

ARIZONA STATE UNIVERSITY
CORPORATE & BUSINESS LAW JOURNAL FORUM

Volume 7

January 2026

Number 16

COMMENTARY

*The Cost of Perfection: How the CLARITY Act's Collapse
Keeps Crypto Business Offshore*

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On January 14, 2026, just hours before the Senate Banking Committee was set to vote on the Digital Asset Market CLARITY Act, Coinbase CEO Brian Armstrong announced he was withdrawing his support.¹ He stated he would "rather have no bill than a bad bill."² The Committee then postponed the markup indefinitely.³ After passing the House with strong bipartisan support (294-134), the legislation aimed to clarify the roles of the SEC and CFTC.⁴ However, amendments in the Senate divided industry agreement.⁵ This left American crypto businesses stuck in a regulatory limbo, driving innovation offshore.⁶

The Three Fault Lines

Three key issues ultimately led to the Bill's failure. First, restrictions on stablecoin interest features created a standoff.⁷ Crypto firms saw yield as vital for competition, but banking interests

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¹ Micah Zimmerman, *Senate Banking Committee Postpones CLARITY Act Markup After Crypto Industry Backlash*, BITCOIN MAG. (Jan. 15, 2026),

² *Id.*; Baker McKenzie, *The CLARITY Act Delay and What it Reveals About U.S. Crypto Regulation*, LEXOLOGY (Jan. 16, 2026), <https://www.lexology.com/library/detail.aspx?g=2861bcf7-4939-41e1-8769-aa1bfff01fe91>.

³ *Myth vs. Fact: The CLARITY Act*, U.S. SENATE COMM. ON BANKING, HOUS., AND URB. AFFS. (Jan. 13, 2026), <https://www.banking.senate.gov/newsroom/majority/myth-vs-fact-the-clarity-act>

⁴ Hassan Shittu, *Senate Crypto Bill faces Make-or-Break Vote Next Week but Key Divisions Threaten Collapse*, YAHOO FIN. (Jan. 7, 2026), <https://finance.yahoo.com/news/senate-crypto-bill-faces-break-105339911.html>.

⁵ McKenzie, *supra* note 2.

⁶ Rosalia Mazza, *Coinbase Pulls Support from CLARITY Act as U.S. Crypto Market Reform Enters Critical Phase*, FINTECH WKLY. (Jan. 18, 2026), <https://www.fintechweekly.com/news/coinbase-clarity-act-withdrawal-us-crypto-market-reform>.

⁷ Patrick Sabeh, *Why Bitcoin is Falling Despite Strong Institutional Signals*, TECHGAGED (Jan. 21, 2026), <https://www.techgaged.com/why-bitcoin-is-falling-despite-strong-institutional-signals/>.

argued that yield-bearing stablecoins function like uninsured deposits, posing systemic risks.⁸ Second, liability rules for developers in decentralized finance risked putting non-custodial developers under compliance requirements meant for centralized intermediaries. These developers do not control user assets or operations. Third, ethics rules for government officials' crypto holdings became a partisan issue. Democrats called for stricter conflict-of-interest safeguards.

The Offshore Imperative

Without clear regulations, U.S. crypto companies face a tough decision: operate under enforcement risk at home or set up shop in places with clearer rules. Offshore locations like the British Virgin Islands, the Cayman Islands, and Singapore offer consistent regulatory environments, favorable tax policies, including no capital gains tax, and easier compliance.⁹ This regulatory gap has led to a shift in capital. Surveys show 83% of institutional investors plan to increase their crypto allocations in 2025, with 59% targeting over 5% of assets under management for digital assets. However, regulatory uncertainty continues to be the main hurdle.¹⁰ Traditional financial institutions are approaching digital asset markets carefully, waiting for legal clarity that hasn't come.¹¹ American entrepreneurs start their ventures offshore. They incorporate foreign entities and restrict U.S. users to avoid regulatory issues.¹² Venture capital investment in crypto reached approximately \$18.9 billion in 2025, yet it increasingly favors firms with offshore compliance structures.¹³ Public offerings are complicated for U.S. crypto companies due to unclear securities classifications. Institutional capital flows toward jurisdictions with clear regulations instead of the United States, stifling domestic innovation.¹⁴

The Competitive Context

The implications extend to national competitiveness. Singapore finalized its stablecoin framework in August 2023, with full implementation expected by mid-2026, and the EU began phased

⁸ Prashant Jha, *CLARITY Act Faces Collapse as Coinbase CEO Brian Armstrong Rejects Senate Draft – Crypto's Biggest US Bill on the Brink*, CCN (Jan. 15, 2026), <https://www.ccn.com/news/crypto/coinbase-ceo-armstrong-walks-away-supporting-clarity-act-why/>.

