

The Dawn of a New Era for Crypto: Navigating the Evolving US Regulatory Landscape and Unlocking Opportunities for Israeli Companies

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For Israeli companies, the evolving US regulatory landscape presents a unique and historic opportunity where they can play a pivotal role in shaping the future of the crypto industry.

The United States is undergoing a paradigm shift in its approach to cryptocurrencies and financial technology. President Trump's Executive Order, "Strengthening American Leadership in Digital Financial Technology," signifies more than just a policy adjustment; it represents a fundamental philosophical realignment, embracing the potential of digital assets and decentralized systems.

With technological advances ushering in a wave of new private-sector financial products and services, including digital wallets, mobile payment apps, and new digital assets such as cryptocurrencies and stablecoins, the Federal Reserve and other central banks around the globe have been exploring the potential benefits and risks of issuing a Central Bank Digital Currency (a "CBDC"). During President Biden's Administration, the Federal Reserve began to develop a potential framework – known as Project Cedar – for a CBDC, a digital asset issued and controlled by the Federal Reserve. A CBDC would alter the ability of financial institutions to function as lenders, while giving the federal government knowledge of every purchase that uses a CBDC.

The SEC's "Crypto 2.0" Initiative: A Catalyst for Change

The SEC's revitalized Crypto Task Force, spearheaded by Commissioner Hester Peirce, is another pivotal development. The resolution of the "security" status of crypto assets is paramount for fostering a predictable and transparent regulatory environment. The ongoing debate surrounding XRP, the token associated with Ripple, exemplifies the uncertainty plaguing the industry. A clear and definitive regulatory framework would provide much-needed guidance for projects like Ripple and investors alike, promoting confidence and encouraging responsible innovation.

On January 23, 2025, the SEC issued [Staff Accounting Bulletin No. 122](#) (SAB 122), which rescinds the interpretive guidance included in Staff Accounting Bulletin (SAB) No. 121 ("SAB 121") that was issued on March 31, 2022.

Prior to SAB 121, banks and other custodians generally did not record safeguarded crypto assets of its users on its balance sheet (with a corresponding liability to return those assets) unless the entity had control of those assets. SAB 121 resulted in a significant change to the accounting and financial reporting for these entities, since it required the fair value of the crypto assets being safeguarded to be recorded as a liability, with a corresponding asset, when the bank did not control the crypto assets. In addition to the requirement related to balance sheet recognition, SAB 121 required the banks to disclose detailed information about the nature and amount of crypto assets being safeguarded, as well as any vulnerabilities related to concentrations in crypto asset safeguarding. Such disclosures included information about who holds the cryptographic keys, who maintains internal recordkeeping, and who is obligated to secure the assets and protect them from loss or theft.

For almost three years, SAB 121 effectively prevented banks from holding crypto on behalf of customers by indirectly requiring them to maintain a capital loss reserve equal to the full value of the crypto even though the bank did not own the crypto. On January 23, 2025, the SEC rescinded SAB 121.

The SEC's rescission of SAB 121 and the dismissal by the SEC of many of its lawsuits have sent ripples of optimism throughout the industry.

During the Biden Administration, the SEC pursued multiple investigations with the intent of establishing whether bitcoin and other cryptocurrencies were securities and therefore should fall under SEC jurisdiction. Ongoing cases against Robinhood, Coinbase, Kraken, along with crypto firm Consensus, were recently dismissed by the SEC under the second Trump Administration.

In October 2024 the SEC sued Cumberland DRW, a Chicago-based crypto trading firm accusing the firm of acting as an unregistered securities dealer and alleging it sold more than \$2 billion in unregistered securities, naming tokens like Polygon (POL), Solana (SOL), Cosmos (ATOM), Algorand (ALGO) and Filecoin (FIL) as a "non-exhaustive" list of tokens the agency considered to be securities. The SEC has agreed to drop its enforcement case against Cumberland DRW, pending Commissioner approval. It is the latest crypto-related lawsuit the SEC has agreed to drop.

President Trump also indicated that his administration would move forward with a crypto strategic reserve, naming several tokens that would be held by the U.S. government. The named tokens included bitcoin, ethereum, Ripple's XRP, solana and cardano.

Many crypto companies are experiencing renewed confidence. SAB 121 had imposed significant limitations on their operations, hindering their ability to provide custody services and expand their product offerings. Coinbase, a publicly traded company, views regulatory clarity as a cornerstone of its long-term strategy. The ability to offer a wider range of crypto products and services without the fear of regulatory reprisal would be a game-changer, potentially accelerating its growth and solidifying its position as a leading crypto exchange. The approval of a broader range of crypto ETFs, including those based on diverse digital assets, would unlock new avenues for institutional investment, further legitimizing the crypto market and driving mainstream adoption.

