

Crypto Quarterly

Digital Assets, Blockchain, and Related Technologies Update

The landscape of government enforcement, private litigation and federal and state regulation of digital assets, blockchain and related technologies is constantly evolving. Each quarter, Ropes & Gray attorneys analyze government enforcement and private litigation actions, rulings, settlements and other key developments in this space. We distill the flood of industry headlines so that you can identify and manage risk more effectively. Below are the takeaways from this quarter's review.

Table of Contents

Regulatory Updates	1
Enforcement Landscape	2
Private Litigation.....	4
Legislation	5
Looking Ahead.....	6

REGULATORY UPDATES

1. SEC and CFTC Bring Payment Stablecoins to Financial Intermediaries

• CFTC Expands “Payment Stablecoin” Definition

- On February 6, 2026, the CFTC’s Market Participants Division [reissued Staff Letter 25-40](#), broadening the definition of “payment stablecoins” to confirm that national trust banks qualify as permitted issuers of “payment stablecoins.”
- Under the framework, qualifying digital assets can be valued and haircut using the same methodologies applied to conventional marketable securities, and once appropriately discounted, may be counted on the asset side of a futures commission merchant’s segregation ledger to cover customer shortfalls where applicable rules permit.
- The guidance is particularly significant in light of the Office of the Comptroller of the Currency’s (OCC) [conditional approval](#) of five nondepository national

trust bank charter applications in December 2025—many of which were filed specifically to engage in stablecoin issuance and digital asset custody activities under the GENIUS Act. By confirming that these institutions meet the letter’s issuer eligibility criteria, the CFTC effectively widened the pool of stablecoins that FCMs can accept as customer collateral.

• SEC Issues Guidance on Broker-Dealer Net Capital Treatment of Payment Stablecoins

- On February 19, 2026, the SEC’s Division of Trading and Markets published new [FAQs](#) clarifying the net capital treatment of broker-dealer proprietary positions in payment stablecoins under Rule 15c3-1 of the Securities Exchange Act of 1934.
- Under the guidance, broker-dealers may classify a proprietary stablecoin position as having a “ready market” and apply a two percent haircut when calculating net capital—a marked reduction from the 100 percent charge that would otherwise apply. Commissioner Peirce described the higher haircut as “unnecessarily punitive” in light of the quality of reserve assets that back payment stablecoins, and noted that the two percent figure was calibrated to match the treatment accorded to registered money market funds, “which hold similar instruments as payment stablecoin issuers.” She further observed that once the GENIUS Act takes effect, the reserve standards imposed on “permitted payment stablecoin issuers” will exceed the investment restrictions applicable to money market funds, including government money market funds.
- Notably, the scope of the guidance turns on whether the GENIUS Act has been adopted. Until it takes effect, the term “payment stablecoin” under the FAQ

covers only specified USD-denominated stablecoins, excluding non-U.S. dollar stablecoins. Once the GENIUS Act is in force, the definition broadens to include both U.S. and non-U.S. stablecoins that satisfy the Act's criteria.

2. SEC and CFTC Issue Joint Interpretive Guidance on Crypto Assets

- On March 17, 2026, the SEC and CFTC issued [joint interpretive guidance addressing](#) how federal securities and commodities laws apply to crypto assets.
- The agencies established a [five-part classification framework](#) for crypto assets, organized around each asset's characteristics, intended use, and function. Three of these categories—digital commodities, digital collectibles, and digital tools—are not securities, stablecoins are sometimes securities, and digital securities are always securities.
 - Notably, the SEC and CFTC [classified](#) 16 crypto assets as digital commodities. These digital assets are: Aptos (APT), Avalanche (AVAX), Bitcoin (BTC), Bitcoin Cash (BCH), Cardano (ADA), Chainlink (LINK), Dogecoin (DOGE), Ether (ETH), Hedera (HBAR), Litecoin (LTC), Polkadot (DOT), Shiba Inu (SHIB), Solana (SOL), Stellar (XLM), Tezos (XTZ), and XRP (XRP).
 - The 16 assets meet the definition of “digital commodity” under the interpretive guidance because each is “intrinsically linked to and derive[s] [its] value from the programmatic operation of a crypto system that is functional, as well as supply and demand dynamics, rather than from the expectation of profits from the essential managerial efforts of others.”
- Beyond the asset list itself, the interpretation also addresses the regulatory treatment of common on-chain activities—**protocol mining, protocol staking, airdrops, and token wrapping**—within the existing legal framework, and establishes a classification structure applicable across the digital asset spectrum.
- SEC Chair Paul Atkins [stated](#), “After more than a decade of uncertainty, this interpretation will provide market participants with a clear understanding of how the Commission treats crypto assets under federal securities laws. This is what regulatory agencies are supposed to do: draw clear lines in clear terms.” He added that the guidance “serves as an important bridge for entrepreneurs and investors as Congress works to advance bipartisan market structure legislation.” CFTC Chair Michael Selig

