PROFESSOR
J.W. VERRET

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FEBRUARY 23, 2025

SECURITIES AND EXCHANGE COMMISSION
CRYPTO TASK FORCE

Dear 1BSecurities and Exchange Commission
Crypto Task Force

I am writing to thank you for the creation of the SEC's Crypto Task Force, for your request for comment, and for the continued meetings of this task force.

Over three years ago, I filed with the SEC a request for public rulemaking with a simple ask. That the SEC open a request for comment about the unique needs crypto assets owners and developers face in efforts to comply with securities law. See https://www.sec.gov/files/rules/petitions/2022/petn4-782.pdf. See also https://cointelegraph.com/news/sec-advisory-committee-member-calls-agency-to-open-for-public-comment-on-crypto-regulation.

I elaborated on that request three years ago during my retirement from the SEC Investor Advisory Committee. See https://x.com/JWVerret/status/1503841431940648961. Unfortunately, Chairman Gensler steadfastly ignored my request.

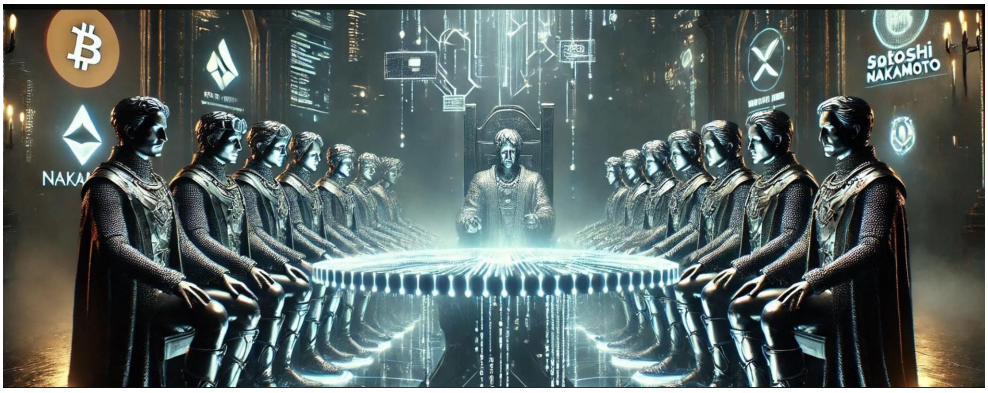
The work you are now undertaking is a sign of your dedication to the rule of law, to regulatory transparency, and ultimately your commitment to investor protection, efficiency, competition and capital formation.

Sincerely,

Professor J.W. Verret

Draft 2025 Crypto Gameplan

J.W. Verret, Assoc Prof. GMU Scalia Law



- ***I. Build Crypto Exemptions***

- **Step 1:** Interim SEC Chair holds extensive roundtables early 2025, provides the full range of crypto community opportunity to participate in a multi-day series of roundtables about the future of the SEC's approach to crypto.

- Post hearing transcripts on Github? Open source the process as much as possible.

- Some roundtables focused on DeFi perspective (where some participants will zoom in and may even participate via anonymous handles which needs to be ok), some focused on CeFi perspective, some on market structure issues generally, some on offering exemptions, some on the CFTC v SEC jurisdictional question, some on the VC and custody perspective, some on NFT specific issues, some on problems from SAB 121 and the threat it posed to the independence of GAAP (SAB 121 is non-GAAP!) before it was rescinded, some on the attempted exchange rule or the now struck down dealer rule and implications, some on enforcement abuse, others that bubble up through an open source process to get feedback.

- **Step 2:** We will need an MOU negotiated between SEC and CFTC, grounded in developer choice, that facilitates developer choice in which of many pathways they seek to pursue among many exemptions developed by SEC, or via a CFTC pure spot commodity path. This will promote the promulgation of these nine new exemptive regs suggested below, that preserves the right to financial privacy for transfers on chain and on DEX, and that preserves immutability and promotes decentralization.

We need to also make sure that the crypto exchanges (CEXs) have the freedom they need to use CFTC registration pathways for them to operate and thrive. We need to make sure that SEC NMS exchanges and ATS platforms also have freedom they need to list and trade crypto commodities.

- Learn from the history of the SEC/CFTC negotiations on treatment of security-based swaps v commodity swaps. Don't repeat old mistakes. https://www.cftc.gov/About/HistoryoftheCFTC/history_2000s.html.

