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The case for vertically-integrated digital asset firms

Vertically-integrated digital asset firms that combine trading, custody, and settlement deliver better customer outcomes by lowering costs and improving user experience, all while reducing credit and settlement risk via prefunding mechanics and real-time, ledger-based settlement. Given these benefits, regulators should primarily supervise outcomes, allowing firms to manage integration risks with proven controls, rather than forcing pre-digital models of strict separation.

Modern market structure begins with integration.

Blockchain-based market architecture makes the vertical integration of trading, custody, and settlement not just a competitive strategy, but necessary for realizing the technology's full benefits. Pre-funded trading with instantaneous, ledger settlement eliminates settlement and credit risk, and mirrors properties inherent to atomic settlement that can happen in onchain transactions. When governed by intelligent oversight rooted in separation of sensitive functions and asset segregation, removing intermediaries lowers costs and reduces risk, simplifies surveillance, and strengthens market discipline, resulting in improved user experiences and outcomes.

As the market continues to develop, firms may choose to selectively unbundle services if and where specialists improve outcomes without re-introducing settlement risk. Regulators should therefore focus their supervision on real-world outcomes and allow firms to mitigate the risks of vertical integration with controls and guidelines, rather than freezing digital assets into fully separated organizational templates designed for a pre-digital era.

Integrated models deliver efficient and secure transactions while encouraging competition.

Blockchains empower market participants to seamlessly access digital asset firms by sending assets from self-custodial wallets to trading environments in seconds. Integrated firms build on these benefits by enabling:

- **Faster, safer settlement:** Pre-funded trading and immediate venue-ledger settlement eliminate customer credit risk and settlement risk.
- **Lower all-in costs:** Fewer intermediaries and straight-through processing across custody and execution reduce time and cost.
- **Stronger market integrity:** Surveillance of integrated firms is easier and more effective.
- **Immediate capital availability:** Customers can immediately access their assets post-trade.
- **Robust consumer control and enhanced competition:** Customers can withdraw assets to self-custody or another venue at any time, which inherently regulates firms' pricing and conduct.

In addition to these benefits, which overall create superior user experiences and outcomes, integrated firms can also provide enhanced capital efficiency via features like portfolio margining, and strengthened systemic resilience through holistic, real-time risk management.

Integration should not be mandated. Indeed, the most efficient mix of functions may change over time, but the same cost-benefit analysis will apply. Where outsourcing improves outcomes without adding risk, unbundling of functions is sensible. Where it adds friction or cost, integration remains appropriate and should be permitted, subject to appropriate internal controls and guidelines.

Consumers are well equipped to, and should, decide which mix of functions is best. Writ large, the digital asset market should be permitted to provide integrated and non-integrated models so that customers may seek the most efficient option for their needs.

Conflicts of interest look different for digital asset firms than for traditional markets.

Integration can entail conflicts that should be mitigated. Consider, for example, the following combinations:

- Combining **exchange services and custody of trading assets** allows for real-time settlement, a benefit that comes with no meaningful risk of misalignment between the incentives of the custodian and the exchange. The custodian holds the assets, and the exchange matches orders to buy and sell those assets. Moreover, the sum of digital assets custodied by an exchange can be made publicly visible and cryptographically verified on the blockchain.
- Combining **exchange and broker services** allows for economies of scope and reduces operational complexity by permitting straight-through processing of customer orders within the same technology stack. This combination can potentially present a conflict of interest if a broker is incentivized to route customer orders through its affiliated exchange, even when a third-party exchange would provide better execution. But digital asset markets have a built-in conflict of interest mitigant, in that customers can transact on a competing platform at any time by moving their assets on the blockchain to that other platform. Such moves frequently happen, and are a key feature of the digital asset ecosystem that is not replicable in traditional finance market structure. The potential loss of assets to another trading platform creates strong economic incentives for competitive pricing by digital asset firms. Further, participants in traditional financial markets have long been aware of residual conflicts risks and have developed effective mitigants for them. These mitigants can be adapted for digital asset firms, as discussed below.

Traditional financial markets have often relied on full separation of key market functions—such as trading, clearing, and custody—to prevent conflicts of interest, ensure fair access, and safeguard market integrity. This structural separation was premised on the need to manage logistics and risks across geographic distance, with time delays, and among various market centers. And importantly, it aimed to avoid situations where unchecked conflicts create untenable integrity or market stability concerns.

