

Demonstrable Process: How the Capstone Case is Showing the Need for Better Regulation than Clarity and Standardized Assessment Across the Digital Asset Space

By Dr. Christopher W. Smithmyer

Abstract

Keywords

Capstone, Bitcoin, Digital Assets, Cryptocurrency, Regulations

Executive Summary

History of the Matter

On July 15th, 2026, the Department of Justice filed a complaint against Capstone LTD, a Montana based payment firm, for civil forfeiture of assets.¹ The complaint alleges that the company was functioning as an unlicensed moneychanger operation and processing payments under illegal misrepresentation about its relationship with U.S. banks and the Federal Reserve.² A large portion of the payments which the complaint alleges were illegal were related to cryptocurrency.³

In detail, the allegations against capstone fall under three main categories:⁴

- 1.) Willful misrepresentation

¹ Staff (2026). "Justice Department Seizes \$84 Million From Payments Firm Capstone." PYMNTS at <https://www.pymnts.com/legal/2026/justice-department-seizes-84-million-from-payments-firm-capstone/>.

² Staff (2026). "DOJ Seeks to Keep \$84.2 Million Tied to Tether Payments Processor." Prime XBT at <https://primexbt.com/news/doj-seeks-to-keep-84-2-million-tied-to-tether-payments-processor/>.

³ PYMNTS, *supra*.

⁴ Lanz, Jose Antonio (2026). "US Prosecutors Want \$84.2 Million from a Bank Tied with Tether." Yahoo Finance via Decrypt at <https://finance.yahoo.com/markets/crypto/articles/us-prosecutors-want-84-2-212535727.html>.

- 2.) Working as a pipeline for digital transactions
- 3.) Facilitating impersonation and Fraud

In regard to the bank misrepresentation, Capstone LTD represented themselves as a “technology services company” rather than a payment processing company, bypassing the compliance requirements of banks such as Wells Fargo and J.P. Morgan Chase.⁵ If the allegations are proven to be true, Capstone used false statements to avoid the additional levels of due diligence which would be required for a financial processing company.⁶

In regard to the allegation of working as a pipeline for digital transactions, Capstone is alleged to be working as the “front” for EQIBank, which is a Dominican bank with no Federal Reserve license to operate in the United States. Capstone is alleged to be acting as payment processing agent for EQIBank, including operations with high profile clients such as Tether and Bitfinex processing hundreds of millions of dollars in cryptocurrency from offshore to onshore through private transactions.⁷ One of the key problems is that the transactions were “deeply obscured” with efforts being made to “anonymize” the participants, in violation of international law.⁸

In regard to the allegation of impersonation and fraud, the DOJ also alleges that Capstone was allowing criminals impersonating FBI agents to scam seniors.⁹ The complaint continues, in this they failed to due their due diligence on their clients and allowed them to convert the illegally obtained funds into stablecoins which were then transferred through a network of foreign counterparties to obscure who was withdrawing it.¹⁰ Further, this also was noted that there would be felony charges in six US states where the funds were scammed from.¹¹

The timeline of the case started with the DOJ filing a case under Judge Dale A Drozd for permanent civil forfeiture of \$84 Million.¹² This complaint was accompanied with several FBI search warrants and searches of the owners homes and offices.¹³ On September 14th,

⁵ PYMNTS, *supra*.

⁶ *Id.*

⁷ Prentice, Chris (2026). “Prosecutors seize bank accounts of Montana Firm Linked to Tether.” Reuters at <https://malaysia.news.yahoo.com/prosecutors-seize-bank-accounts-montana-165545194.html>.

⁸ *Id.*

⁹ PYMNTS, *supra*.

¹⁰ Staff (2026). “US Prosecutors seize Tether Linked Payment firm’s bank account.” Financial Times via FinExtra at <https://www.finextra.com/newsarticle/48478/us-prosecutors-seize-tether-linked-payment-firms-bank-accounts---ft>.

