feedback.
4. **Annual Forums:** Discuss regulatory impacts and improvements.

## Impact Assessments

1. **Program Reviews:** Conduct annual reviews to assess impacts and identify improvements.
2. **Compliance Audits:** Regular audits to ensure adherence and highlight compliance challenges.

## Reporting and Adjustments

1. **Quarterly Reports:** Summarize feedback, findings, and adjustments.
2. **Annual Review Presentation:** Outline annual successes, challenges, and strategic changes.



# DARA Leadership Team

## **Wendi Carver - Director of Leadership**

With over 25 years of experience in the capital markets, Wendi Carver is a seasoned executive known for her prowess in leading, managing, and building companies across various asset classes. Her strategic vision and leadership skills are instrumental in guiding DARA's operational and developmental strategies. **Role at DARA:** Wendi leads the strategic planning and implementation processes, ensuring that DARA's goals align with industry needs and regulatory standards.

## **Jacqueline Cooper - Director of Legal & Communications**

As a blockchain attorney and CEO of the Blockchain Legal Institute, Jacqueline Cooper brings a wealth of knowledge in blockchain technology and legal frameworks. Her experiences as an NBCT educator and international author enrich her contributions to DARA. **Role at DARA:** Jacqueline oversees the development of the legal resources for DARA's operations, ensuring access to resources involving compliance topics and regulations, while also managing the organization's communications and public relations efforts.

## **Matthew Rogers - Director of Strategy**

Co-founder and CTO of the Blockchain Legal Institute, Matt Rogers is an accomplished executive experienced in solutions architecture and software engineering. His career includes roles as college lecturer, underscoring his innovative approach to problem-solving and education. **Role at DARA:** Matt is responsible for developing strategic initiatives that enhance DARA's position in the digital asset market, focusing on long-term growth.

### **Anthony Howell - Director of DC Correspondence**

Anthony Howell is a key figure in international relations, particularly known for his efforts in promoting Bermuda's role in the global financial and fintech sectors. His work includes significant contributions to business development initiatives. **Role at DARA:** Anthony leads DARA's outreach and liaison efforts in Washington DC, enhancing relationships with key policymakers and stakeholders in the digital asset arena.

### **Dr. Christopher Smithmyer - Director of Research & Standards**

Dr. Smithmyer, holds advanced degrees in Law, Business, Conflict Management, Labor Relations, and International Transactions. His academic and professional experiences are pivotal in his role at DARA. **Role at DARA:** Dr. Smithmyer oversees the research and development of standards for digital assets, ensuring that DARA's regulations remain at the forefront of technological and methodological advancements.

### **Remi Alli - Director of Arbitration**

With degrees in Law and Health Law and Policy, and experience writing for Forbes and Investopedia, Remi Alli is well-versed in complex legal and regulatory issues. **Role at DARA:** Remi manages arbitration processes, addressing disputes and conflicts within the digital asset marketplace, ensuring fair and legal resolutions.

### **Paul Dowding - Director of Industry Infrastructure**

Paul brings over 34 years of experience in financial operations management, innovation, and systems re-engineering. His expertise is crucial for understanding and improving the infrastructure that underpins digital asset markets. **Role at DARA:** Paul focuses on enhancing the physical and technological infrastructure necessary for the effective operation of digital assets, promoting security and efficiency.

**For Additional Team Members, visit [www.dara.foundation](http://www.dara.foundation)**

# DARA Rule Book - Detailed Guidelines and Compliance:

- Industry lead rules and regulations governing digital assets.
- Checklist for compliance and best practices.

A comprehensive rule book is available for members, detailing responsible regulatory guidelines, policies, and compliance requirements essential for operating within the United States' digital asset and cryptocurrency market. This rule book is a living document evolving as the industry members review and implement within the community.

For more information on rules contact [info@data.foundation](mailto:info@data.foundation)



**DARA**  
DIGITAL ASSET  
REGULATORY  
AUTHORITY

## Contact Information

**Digital Asset Regulatory Authority:**

To aid in the crafting of informed, effective compliance frameworks, legislation and regulatory policies for digital assets, contact [info@dara.foundation](mailto:info@dara.foundation).

Visit [www.dara.foundation](http://www.dara.foundation) to become part of the global assembly.