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Proposal and Comment Information

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Submitter Information

Name: Anonymous

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The current Basel treatment of Bitcoin and digital assets is built on a framework that assumes the asset class is structurally speculative, unstable, and unsuitable for integration into the regulated financial system. That assumption increasingly conflicts with the direction of institutional adoption, sovereign accumulation, and the evolving holder composition of Bitcoin itself.

The key issue is that Basel rules currently reinforce volatility by discouraging participation from the exact categories of holders most capable of stabilizing the asset over long time horizons.

Historically, Bitcoin volatility has been driven largely by its holder DNA. For most of its existence, Bitcoin was dominated by retail traders, leveraged speculators, and short-duration participants operating outside regulated banking systems. Assets held primarily by participants with short time horizons naturally exhibit higher volatility and reflexive price behavior.

However, this holder composition is already changing. Institutional allocators, corporate treasuries, sovereign entities, pension managers, and regulated financial institutions operate on fundamentally different time horizons and risk frameworks than retail speculation. Their participation introduces deeper liquidity, lower turnover velocity, longer-duration holding behavior, and more disciplined risk management practices.

The current Basel framework slows this transition by imposing punitive capital treatment that effectively discourages regulated institutions from participating meaningfully in the asset class. This creates a self-reinforcing dynamic where the market remains more dependent on speculative capital than it otherwise would be.

A more neutral and risk-sensitive regulatory framework would likely reduce volatility over time rather than increase it. Allowing regulated institutions to custody, lend against, and integrate Bitcoin into traditional financial infrastructure would gradually shift the holder base away from short-term speculation and toward long-duration balance sheet allocation.

This dynamic has historical precedent across financial markets. As asset classes mature and institutionalize, volatility generally declines because ownership migrates from speculative participants toward entities with lower liquidity sensitivity and longer investment horizons.

Bitcoin's fixed supply structure further amplifies this effect. As long-duration holders accumulate and liquid float declines, price discovery increasingly reflects strategic capital allocation rather than speculative churn.

Importantly, integrating Bitcoin into regulated banking systems does not weaken financial stability. Properly structured participation can strengthen it by:

improving transparency,

increasing regulated custody,

reducing offshore leverage dependence,

and allowing risk management activity to migrate into supervised institutions rather than opaque shadow markets.

The question is no longer whether digital assets exist at systemic scale. The question is whether regulators want their evolution to occur primarily inside regulated financial infrastructure or outside of it.

A framework that recognizes differences between highly decentralized digital reserve assets such as Bitcoin and speculative crypto projects would better align regulation with emerging market realities while encouraging a more stable long-term ownership structure.

Over time, volatility is not likely to be reduced by excluding regulated capital from Bitcoin. It is more likely to be reduced by allowing the holder base to mature.