¹¹ *Id.*

¹² Lanz, *supra*. See Also

¹³ Barr, David (2026). “US seizure of \$89 Million pushes Tether’s Banking Partner EQIBank toward Collapse.” Startup Fortune at <https://startupfortune.com/us-seizure-of-89-million-pushes-tethers-banking-partner-eqibank-toward-collapse/>.

2026, \$79.11 Million was removed from Wells Fargo's securities account at Capstone, with the remaining \$5 million being removed from JP Morgan Chase's two custodial digital wallets holding the USDT. September 25, 2026 facts of the case were made public by reports in The Information and The Financial Times.¹⁴

Once the case became public, EQIBank filed an emergency motion in the courts to stay the DOJ's motion and recover the fund.¹⁵ Under this motion the bank released that the \$84 Million represented over 80% of its total cash reserves. EQIBank is using a defense that Capstone led them to believe that the money changing activities were properly licensed.¹⁶ Tether and Bitfinex have both noted that their storage of tokens in EQIBank are completely legal and that they had no knowledge of Capstone's operations or the alleged misrepresentations by Capstone.¹⁷ It should be noted that the money flowing through the system only represents 0.034% of Tether's reserves.¹⁸ Capstone, for its part, has publicly denied all allegations and plans to file a motion to dismiss the civil portion of the complaints in the near future.¹⁹

Analysis

This matter brings to light two key issues. The first issue which is present is the need for clear regulations which are written for the digital assets industry, not protectionist writings for legacy business which are failing. The second matter is that there needs to be proper cover of the news, the majority of articles on this topic are anti-tether articles when neither the allegations nor the pleadings showed that Tether, or any cryptocurrency company for that matter, did anything wrong. This case is a case of misrepresentation of state level money changer and banking licenses, not the management of cryptocurrency by either the bank or the issuers of the digital assets.²⁰

¹⁴ Staff (2026). "US Prosecutors Seek \$84.2 Million USD from Capstone LTD. Linked to Tether." Weex at <https://www.weex.com/news/detail/us-prosecutors-seek-842-million-usd-from-capstone-ltd-linked-to-tether-i3aa4lya6ebluxlgp6ki6ak7>. See Also Barr, *supra*. See Generally Prentice, *Supra*.

¹⁵ Staff (2026). "US Seizes \$84M Tied to Tether and Bitfinex in Major Banking Crackdown." Trading View at <https://www.tradingview.com/news/coinpedia:b6a6b66d9094b:0-us-seizes-84m-tied-to-tether-and-bitfinex-in-major-banking-crackdown/>.

¹⁶ Barr, *supra*.

¹⁷ PrimeXBT, *supra*.

¹⁸ PYMNTS, *supra*.

¹⁹ Lanz, *supra*. See Also Barr, *supra*.

²⁰ PYMNTS, *supra*.

The Need for Clear, Limited Regulations

As noted in the book *Dragons of the Digital Age*, the United States has reached a point where clear laws are needed in the digital asset space.²¹ The book continues its discussion looking at the federalized and limited nature of the regulations which are needed in the space. In its sister book, *Digital Exchequer*, the process is defined for how the laws can be brought to market.²² Recently, a three book series *The Sovereign Standard* discussed the SEC, OCC, and CFTC regulations which are put out for commentary.²³ The consensus of the books was clear, laws like *Clarity* and *Genius* only compound the corruption which we are seeing in the market, we need simple and empowering laws for the digital asset world to prevent a repeat of the Capstone dilemma.

Clarity and *Genius* both had the same severe problem, they were written for the legacy banking industry and not adapting to how the banking industry was working with the digital asset community. Outdated philosophies such as limit yields, no transport rule, and oversized institutional reserves are a clear and present danger to the economic security of the United States. Having people who do not understand the industry, or economics for that matter, write the laws is not simply foolhardy, it is dangerous. We risk offshoring the 7th largest economy in the world, which takes funds and jobs away from hard working Americans.