However, as traditional markets developed, technological advancements removed obstacles to integrated models, leading to, for example, the Securities and Exchange Commission’s broker-dealer/

alternative trading system **(BD/ATS)** model, where a broker, exchange, and custodian combine within one entity. Indeed, many integrated digital asset firms utilize a direct access model that more closely resembles a BD/ATS than traditional exchanges.

The regulatory path forward must be fit-for-purpose

When settlement is prefunded, instantaneous, and irreversible onchain, the risks that once justified traditional intermediaries largely disappear—so mandating those intermediaries no longer makes sense. To be sure, combining functions can give rise to certain risks that require internal controls and supervisory oversight to protect customers. But where benefits to market participants are at stake and the risks can be mitigated, the challenge is not whether to permit vertical integration, but how best to regulate it. A fit-for-purpose framework should be principles-based and focused on outcomes, rather than on prescriptive rules that will likely become obsolete as the technology evolves.

Key target outcomes include:

- Fair, efficient, and orderly markets centered on transparency and free of manipulation.
- Clear, workable rules that foster compliance, incentivize good behavior, and root out bad actors.
- Consumer protection from fraud and improper conduct.
- Disclosure and reporting frameworks that provide regulators and market participants with accurate, verifiable, and actionable information.
- Prevention of financial crimes, with appropriate protections for innovation and privacy.

A suite of fit-for-purpose regulations is necessary to achieve these outcomes. But several specific protections are essential:

- **Asset segregation:** The legal and operational segregation of customer assets provides a critical structural protection, walling off such assets from the firm's proprietary business lines.
- **Separation of sensitive functions:** This is another core mitigant. Instead of outright bans or legal separation requirements, which create unnecessary operational complexity and drive up costs, regulators should embrace rules that allow integrated entities to mitigate conflicts via functional separation of the most sensitive functions, while preserving beneficial synergies that reduce costs for customers.
- **Strict internal controls and information barriers:** Well-constructed information barriers and clear internal rules are crucial to prevent the sharing of material non-public information between affiliated entities (*e.g.*, a trading desk and a custody unit).
- **Robust disclosure and supervision:** Integrated firms must provide clear disclosure of their business lines and potential conflicts, coupled with strong regulatory supervision and enforcement.

Contemporary regulatory evolution supports integration

U.S. regulators have increasingly supported the responsible growth and use of digital assets, replacing previous enforcement-forward approaches with frameworks designed to make America

the "crypto capital of the world." This represents a fundamental shift from fragmented regulation toward recognizing and supporting the unique benefits of digital assets and the blockchain.
Specifically, President Trump's Digital Asset Working Group urged the SEC and CFTC to allow vertically-integrated trading platforms that perform multiple market functions, while challenging traditional functional segmentation. The working group clearly stated the benefits of such models:

> Centralized digital asset exchanges . . . are often vertically integrated, consolidating multiple layers of the digital asset value chain, such as custody, trading, brokerage, wallet services, and staking. This integrated model allows them to offer a seamless user experience, reduce reliance on third-party providers, and capture more value within their ecosystems.[1]

U.S. agencies have taken this direction seriously and are working to implement its recommendations. For example, Project Crypto is an SEC-wide initiative to modernize the securities laws to foster capital formation in the digital asset markets and "enable America's financial markets to move on-chain."[2] And CFTC's crypto sprint has set its sights on enabling the immediate trading of digital assets via crypto firms.

Conclusion

When paired with fit-for-purpose regulations, vertical integration enhances consumer benefits, innovation, competition, and systemic resilience. Imposing artificial separation would reintroduce risks, raise costs, and push activity offshore. A principles-based regime that preserves the ability to realize efficiencies through integration while ensuring strong protections is the only path that positions the U.S. to lead in digital assets and blockchain finance.

[1] President's Working Group on Digital Asset Markets, *Strengthening American Leadership in Digital Financial Technology* (Washington, D.C., July 2025), https://www.whitehouse.gov/wp-content/uploads/2025/07/digital-Assets-Report-EO14178.pdf.
[2] Paul S. Atkins, *American Leadership in the Digital Finance Revolution* (speech at the America First Policy Institute, Washington, D.C., July 31, 2025), https://www.sec.gov/newsroom/speeches-statements/atkins-digital-finance-revolution-073125.