[stated](#), “For far too long, American builders, innovators, and entrepreneurs have awaited clear guidance on the status of crypto assets under the federal securities and commodity laws. With today's interpretation, the wait is over.”

- For more information, please see our [detailed publication](#) on the guidance.

3. SEC Approves Nasdaq Proposal for Tokenized Securities Trading

- On March 18, 2026, the SEC [approved](#) Nasdaq's proposal to trade certain securities in tokenized form. The approval represents a development in the application of blockchain technology to traditional equity markets.
- The eligible securities include those (i) in the Russell 1000 index and (ii) Exchange Traded Funds that track indices such as the S&P 500 and NASDAQ-100.
- Jesse Knutson, head of operations at Bitfinex Securities, [stated](#) that the approval “is a step in the right direction and follows a broader trend of deeper integration between digital asset and conventional markets,” though he noted that “it's still a step behind some of the more progressive digital jurisdictions, where these functionalities have been available for several years.”

ENFORCEMENT LANDSCAPE

1. Bitfinex Hacker Ilya Lichtenstein Announces Early Release from Federal Prison

- On January 1, 2026, Ilya Lichtenstein, who hacked Bitfinex—a global cryptocurrency exchange—and stole \$3 billion in bitcoin in 2016, [announced](#) his early release from federal prison.
- Lichtenstein and his wife [pleaded guilty](#) to hacking Bitfinex's network and fraudulently authorizing transfers of stolen bitcoin to Lichtenstein's cryptocurrency wallet and subsequent money laundering.
- Lichtenstein was [sentenced](#) to five years in prison in 2024. Lichtenstein faced up to 20 years in prison, but because of his cooperation, prosecutors [supported](#) a reduced sentence.

2. American Bitcoin Academy Founder Sentenced to Three Years for Wire Fraud

- On January 15, 2026, the Department of Justice [announced](#) that Brian Garry Sewell was sentenced to three years in federal prison and ordered to pay \$3 million in restitution, after pleading guilty to wire fraud.