There is a three part approach which can help prevent problems like the Capstone situation from happening again, and they are mostly in place- they just need to be enacted. They are:

1. International Cooperation- the **United Nations Internet Governance Forum's Dynamic Coalition on Blockchain Assurances and Standardization Model Law for Digital Assets and Exchanges (DCBAS)**- This model law was submitted to the DCBAS in 2024, since then multiple countries have implemented elements of the system into their domestic legal systems. The United States, however, has completely ignored the standardization process. Ironically, the failures which killed the clarity act- jurisdictional conflicts, taxation issues, and exchange management,

²¹ Smithmyer, Christopher; Alli, Remi & Jadoon, A.J (2022). *Dragons of the Digital Age: How Unilateral Cryptocurrency Regulation is a Threat to Consume the Entire Global Economy*. Elite Exclusivity Detroit.

²² Smithmyer, Christopher (2023). *Digital Exchequer*. Elite Exclusivity: Detroit.

²³ Smithmyer, Christopher (2025). *The Sovereign Standard 1:Reviewing the OCC's Proposed Regulations*. Elite Exclusivity Detroit; Smithmyer, Christopher (2025). *The Sovereign Standard 2:reveing the SEC's proposed regulations: Comments and suggestions on the SEC's guidelines*. Elite Exclusivity Detroit; Smithmyer, Christopher (2025). *The Sovereign Standard 3:Reviewing the CFTC's Proposed Regulation's*. Elite Exclusivity Detroit.

have clear and tested methodologies which work and allow the United States to keep a “dollar focused” policy in their laws.²⁴

2. Domestic Regulation- **Virtual Asset National Governance and Unified Regulatory Directive Act of 2026/2027 (VANGUARD ACT Proposed)**- With the failure of the *Clarity Act* and the failing operations of the *Genius Act*, Black Wallet Limited has submitted the Vanguard Act to congress for review. This act Eschews the 636 pages of the *Clarity* act and the overly verbose *Genius Act* in exchange for a 44 page law which defines the necessary terms and presents a dedicated regulatory agency for cryptocurrency. Vanguard overcomes the problems of *Clarity* and *Genius* by establishing a regulatory agency for the field, eliminating the Balkanization of multiple conflicting state laws, and providing clear answers to the questions which have been affecting the field. (Attached)
3. Industry Standardization- **The Blockchain Maturity Model**- The Government Blockchain Association has one of the best assessment vehicles for digital assets, with several supplements. This process looks at the stability of the company and highlights any areas of improvement. Issues like the Capstone issued would have been immediately found at a low-level assessment and the company would have either registered for its proper licensure or been denied accreditation, which would have protected investors and customers alike from bad business models.²⁵

All three of these systems are publicly available for the United States and the global community to bring together a landscape which protects the businesses, the investors, and the consumers. The pork barrel politics and back room deals which are currently plaguing this administration need to part, allowing for real, industry driven rules to be established within the field.

The Need for Journalistic Integrity rather than “Shock Value”

On the counterpoint, we do need better journalism in the United States. Any cursory review of the facts of the Capstone case show that Tether had virtually no connection to Capstone and their link to EQIBank was tenuous at best.²⁶ It was more that Capstone used Tether to

²⁴ Staff (2026). “GBA Unveils Pioneering Model Law for Cryptocurrency & Digital Assets.” EIN Presswire at <https://www.einpresswire.com/article/707433413/media-alert-invitation-to-cover-gba-unveils-pioneering-model-law-for-cryptocurrency-digital-assets>. See Also. Dashe, Gerard (2024). “GBA releases Model Law on Digital Assets and Exchanges.” GBA at <https://gbaglobal.org/blog/2024/04/15/gba-releases-cryptocurrency-digital-asset-model-law/>.

²⁵ Staff (2026). “Blockchain Maturity Model.” GBA Global at https://gbaglobal.org/blockchain-maturity-model/?_gl=1*12b6c4i*_ga*NDk2NzA4MDguMTcwMzExMzU0MQ.*_ga_Q64CREJ8PZ*czE3OTA1MjM5NjUkbzEyMyRnMCR0MTc5MDUyMzk2NSRqNjAkBDaKaDA.&_ga=2.50822377.1594350851.1790523966-49670808.1703113541.

