

THE INDUSTRIAL STRUCTURE OF DIGITAL ASSETS · DISCUSSION PAPER v1.0

Local Rules, Global Markets

What a sound and sustainable digital asset industry needs — lessons from a Japanese study that apply everywhere

Tetsuro Morishita · Sophia University

On behalf of the Study Group on the Appropriate Industrial Structure for Digital Assets

THE CORE DIAGNOSIS

Regulation is local. The market is global.

1

Local

Licensed domestic providers serving domestic users

2

International

Providers in one jurisdiction serving users in another

3

Global

DEXs and DeFi: any provider, any user, no home jurisdiction

≈0.4%

Japan's domestic crypto trading volume as a share of global centralized-exchange volume

— despite regulating exchanges since 2016 and holding 14M+ accounts

Disciplining one layer cannot insulate it from the others.

Source: Discussion Paper v1.0, ch. 2 & 4 (JVCEA, Feb 2026; CoinDesk Data Exchange Review, Mar 2026)

SHARED BY EVERY JURISDICTION

Three interlocking structural problems

01

Asymmetric compliance burden

Licensed firms bear costs that offshore operators and DEXs avoid. The more you comply, the worse you compete.

02

Concentrated infrastructure

Custody, analytics and validator hosting gather around a few global providers; public chains are used but not maintained.

03

One-way market access

Local markets are cut off from global on-chain liquidity, so tokenization's promised cost savings never arrive.

Market forces alone will not resolve any of these.

Regulation builds trust — but crypto adds a third outcome



Japan, 1968: securities licensing cut firms from 593 to 277 — and the market then grew

TOO LITTLE

Misconduct spreads; trust never forms

TOO MUCH

Participants are chilled; the market shrinks

NEW IN CRYPTO: TOO MUCH

Activity moves to DeFi and offshore venues, beyond oversight; the risk remains

The task is not more or less regulation — it is **governing the pathways between regulated finance and DeFi, without raising the cost of staying inside.**

REGULATORY DESIGN

Regulate in three dimensions

Brings the pathways within reach of oversight — but does not by itself set the level

DIMENSION

WHAT IT ASKS

WHY

Function

Same activity, same risk, same regulation — across business categories

Consistency and a level playing field

Actor

Capital, governance and conflict-of-interest rules for each entity

Entities can fail through weak governance, conflicts of interest or thin capital

Code

Compliance embedded in smart contracts; duties at control points — front-ends, validators, oracles

In DeFi, code — not people — performs the function

Goal: the same rules for the same function — in a form each kind of participant can actually comply with.

FROM TODAY'S RULES

Function and Actor: what today's rules should add

Today's anchors: the licensed intermediary and the issuer

	TODAY		SHOULD MOVE TO
Function	The license type defines who is in: “exchange”, “issuer”	➡	Perimeter by function: same rules whoever performs it — bank, exchange or DeFi front-end
	Custody, listing, market making and key management bundled in one license; vendors outside	➡	Unbundle: address each function, including critical technology providers
	Disclosure hangs on an issuer — yet many tokens have none	➡	Assign disclosure to whoever brings the token to the public
Actor	Each license supervised on its own	➡	Supervise the group: separate or ring-fence conflicting functions
	Governance duties fall only on licensed firms and issuers	➡	Extend to substantive controllers: foundations, controlling DAOs, admin-key holders, critical vendors
	Requirements attach to the license, not to the mix of functions	➡	Scale capital and governance to the functions combined and client assets held

Who regulates code — and how?

Code cannot be a legal person: obligations fall on those who can change it or stand at its chokepoints

1

Issuers

Transfer limits, whitelists and freeze functions built into token contracts — already standard for stablecoins and tokenized funds

Issuer's supervisor

2

Controllers

Holders of admin keys or upgrade rights treated as operators of the protocol

Financial supervisor

3

Front-ends

Address screening, risk disclosures and access restrictions at the user interface

Conduct rules

4

Validators and oracles

MEV, sanctions and data integrity — most contested: filtering transactions clashes with censorship resistance

Market regulators

5

Standards and audit

Technical standards, independent code audits and on-chain supervision

Standard setters, SROs, auditors

Today's main tool is the border: authorities rely on the fiat on- and off-ramps — but tokens can circulate on-chain without touching them. The five routes reach inside; where none does, the border remains the backstop.

DIRECTION 1

Compete on service, share the plumbing

As securities markets did with clearing, settlement and custody — separate what firms compete on from what the industry shares.

1

Market surveillance

One token trades on dozens of venues; no single venue or regulator sees cross-market manipulation. Share data across venues and borders.

2

Custody

Independent custodians separate client assets from trading, with multi-custody and distributed keys.

3

Security intelligence

Attackers may be state-level; defenders are often start-ups, and losses are irreversible. Share threat data in real time.

DIRECTION 2

Make TradFi, CEXs and DeFi complements

- 1** **Border control:** compliance at the fiat on- and off-ramps
- 2** **Reusable KYC credentials,** combined with KYT (know your transaction)
- 3** **Regulated liquidity into DeFi,** e.g. tokenized money market funds as collateral
- 4** **Clear roles** in clearing and settlement
- 5** **Financial institutions as trust anchors** and oracles

None of this emerges on its own

- Banks lose fees by making DeFi trustworthy
- Licensed venues that pass on costs drive users to DEXs
- Protocols that add KYC lose users to those that don't

Policy must change the incentives.

Five things no country can do alone

- 1 Close the compliance gap.** Coordinate through FATF, FSB and IOSCO; judge rules relative to other jurisdictions.
- 2 Build shared infrastructure.** Surveillance data, custody standards and threat intelligence as public–private projects.
- 3 Define “fully decentralized”.** Common criteria for which DeFi arrangements fall inside regulation.
- 4 Fund the commons.** Sustainable funding for public-chain core development — no more free-riding.
- 5 Open two-way market access.** Legal certainty that transferring a token transfers the right — across borders.

Discussion Paper v1.0 (5 August 2026) — comments welcome as we work toward v2.0