- The DOJ [unsealed](#) the indictment in June of 2024. Prosecutors established that Sewell defrauded investors in a seven-year crypto-fraud scheme by lying about his experience, education, and ability to generate returns.
 - In February of 2024, Sewell [settled](#) fraud charges with the SEC for over \$2 million in civil penalties and disgorgement. The SEC alleged Sewell used online trading course American Bitcoin Academy to encourage students to invest in the Rockwell Fund, which he claimed he would launch using artificial intelligence and crypto trading strategies.
 - Sewell will serve a concurrent sentence for a separate but related offense for operating and sending illicit funds through an unlicensed cash-to-crypto money transmitting business, Rockwell Capital Management.
- 3. CFTC Files Complaint Against Wolf Capital Crypto Trading LLC**
- On January 16, 2026, the CFTC announced that it had filed a [complaint](#) in the U.S. District Court for the Northern District of Oklahoma against Travis Ford and his company, Wolf Capital Crypto Trading LLC.
 - The complaint alleged that Ford fraudulently solicited and accepted over \$10 million from investors into an unregistered commodity pool operated by Wolf Capital.¹
 - The CFTC seeks restitution, disgorgement, civil monetary penalties, and permanent trading and registration bans.
- 4. DOJ Drops OpenSea NFT Insider Trading Case After Second Circuit Vacates Wire Fraud Conviction**
- On January 23, 2026, the DOJ formally [dropped](#) its wire fraud and money laundering case against Nathaniel Chastain, a former manager of NFT marketplace OpenSea.
 - Chastain was responsible for choosing which NFTs would be highlighted on a prominent section of the OpenSea's website. Because featured NFTs typically saw a surge in value, Chastain allegedly exploited his insider knowledge by buying NFTs ahead of their placement on the site and then selling them at a profit once the increased exposure drove up their prices.
 - Chastain was convicted and [sentenced](#) to three months in prison after a week-long trial in the Southern District of New York, but the Second Circuit [vacated the judgment](#), finding that the trial court erred by instructing the jury that it could find Chastain guilty of wire fraud even if it found that he misappropriated information that lacked commercial value to OpenSea.
- The case was among the first attempts to prosecute NFT insider trading.
- 5. Chinese National Sentenced for Role in \$36 Million “Pig Butchering” Crypto Scam**
- On January 27, 2026, the Department of Justice [announced](#) that Chinese national Jingliang Su was sentenced to 46 months in federal prison for his role in laundering more than \$36 million in a Cambodian scam center conspiracy. Su was also ordered to pay over \$26 million in restitution.
 - Su pleaded guilty to conspiracy to operate an illegal money services business in connection with the “pig butchering” scam. The scam involved promoting fake cryptocurrency platforms to U.S. victims via social media, telephone calls, text messages, and online dating services, and then inducing them to transfer funds to accounts controlled by co-conspirators.
 - As highlighted in the previous [Ropes & Gray Crypto Quarterly](#), the DOJ [announced](#) the formation of the interagency Scam Center Strike Force in November, targeting cryptocurrency-related scams worldwide. The DOJ described Su's sentencing as part of these ongoing efforts to prosecute scam centers.
- 6. Paxful Holdings Sentenced to Pay \$4 Million Criminal Penalty After Guilty Plea**
- On February 11, 2026, the Department of Justice [announced](#) that Paxful Holdings Inc., a peer-to-peer virtual asset exchange that is no longer operational, was sentenced to pay a criminal penalty of \$4 million.
 - The sentencing followed Paxful's [guilty plea](#) to conspiracies to promote illegal prostitution, violate the Bank Secrecy Act, and other federal criminal charges. Prosecutors alleged that Paxful knowingly attracted criminal clientele by promoting its lack of controls and anonymity and moved cryptocurrency for their benefit.
 - The reduced penalty reflected the company's ability to pay following its operational shutdown.
- 7. CFTC Asserts Exclusive Jurisdiction Over Prediction Markets in the Ninth Circuit**
- On February 17, 2026, the CFTC filed an amicus [brief](#) with the U.S. Circuit Court of Appeals for the Ninth Circuit asserting that the agency has exclusive jurisdiction to regulate prediction markets.
 - The filing is the latest development in an ongoing jurisdictional conflict between the CFTC and state regulators across the country, each of whom asserts

¹ On December 10, 2024, Ford was [charged](#) by the Department of Justice (DOJ) for conspiracy to commit wire fraud. *See* United States v. Ford, No. 4:24-cr-00387 (N.D. Okla. Dec. 10, 2024). On November 13, 2025, Ford was [sentenced](#) to five years in prison.

the right to oversee contracts tied to [major sporting events](#) such as the Super Bowl, March Madness, and the Olympics.

- CFTC Chair Michael Selig [stated](#), “To those who seek to challenge our authority in this space, let me be clear, we will see you in court.”

8. DOJ Probes Iran’s Use of Binance to Evade U.S. Sanctions

- On February 23, 2026, *The Wall Street Journal* [reported](#) that the Department of Justice is probing Iran’s use of Binance, the world’s largest crypto-exchange, to avoid U.S. sanctions. Binance filed a [defamation lawsuit](#) in response.
- The [alleged probe](#) follows an internal Binance investigation into suspicious transactions that allegedly identified more than \$1 billion in flows connected to a network funding Iran-backed groups.
- The investigation comes less than two years after Binance’s record \$4.3 billion plea agreement and subsequent [pardon](#) of founder Changpeng Zhao. The company is subject to a federal compliance monitor.

9. FBI Arrests Contractor’s Son in Caribbean for Alleged \$46 Million Crypto Theft from U.S. Marshals Service

- On March 5, 2026, the FBI [announced](#) the arrest of John Daghita, the son of a government contractor, in the Caribbean for [allegedly stealing](#) more than \$46 million in cryptocurrency from the U.S. Marshals Service.
- Daghita was arrested on the island of Saint Martin in a coordinated international law enforcement operation between the FBI and the French Gendarmerie.
- Daghita’s father, Dean Daghita, is the president of a Virginia-based government contracting firm that provides the U.S. Marshals custody services for seized cryptocurrency.
- The arrest follows a [months-long investigation](#). Blockchain investigator ZachXBT traced the funds to U.S. government-controlled seizure wallets and alerted law enforcement.

