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FIT21 Review: What is the FIT21 Crypto Bill?

Original:

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A significant [cryptocurrency](#) bill known as the Financial Innovation and Technology for the 21st Century Act (FIT21), which will have a significant impact on the industry, is scheduled for a vote in the U.S. House of Representatives soon.

The FIT21 law seeks to define cryptocurrencies precisely, classify them as commodities or securities, and determine which government agency is in charge of regulating them.

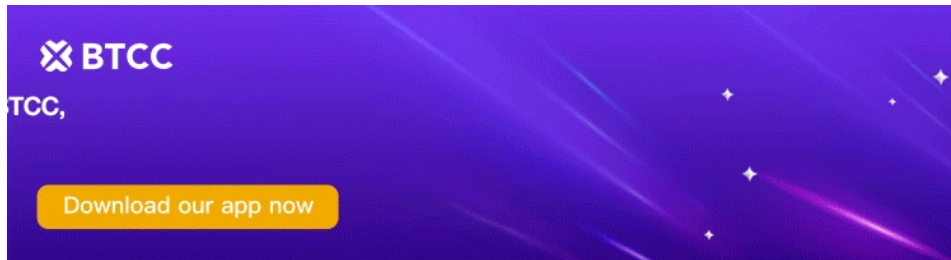
What is the FIT21 crypto bill? Let's dive into it.

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Key Takeaways

- The FIT21 bill seeks to divide CFTC and SEC regulatory responsibilities for cryptocurrencies.
- A “decentralization test” built into the proposed statute will establish whether a token qualifies as a security or a commodity.
- The CFTC will supervise cryptocurrency commodities, and the SEC will oversee cryptocurrency securities.
- With time, the proposed bill will enable cryptocurrency tokens to decentralize and turn into a commodity.
- The FIT21 law has drawn criticism from SEC Chair Gary Gensler, who said that it endangers capital markets and investors.

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About FIT 21

In an effort to set standards for digital assets, the FIT21 bill seeks to safeguard consumers.

To prevent authorities such as the U.S. Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) from unjustly prosecuting crypto entrepreneurs owing to “absent clear rules,” the measure seeks to safeguard consumers.

The Financial Services Committee stated that FIT21 offers the regulatory clarity and strong consumer safeguards that are needed for digital asset innovation to thrive in the US.

To distinguish between securities and commodities, the law proposes a “decentralization test” for digital currencies. Securities backed by digital assets will be overseen by the SEC, while commodities backed by digital assets will be governed by the CFTC.

The House Committee on Agriculture and the House Committee on Financial Services collaborated on the FIT21 bill. U.S. House of Representatives members initially introduced the measure in July 2023.

U.S. Congressman French Hill testified before the House Committee on Rules on May 21, 2024, stating that “absent clear rules, we will continue to see the SEC pursue a ‘regulation by enforcement’ agenda.” This approach causes market participants to fear that they could be sued at any time if they continue to operate in the U.S.

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 To date, the U.S. digital asset ecosystem has been mired by uncertainty and regulation by enforcement.

Congress has the chance to provide the robust consumer protections and regulatory clarity needed to foster innovation here in America by advancing [#FIT21](#).



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How Does the FIT21 Bill Work?

Four main objectives are set out by the FIT21 bill:

- Consumer protection measures - The law seeks to establish strong consumer protections on cryptocurrency service providers, including disclosures, fund segregation, capital provisions, and better custody standards.

- Drawing lines of authority for the CFTC and SEC - The law will explicitly define whether a cryptocurrency is a security or a commodity, enabling the CFTC to regulate crypto commodities. The bill will grant the SEC unambiguous authority over cryptocurrency securities.
- Allowing cryptocurrency projects to move from centralization to decentralization - The bill will allow cryptocurrency tokens to decentralize and eventually become commodities.
- Promoting cryptocurrency innovation in the United States - The measure will allow crypto firms and startups to innovate without fear of legal repercussions by providing regulatory clarity for the digital asset ecosystem.



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FIT21's Decentralization Test: Crypto Commodity or Crypto Security?

To be considered a commodity under the FIT21 legislation, a cryptocurrency must meet the

following criteria: it must be sufficiently decentralized.

The FIT21 summary states that in order for a blockchain to be considered decentralized, certain conditions must be met. These include the following: no single entity can unilaterally control the blockchain or its use; and no issuer or affiliated party can own 20% or more of the digital asset or its voting power.

Speaking with Bankless Podcast, U.S. Representative Patrick McHenry mentioned that the “decentralization test” in the FIT21 bill has been “refined with a lot of feedback.”

Decentralization is a “very clear bright line test” that crypto projects can use to find out if the tokens they issue are considered a security or a commodity, according to Representative McHenry.

Additionally, Representative McHenry stated that there is a “broad spectrum” between the ideas of centralization and decentralization, with the degree of decentralization exhibited by Bitcoin (BTC) at one extreme end of the spectrum.

Ethereum (ETH) is considered a crypto commodity according to Representative McHenry, who stated that Ethereum “clearly” satisfies FIT21’s decentralization test.

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Reaction of SEC to FIT21

The FIT21 law is not well-received by U.S. SEC Chair Gary Gensler, who is known for taking conservative crypto bets.

In a blog post dated May 22, 2024, Chair Gensler strongly criticized the proposed measure, FIT21, claiming that it may endanger investors and capital markets by opening a new regulatory loophole.

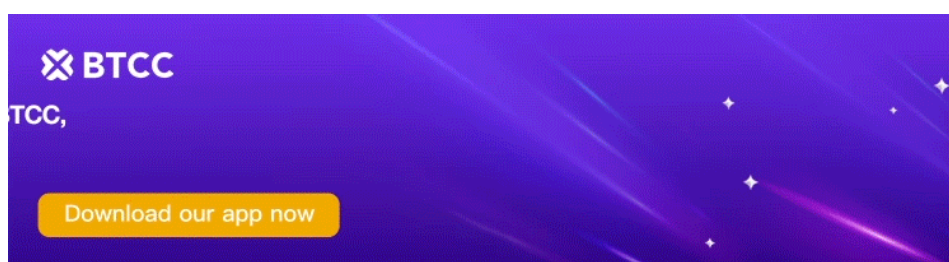
The decentralization criteria in the FIT 21 bill, according to Chair Gensler, does away with the “Supreme Court’s long-standing Howey test” and opens the door for cryptocurrency initiatives to self-certify as “decentralized” in order to avoid SEC supervision.

Furthermore, he stated that with over 16,000 crypto assets in circulation, the U.S. SEC would be woefully underequipped to deal with requests for certification of digital commodities.

What if scammers who sell penny stocks and engage in pump-and-dump scams claim they can avoid legal trouble with the securities laws because they are crypto investment contracts or self-certified decentralized systems? In Chair Gensler’s letter, the SEC was given just sixty days to challenge the company’s self-certification.

The first rulings regarding Ethereum ETFs are also expected by the SEC this week, making it a busy week for them.

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Conclusion

It is anticipated that FIT21 will be voted on by the United States House of Representatives during the fourth week of May 2024. U.S. crypto entrepreneurs are eagerly awaiting regulatory clarification, and the FIT21 law, if approved, will provide it.