Imagine a future where the SEC, guided by the Crypto Task Force, establishes a clear and comprehensive framework for token offerings. This could lead to a resurgence of Initial Coin Offerings ("ICOs"), although in a more regulated and transparent form. Startups could leverage token sales to raise capital, while investors would benefit from enhanced protections and greater confidence in the legitimacy of these projects. This could fuel a new wave of innovation in areas such as decentralized finance ("DeFi"), non-fungible tokens (NFTs), and decentralized autonomous organizations (DAOs), accelerating the evolution of Web3 and its potential to transform various industries.

Global Interplay: Israel, Europe, and the Geopolitics of Crypto

Israel, with its vibrant fintech and cybersecurity ecosystem, occupies a unique and influential position in the global crypto landscape. The Israeli Securities Authority's (ISA) proactive approach to developing a balanced regulatory framework is being closely watched by other nations seeking to foster innovation while mitigating risks. Israel's expertise in cybersecurity is particularly valuable in the context of crypto, where security breaches and hacks pose a constant threat to investors and the integrity of the market.

Europe's MiCA regulation represents a significant step towards harmonizing crypto rules across the EU, promoting a more unified and consistent approach to regulation. However, its implementation presents challenges. The complexity of the regulation necessitates significant resources for compliance, and the potential for regulatory fragmentation within the EU remains a concern.

The geopolitical implications of crypto are also becoming increasingly apparent. The rise of China's digital yuan has sparked concerns about the potential for a fragmented global financial system and the erosion of US financial dominance. The US, with its emphasis on open public blockchains, is positioning itself as a champion of decentralized finance, promoting a model that prioritizes individual liberty and financial

sovereignty. The competition between different regulatory models and technological approaches will undoubtedly shape the future of the global crypto landscape and influence the balance of power in the digital age.

Israeli ICOs: A Gateway to Global Markets

For Israeli companies, the evolving US regulatory landscape presents both challenges and unprecedented opportunities. The potential resurgence of ICOs, under a clearer and more supportive regulatory framework, could provide Israeli startups with a new avenue for raising capital and accessing global markets. Israel's strong track record in innovation, particularly in areas such as cybersecurity and blockchain technology, positions it well to capitalize on this trend and become a leading hub for crypto entrepreneurship.

However, navigating the complexities of US regulations will require careful planning and execution. Israeli companies will need to ensure meticulous compliance with securities laws, anti-money laundering (AML) regulations, and other relevant legal frameworks. Engaging with experienced legal counsel and advisors will be crucial for successful ICO launches in the US market and for building sustainable and compliant businesses in the long term.

Technological Frontiers: ZKPs, Layer-2s, and the Future of Web3

Technological advancements continue to propel the crypto industry forward, pushing the boundaries of what's possible and driving the evolution of Web3. Zero-knowledge proofs (ZKPs) hold the promise of revolutionizing privacy and security in blockchain networks. Imagine a future where transactions are fully private, yet verifiable by regulators, addressing concerns about illicit activities while preserving individual privacy and promoting trust in the system.

Layer-2 scaling solutions are essential for the mass adoption of blockchain technology. Ethereum's transition to a proof-of-stake consensus mechanism, combined with the development of layer-2 solutions like Optimism and Arbitrum, is dramatically improving the network's scalability and efficiency, paving the way for wider adoption and more complex applications. The growth of DeFi protocols, such as decentralized exchanges and lending platforms, is transforming traditional financial services, offering a more inclusive and accessible financial system that empowers individuals and communities around the world.

The emergence of tokenization is unlocking new possibilities, enabling the representation of real-world assets on a blockchain. This opens up new avenues for investment and trading, democratizing access to assets such as real estate, art, and commodities, and creating a more liquid and efficient market for traditionally illiquid assets.

Navigating the Uncharted Territory: Challenges and Opportunities Ahead

Despite the optimism surrounding the recent regulatory developments, challenges persist. International cooperation and harmonization of regulatory frameworks are crucial for fostering cross-border innovation and preventing regulatory arbitrage. The ongoing debate about the classification of crypto assets as securities or commodities needs resolution to provide greater regulatory clarity and ensure a level playing field for all market participants.

The potential for regulatory overreach remains a concern. While regulation is necessary to protect investors and prevent illicit activities, it should not stifle innovation or create unnecessary barriers to entry. Striking the right balance between regulation and innovation is a delicate but essential task that will require ongoing dialogue and collaboration between regulators, industry leaders, and the broader crypto community.

The crypto industry stands at a critical juncture, poised for transformative growth and mainstream adoption. The decisions made by regulators and industry leaders in the coming years will determine the trajectory of this revolutionary technology and its impact on the global financial

system. By embracing collaboration, innovation, and responsible regulation, the crypto industry can unlock its full potential and create a more inclusive, equitable, and decentralized financial future for all.

For Israeli companies, the evolving US regulatory landscape presents a unique and historic opportunity. By leveraging their technological prowess, entrepreneurial spirit, and unwavering commitment to innovation, Israeli companies can play a pivotal role in shaping the future of the crypto industry and driving the next wave of global financial transformation.

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