10. CFTC Issues No-Action Position for Self-Custodial Crypto Wallet Provider

- On March 17, 2026, the CFTC’s Market Participants Division [granted no-action relief](#) to Phantom Technologies Inc., which develops self-custodial wallet software for crypto assets. The relief relates to Phantom’s plan to make its wallet application available to users who wish to access trading services provided by registered FCMs, introducing brokers, and designated contract markets.

- So long as Phantom adheres to the conditions outlined in the letter, the CFTC’s Market Participants Division has indicated it will not pursue registration-based enforcement against the company or its personnel for operating without registering as an introducing broker or an associated person of an introducing broker—obligations that could otherwise apply given the software’s role in connecting users with registered trading intermediaries.

PRIVATE LITIGATION

1. *Don Holland v. CryptoZoo, Inc., et al.*

- On January 30, 2026, in the Western District of Texas, YouTuber Logan Paul filed a [Motion to Dismiss](#) a customer and investor class action complaint that alleged he and several co-defendants perpetrated a fraud scheme where he promoted a game to investors called “CryptoZoo”—along with its animal-based non-fungible tokens and native \$ZOO token—only to abandon the project and retain purchasers’ funds.
 - The Motion to Dismiss argues that Paul cannot be liable for CryptoZoo’s actions because he and CryptoZoo did not operate as a single economic entity, as is required under Delaware law.
 - The Motion to Dismiss further argues that, because neither Paul nor CryptoZoo touted CryptoZoo products as investment vehicles, neither CryptoZoo’s NFTs nor \$ZOO tokens are securities per *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946), and therefore a securities fraud claim cannot attach.
- On March 16, 2026, the investors and customers filed a Response.
 - The Response argued that, whether the Court applies Delaware or Texas law, Paul is liable for CryptoZoo’s actions because “CryptoZoo, Inc., was nothing more than a pass-through by which Defendant Paul personally enriched himself.”
 - The Response further argued that CryptoZoo’s products were securities, as Paul repeatedly touted CryptoZoo as “a game that makes you money” and one’s investments would succeed or fail based on Paul’s ability to promote CryptoZoo. Even though CryptoZoo’s NFTs and \$ZOO tokens are different assets, they “were marketed as intertwined assets that functioned interchangeably to generate value.”
- Paul will file a [Reply](#), per the Briefing Schedule, by April 15, 2026.

2. *BProtocol Foundation, et al. v. Universal Navigation Inc., et al.*

- On February 10, 2026, the Southern District of New York [granted](#) Universal Navigation, Inc.’s and Uniswap Foundation’s motion to dismiss a patent complaint filed against them by BProtocol Foundation and LocalCoin Ltd.—the developers behind the Bancor exchange.
- Both Bancor and Uniswap use “smart-contracts” to automate activity on their decentralized exchanges. Bancor said that it patented its “constant product automated market maker” technology in 2017, and Uniswap launched its own protocol one year later which infringed on this technology.
- Judge John Koeltl found that Bancor’s patents failed the test the Supreme Court outlined in *Alice Corp. v. CLS Bank Int’l*, 573 U.S. 208 (2014). He said that the patents covered abstract ideas—“currency exchange rates to perform transactions.” Further, he found that the patents did not cover an inventive concept, as they existed “in the context of existing smart contract and blockchain technology.”

3. *Phillip Martin, et al. v. Binance Holdings Ltd. d/b/a Binance, et al.*

- On March 16, 2026, the Southern District of Florida [granted](#) a Motion to Compel Arbitration filed by Binance Holdings, Ltd., BAM Trading Services Inc., and Changpeng Zhao (the “Binance Defendants”) in their defense against two class action suits.
- In their class action complaints, the plaintiffs alleged that hackers infiltrated their accounts and stole their assets—routing them through Binance accounts for withdrawal—because of the Binance Defendants’ failures to comply with Know Your Customer and Anti-Money Laundering protocols.
- Judge Rodolfo A. Ruiz II ordered arbitration because he found that the plaintiffs’ claims arose from Binance’s Terms of Service, which contained broad arbitration provisions.