- Regulatory competition is an idea that went out of fashion post-2008. But done right it is the best approach. That should be the grounding idea of an MOU between CFTC and SEC. Crypto assets defy categorization, they exhibit multiple aspects of open-source software development financing, and currency, and commodity, and utility, at the same time. See https://www.wsj.com/articles/the-secs-cryptocurrency-confusion-coinbase-tokens-securities-register-payment-bitcoin-equity-scam-regulation-11659463294. We need to create a “choose your own adventure” for new devs among many options at SEC and between SEC and CFTC and respect the choice made by that

dev team, that should be a core philosophy behind this MOU for application to initial offerings.

- One idea behind this MOU needs to be partially informed by the Lewis Cohen argument and Howey interpretation that the way an asset is marketed determines how that offering is treated but doesn't *necessarily* define the nature of the asset itself. See https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4282385. This is why several exemptive actions should focus on exempting the method of transaction without necessarily determining that the token itself has one attribute or another. Exemptive action can further focus on specific types of tokens as well and determine they are in no event investment contracts.

Exemptive action can also make use of NSMIA pre-emption by leveraging *Ralston Purina's* language regarding the role of investor access to information. In the public, open-source blockchain context, every asset buyer becomes the type of asset buyer envisioned by *Ralston's* emphasis on "access to information" that makes that buyer potentially no longer require the protection of the federal securities laws, because nearly all of the information that buyer may get through 33 Act registration is either already available on chain or simply not applicable.

- **Step 3: Emergency No-Action Relief**

- The Director of Corp Fin can start to provide relief to the crypto community in the form of No Action relief and Director Level guidance and even speeches that start to

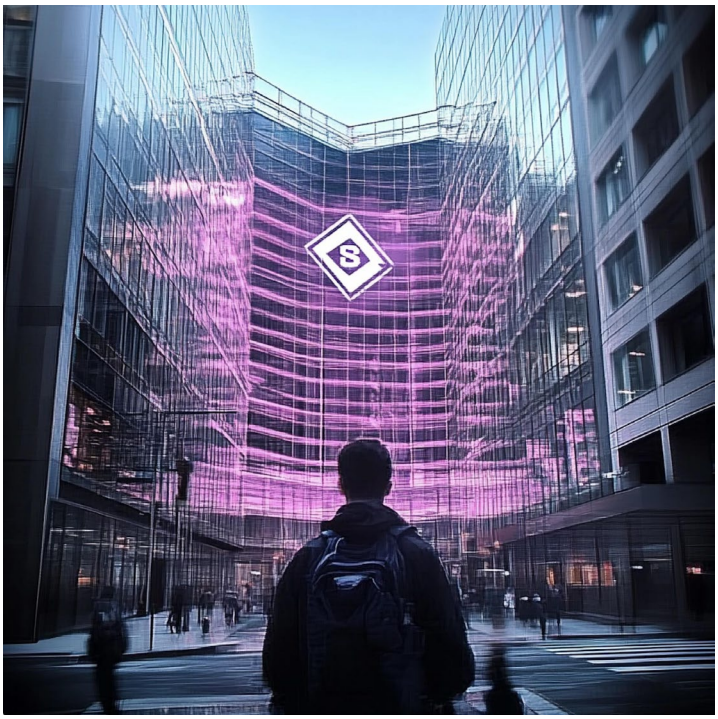
implement some of the suggested nine exemptive rule ideas below on day one and during the interim acting SEC Chair timeframe.

- **Step 4: A Request for Comment and then a Concept Release, & DERA Studies**

- A Crypto Concept Release issued by the SEC, developed based on the roundtables and responses from the request for public comment, and drafted during the timeframe of the interim Chairman. This will lay the groundwork to support the subsequent series of rulemaking required and supports the MOU approval between SEC and CFTC also required. This policy output also supports efforts by a permanent Corp Fin Director to issue no-action relief and guidance to crypto firms early in the new Chairman's tenure to start giving relief so crypto builders don't have to wait two years for final rules to be released. The concept release might also start a discussion about an agreed upon or standardized "crypto taxonomy."

- These multiple work product streams will help the brilliant community of crypto lawyers get ready to comment fast on a series of proposed rules.

- DERA Studies- DERA should conduct a series of studies into the resiliency of DeFi protocols and the ways in which DeFi finance is safer than TradFi finance methods, the benefits of on chain data to crypto owners, the advantages of overcollateralization to limit systemic risk, the benefits of autoliquidation to limit systemic risk, the price discovery advantages of bots and liquidity pools, the low fees in DeFi trading using L2s for transactions, etc.