⁹ *Offshore Incorporation for Crypto Businesses: The Legal Landscape*, WWINCORP (Dec. 12, 2025), <https://www.wwincorp.com/offshore-incorporation-for-crypto-businesses-the-legal-landscape>.

¹⁰ *Offshore Structures and Crypto: Can a Company Really Hold Digital Assets?*, Q WEALTH REP., <https://qwealthreport.com/offshore-companies/offshore-structures-and-crypto/> (last visited Jan. 26, 2026).

¹¹ William Carey, *Institutional Adoption and Regulatory Clarity in Crypto: How the Senate CLARITY Act Could Unlock Major Value in XRP, Solana, and Dogecoin*, AINVEST (Jan. 17, 2026), <https://www.ainvest.com/news/institutional-adoption-regulatory-clarity-crypto-senate-clarity-act-unlock-major-xrp-solana-dogecoin-2601/>.

¹² Aaron Brogan & Jon Van Loo, *Will New US SEC Rules Bring Crypto Companies Onshore?* COINTELEGRAPH (Mar. 2025), <https://www.msn.com/en-us/money/markets/will-new-us-sec-rules-bring-crypto-companies-onshore/ar-AA1Bt1Q7>.

¹³ Adrian Sava, *The Crypto Regulation Battle: Strategic Implications for Investors in the Clarity Act Debate*, AINVEST (Jan. 19, 2026), <https://www.ainvest.com/news/crypto-regulation-battle-strategic-implications-investors-clarity-act-debate-2601/>.

¹⁴ Adrian Sava, *Regulatory Uncertainty and Capital Flight: The Implications of the U.S. Clarity Act Delays on Digital Asset Fund Flows*, AINVEST (Dec. 22, 2025), <https://www.ainvest.com/news/regulatory-uncertainty-capital-flight-implications-clarity-act-delays-digital-asset-fund-flows-2512/>.

implementation of its Markets in Crypto-Assets regulation in June 2023, with stablecoin provisions taking effect in June 2024 and full implementation in December 2024. These frameworks offer clear licensing and reserve requirements. Data shows that 80% of jurisdictions reviewed in 2025 saw financial institutions announcing digital asset initiatives, with Singapore and the EU leading the charge.¹⁵ The difference with the U.S. is striking. American crypto regulation is driven by enforcement actions rather than legislation, resulting in uncertainty about securities law. The SEC and CFTC claim overlapping jurisdictions, leaving companies to deal with contradictory agency guidance and higher compliance costs compared to statutory frameworks.

The Path Forward

Senate Banking Committee Chairman Tim Scott suggested that the postponement is a pause rather than a total failure.¹⁶ Bipartisan staff are still negotiating compromises. However, each delay incurs costs, including ongoing capital flight, decreased competitiveness, and lost opportunities for investor protection. For businesses, the situation is clear. Offshore incorporation offers tax benefits, clearer regulations, and better asset protection for international ventures.¹⁷ U.S. companies, meanwhile, face increased compliance burdens, unclear securities risks, and possible enforcement actions despite trying to comply in good faith. Until Congress can move beyond internal disputes to create workable regulations, American crypto innovation will continue to thrive offshore. This collapse shows that regulatory certainty requires compromise. The industry must accept reasonable disclosure and consumer protections. Regulators need to recognize that digital assets do not fit 20th-century regulations. Legislators should focus on function rather than politics. Until these compromises happen, the pursuit of perfect legislation will keep pushing an industry that could shape America's financial future overseas.

¹⁵ *Id.*

¹⁶ Preston Mizell, *Senate Banking Committee Postpones Vote on Crypto Market Structure Legislation Amid Industry Pushback*, FOX BUS. (Jan. 15, 2026), <https://www.foxbusiness.com/politics/senate-banking-committee-postpones-vote-crypto-market-structure-legislation-amid-industry-pushback>.

¹⁷ *Manage Your Cryptocurrency Assets with Offshore Structures*, MERIDIAN TR. (Sept. 12, 2024), <https://meridian-trust.com/insights/offshore-companies-cryptocurrency>.