LEGISLATION

1. CLARITY Act Progress: Senate Agriculture Committee Approves Bill

- The [Senate Agriculture Committee](#) advanced the [Digital Commodity Intermediaries Act](#), its version of the Digital Asset Market Clarity (CLARITY) Act passed by the House of Representatives in July 2025, despite Democratic members [withdrawing support](#) over a lack

of provisions to prevent the president and other federal officials from trading in crypto. The bill must now pass the Senate Banking Committee.

- Around early March 2026, the Digital Commodity Intermediaries Act hit a [roadblock](#) in the Senate Banking Committee regarding a provision that would allow crypto firms to offer yield-bearing products that could compete with bank deposits. In its current form, the bill would allow crypto exchanges to offer stablecoins that pay out distributions or rewards, which may incentivize customers to pull deposits from bank accounts in favor of yield-bearing stablecoins. As of March 20, 2026, public reports suggest that Sen. Thom Tillis (R-NC) and Sen. Angela Alsobrooks (D-MD) struck a [tentative agreement](#) with the White House on updated language, but the details of the compromise are unavailable.
- The Senate Banking Committee had [postponed](#) its markup without announcing a new date, but according to [reporting](#), a markup is planned for April 2026.
- As discussed in last quarter’s [Crypto Quarterly](#), the bill would give the CFTC exclusive jurisdiction over digital commodity spot transactions, while the SEC would retain jurisdiction over investment contracts involving cryptocurrency, and would direct the CFTC to create registration and disclosure requirements for digital commodity exchanges, brokers, and dealers.

2. New York Proposes Cryptocurrency Licensing

- On January 15, 2026, New York Manhattan District Attorney Alvin Bragg and State Senator Zellnor Myrie jointly [proposed](#) the Cryptocurrency Regulation Yields Protections, Trust, and Oversight Act (CRYPTO Act), which would make it a criminal offense to operate a virtual currency business without proper state licensing—a significant escalation from the existing civil enforcement framework.
- Under the bill, any entity conducting virtual currency business in New York without a BitLicense from the Department of Financial Services could face criminal charges calibrated to transaction volume—ranging from misdemeanor charges for lower-value activity to Class C felony prosecution, carrying up to 15 years of imprisonment, where aggregate transactions exceed \$1 million within a 12-month window.

3. States Consider Cryptocurrency Reserves and Tax Changes

- In Florida, [HB 1039](#), introduced in January 2026, would establish the Florida Strategic Cryptocurrency Reserve Fund to “ensure the long-term financial sovereignty of the

state.” Under the bill, the state legislature could use the fund to invest in cryptocurrency. The fund could only acquire cryptocurrencies with a market cap of at least \$100 billion. The bill did not make it to a vote before the 2026 legislative session closed in mid-March.

- In South Dakota, [H.B. 1155](#) would add Bitcoin to the list of approved instruments in which the state may invest public funds. The bill, introduced in February 2026, would allow the State Investment Council to invest up to 10% of its funds in Bitcoin.
- On February 25, 2026, the Arizona Senate also [passed](#) a proposed state constitutional amendment rendering virtual currency “exempt from taxation.” If the Arizona House of Representatives also passes the proposed amendment, Arizonans will vote to approve the amendment in the next general election.
- On March 24, 2026, the Arizona Senate passed [SB 1649](#), which would create the Digital Assets Strategic Reserve Fund. The Fund would be funded from legislative appropriations and by any digital assets seized by the state. The bill would also empower the State Treasurer to loan digital assets from the Fund to generate returns. The Arizona House of Representatives will now consider the bill.

LOOKING AHEAD

To stay ahead of the curve, we look for insights from Ropes & Gray litigation and enforcement lawyers working in the field. This quarter’s featured insight:

The passage of the Digital Commodity Intermediaries Act (or in the House of Representatives, the CLARITY Act) could potentially end regulatory uncertainty in the digital asset space. It aims to set jurisdictional boundaries for the SEC and CFTC, and it would establish express registration categories for digital asset exchanges, brokers, and dealers. Moreover, exchanges would only be able to list digital commodities that are coupled with sufficient disclosures. Although the Senate Banking Committee has set no publicly available date, online sources suggest that the bill’s markup date is in 2026. The status and impact of this act will be discussed in further detail in the next edition of the Crypto Quarterly.

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