- **Step 5: Nine Exemptive Releases/Rules**

- Then, promulgate nine exemptive releases or rule proposals within one year and then finalize those items within two years into the term of the next Chairman. Note that, as a general matter, it will be much easier to target specific patterns of public blockchain development and disbursal and exempt them from application of the 33 and 34 Act, than it will be to try to classify tokens themselves.

- Ideas for how to design those below:

- Reg CX- establishes a presumptively low bar threshold to applications for the SPBD license, makes clear that holders of that license are permitted to deal in offerings of commodities as well as offerings in securities and in offerings that make use of any new rules or exemptions below. Enshrines into regulation the holding in the Ripple case that secondary market transactions of that type are not transactions in securities.

- Reg DAX- removes any frictions that may limit withdrawal of crypto to self-custody from a regulated exchange or ATS to DeFi that seem to remain. Serves as the opposite of the Gensler exchange rule and of the dealer rule that was struck down. If an entity does not take custody of digital assets, it is neither exchange nor broker, period, and is

exempt from those rules. A liquidity provider to a decentralized protocol will never be deemed a dealer either, that will also be enshrined in regulation. Functions as a "DeFi exemption" from the 34 Act

- Reg STK- makes clear that staking of tokens, or facilitating the staking of tokens, to maintain the security of a network's consensus mechanism, are not offerings of securities

- Reg DROP- makes clear that airdrops to users of a protocol are not offers of or transactions in securities. Issued as a form of interpretive release regarding the non-application of the 33 and 34 Act. The "Safe Harbor X" proposal is the foundation for this idea, see https://github.com/lex-node/SafeHarbor-X. Proponents of the argument that airdrops constitute a transaction in securities lean on an old case that free stock spinoffs constitute securities offerings, but that is a shaky foundation at best for airdrops and was itself a flawed securities law argument for stock spinoff offering classification at the origin. A useful summary of the original takedown of the SEC's claim that free stock spinoff distributions were securities offerings was made by former SEC General Counsel Simon Lorne in a Texas Law Review article is offered as a separate attachment to the email that forwards this document.

- Reg NFT- exemptive order that makes clear that direct NFT transactions, like rewards to customers, or NFTs trading in digital art, are not offerings of securities.

- Reg TXN- a exempt offering solution grounded in the LexPunk Reg X exempt offering proposal and the Peirce safe harbor, implementing both pathways. More on the Reg X proposal here: https://github.com/LeXpunK-Army/Reg-X-Proposal-An-Exempt-Offering-Framework-for-Token-Issuances

- Reg DCO- an adapted 33 act offering solution grounded in a similar approach to Reg AB, that has already been developed by exchanges and crypto projects. A trustee or some other interested party serves as the filer and creates a pathway for adapted registered offerings of the token without the token itself being deemed a security. Highly modified disclosures, significant exemptions from corporate governance rules that aren't applicable, GAAP reporting doesn't apply (there is no entity) but provides conventional wisdom "tokenomics" disclosures. Current draft of the "Sidley Austin"

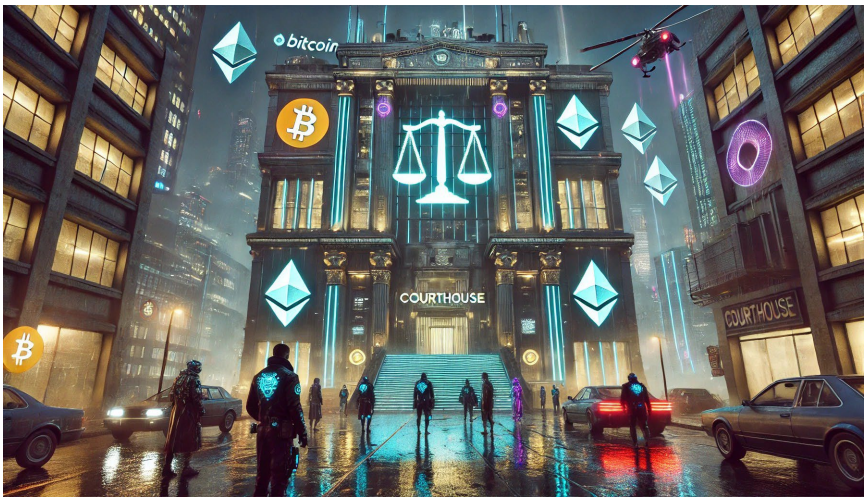
proposal here: https://global-dca.org/wp-content/uploads/2024/10/Information-Guidelines-for-Tokens-Available-in-US-FINAL-Oct-20-2024-1.pdf. It needs to be made clear that purchasers of tokens on NMS exchanges facilitating trades in these securities should be able to seamlessly withdraw such tokens to self-custody on private wallets and do as they like with them, whether to use for gas on chain or LP into a DeFi protocol or some such. Any frictions that may remain to this necessary freedom to withdraw to self-custody must be eliminated entirely before this idea should be finalized otherwise it may do more harm than good to the crypto ecosystem of registered tokens.