²⁶ Barr, *supra*.

bolster its operations than Tether even registering that Capstone Existed.²⁷ The representation that Tether was involved or central to the alleged crime has shown how far the media has collapsed in the United States.

In order to maintain the First Amendment and protect companies from reckless journalism, the United States needs to treat the Right of Free Press like the other core rights in the first two amendments. In order to carry a firearm, which is a right, one must have a license. In order to operate a church, one must have a license. In order to challenge whether your religious rights or free speech rights have been denied, you must either have a licensed lawyer or be given license to represent yourself by judicial approval. Journalism, however, has not bounds. When someone writes something incorrect, without citation, the penalty is generally printing a retraction on a page no one reads.

While this is not the most egregious example of bad journalism this week (or even today likely), it does bring to light the point that the 4th estate has the power to attack business or build business up, having the same insider ability which the legislature has. The congress, for all its flaws, is elected by the people- the media is a business. While they rail that other businesses need to be regulated (commerce is a right as well), they cry oppression when any regulation is placed on the media. The solution is simple, hold them accountable for lies and creative license with the truth.

The other part of the solution is that “media” stations should only be able to have talking heads do opinion shows less than 1/8th of the scheduling for the day. While this would lower the advertising, this would cease making opinion shows (or opinion columns) look like real news shows. Talk TV, Radio and magazines are not strong news for the people to make educated decisions on, while historically inaccurate, it does give strong arguments to why we call it programing.

Discussion

Overall, the Capstone case is a wakeup call for two industries. The digital asset industry and the media industry. One industry is showing signs of growth which much be protected from the despoilment of corruption, the other is an aging industry which must have its cancers removed to keep it in a position to protect people. Both have reached a nexus of necessity. This is the confluence of change in our society.

The media problem can be corrected simply, hold people liable for what they report. If you notice, each factual statement in the data section of this article has a citation of where the

²⁷ PYMNTS, *supra*.

information came from. Provenance is important in research. Hold journalists to the same standard. If we cannot believe the media, then there should be no right to a media. Since the alternative, a world without media is terrifying (or state run media), it is a necessity to repair what we have, imperfect though it is.

To deal with digital asset problems, simple is better. We need the following things for a strong industry:

1. KYC/AML for All Wallets and Exchanges- The law already supports universal KYC/AML, we just need the law that defines the wallets and exchanges as the point of review. .
2. A Ban on Privacy Coins (not privacy data)-While data can be kept private or anonymized, finances must be reviewed by international law. Privacy coins circumvent that.
3. A Dedicated Regulatory Body-The argument between the OCC, the SEC, and the CFTC either leads to jurisdictional fighting or compromise jurisdiction, neither of which works. Enacting VANGUARD and allowing the DART agency to be formed allows for direct, knowledgeable policy administration.
4. A Ban on Politicians, Judges, or Media personalities/owners- trading digital assets, stocks, bonds or commodities-If a corporate officer knows information before a trade, it is called insider trading. If a politician, judge or media talking head knows, it is normal course of business. We need to ensure that all politicians, judges, government workers, and media talking heads trade their stock through a blind trust.
5. Clear rules and publication of how interest rates are reached by DEFI and Trad-FI institutions- Banks offer 0.05% on savings, DEFI companies offer 24%. The banks are complaining people will not use their services. People have a right to know how much the bank is earning on your money, and why you are not getting your portion of it. Defi Companies should not be punished for giving people the interest on their money, banks should explain why they are not giving it out.
6. A Prohibition on Anonymity in Data Transfers or financial Transfers- This is partially covered by #1. Data transfers should not be anonymous. While the data can be anonymized or protected, who sent the data should be part of the block record, this means a KYC/AML wallet signature on every transaction.
7. Participation in Global Regulatory Models Handled Domestically- The DCBAS model law is not perfect, but it is better than Clarity or MiCA. The US should use domestic law to implement the principles to augment VANGUARD or a similar law.

These are not simple problems, but they are problems which, once solved, will simplify the industry and make digital assets more useful for society. Change is simply based on whether you can do something and whether you do it. We know what needs done, now we need to see if we have the will to do it.