- Reg DAO-creates an exemption for the role of DAOs, makes clear that if designed along the lines of generally accepted decentralization good governance principles they are not control persons nor brokers nor exchanges

- Reg DAPP-front ends to Dapps and wallets generally are exempt from definition of exchange, broker, or dealer; those front end applications that charge transaction fees are (at most, and I'm not even sure this is within the SEC's power) encouraged to send participants to some prior literacy exam (thus making them accredited investors under a hopeful future literacy approach to accredited investor status), that could allow them to take a brief financial and security literacy test using a potentially pseudonymous email account or other pseudonymous zk-proof identifier or .eth handle, which contains prompted questions about basic financial literacy and asset security, that can't take more than 10 mins of their time on initial setup and should be administered by numerous providers.

In no event, for any of the above, should non-custodial protocols be required to comply with AML/KYC of any kind by the SEC. KYC'd DeFi is not DeFi.

Each of these new rules should open by noting that the major questions doctrine limits the SEC from taking overly expansive interpretations of the federal securities laws about new and economically significant technologies without congressional authorization, and therefore in one sense these exemptive orders recognize the law as it is already. See https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4759671.



II. Ethics Guidelines

Bring ethics guidelines into sync with other asset classes so that holders of crypto assets are not forced to sell them upon entering the agency. Treat crypto the same way other asset classes are treated.

III. Add 2-3 Crypto Expertise Designated Members to the SEC Investor Advisory Committee and the same to the SEC Small Business Capital Formation Advisory Committee

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FEBRUARY 23, 2025

SECURITIES AND EXCHANGE COMMISSION
CRYPTO TASK FORCE:

Dear 1BSecurities and Exchange Commission
Crypto Task Force:

I am writing to respond to the questions included in Commissioner Pierce's Statement "There Must Be Some Way Out of Here."

My previous letter contained a brainstorm document that touched on questions contained in that statement. I write with additional answers below.

Questions 1, 40 and 41

The **Landreth** stock test—not **Howey**—is the proper lens for regulating tokenized traditional stock. This addresses **Nasdaq's** concern about potential "sidestepping" of registration requirements when projects rely on crypto-related exemptions.

Tokenized Traditional Stock Is Still "Stock," Triggering the Landreth Test

- **Landreth v. Landreth** (1985) makes clear that anything with the traditional attributes of "stock"—for example, the right to dividends, proportional voting, transferability, and potential for appreciation—counts as a security *by definition*.
- **Howey** is relevant if an instrument is not already one of the enumerated categories (like "stock") and must be tested as a possible "investment contract."
- Therefore, if a token represents **actual equity** in a company, it falls squarely under *Landreth*. No separate Howey analysis is required because "stock" is already listed in the Securities Act's definition of "security."

2. The Howey Test Was Not Designed To Determine Registration Obligations for Stock

- The **Howey** test determines whether a novel arrangement—*not* obviously a stock, note, or bond—is an "investment contract."
- **Landreth** affirms that *"if it is labeled as stock and carries the usual stock features, it is a stock security, period"*.
- Historically, the SEC has employed Howey extensively as an enforcement tool against *non-traditional* tokens. This has led to criticism that it's become a "hammer" to shut down projects with borderline or unclear status under the securities laws.
- **Nothing in Howey** alters the registration requirements for a bona fide **share of stock**, whether in paper or token form.

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3. Tokenization of Stock Can Streamline Market Infrastructure

- Traditional stock settlement relies on intermediaries—like the **Depository Trust & Clearing Corporation (DTCC)** and **Broadridge**—that handle custody, transaction settlement, and proxy voting.
- **Tokenization** allows for potential **self-custody** and near-instant settlement on a blockchain ledger, which can remove these layers of middlemen.
- This could reduce costs, improve transparency, and provide real-time settlement or "atomic" settlement while still respecting existing securities laws for traditional equity stocks that are tokenized.

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4. Nasdaq's Concern About "Sidestepping Registration" Is Misplaced

- Nasdaq's letter to the Crypto Task Force worries that **exemptions** for certain crypto projects (or possible narrowing of Howey) would enable issuers of tokenized stock to dodge registration obligations.
- In reality, **Landreth** still requires **any** instrument that is, in substance, a share of equity stock to register unless a valid exemption (like Reg D or Reg A+) is used.

- **Tokenization** does not negate the fact that an equity share remains a share; if you offer it publicly, you must register or find an exemption, regardless of Howey's scope. Tokenization of equity stock could thus allow for profitable partnerships between traditional exchanges and crypto exchanges in the future while at the same time cutting out unnecessary middlemen in share settlement, clearing and voting.

5. Landreth Remains a Strong Backstop If Howey Is Dialed Back

- Even if the Gensler-era SEC overreach on Howey legal positions is **curtailed**, the **Landreth** analysis is unaffected.
- Once an instrument meets the classic definition of stock, it is regulated as stock. The Commission retains full authority to require registration disclosures for tokenized equity.
- Hence, investor protections remain robust for tokenized traditional stock even if Howey's net tightens or loosens around other types of crypto assets.

Tokenized stocks remain stock under **Landreth**, so there is no "sidestep" around registration obligations via crypto exemptions. **Howey** was never intended to govern obvious stock equity offerings. Even if the SEC scales back its use of Howey, **tokenized shares must still register** or qualify for an exemption—meaning investor protections stay in place, and genuine capital-markets innovation can proceed with the same clarity that applies to traditional stock offerings.

Question 20

1. MEV Is Irrelevant to the SEC's Core Jurisdiction

MEV Defined
"Maximal Extractable Value" (previously "Miner Extractable Value") refers to the additional profit block producers (miners or validators) on certain blockchains can capture by selectively ordering, including, or omitting transactions. Typical examples include front-running, back-running, and so-called "sandwich" attacks on decentralized exchanges (DEXs). These activities arise because block producers, or entities with

access to the transaction mempool, can extract profit by inserting their own transactions first or rearranging user transactions.

Outside the SEC's Purview

The SEC's mandate primarily focuses on regulating (a) entities that issue or transact in securities and (b) activities in which regulated market participants (e.g. broker-dealers, investment advisers, or exchanges) must protect investors, comply with best execution, or meet other duties under the securities laws. By contrast:

- **Blockchain miners/validators are not SEC-registered brokers or exchanges**; they are decentralized nodes validating blocks on a public blockchain. They typically are not engaged in any "securities" business under U.S. securities laws.
- **No fiduciary or best-execution duty** applies to block producers merely because they are running blockchain software and ordering transactions. SEC rules for best execution attach to registered broker-dealers but not to decentralized validators.

Because MEV arises from how transactions are sequenced on a permissionless ledger, it is not directly tethered to the investor-protection scope or the regulatory oversight of securities intermediaries. Thus, from a purely federal securities standpoint, MEV does not implicate the same obligations that brokers, exchanges, or investment advisers have under the Exchange Act or Advisers Act.

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2. Regulated Entities Match Orders Internally, Not via MEV-Sensitive Mempools

Even if a "crypto asset" is deemed a security or if a platform is SEC/CFTC-regulated (e.g., a securities exchange or a swap execution facility), trade matching and execution typically happen on **internal matching engines** rather than a public, permissionless mempool. That means:

- **No open mempool**: A regulated exchange would process client orders in its own order book. There is no chance for external block producers to reorder or sandwich those trades because the blockchain transaction submission is a separate layer.
- **Market surveillance**: SEC-regulated venues have compliance systems to detect manipulative trading patterns. If something akin to MEV arose within the exchange environment, it would

be covered by the venue's existing surveillance and best-execution frameworks, not by mempool-based ordering.

Hence, in the scenario where a crypto platform is subject to SEC or CFTC requirements, MEV does not arise in the same form as it does on DEXs, because the platform's internal trade engine ensures the transaction ordering. Any new crypto "exchange" that seeks SEC registration would similarly rely on a closed-order matching system.

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3. MEV Can Have Positive Security Effects

MEV revenue can be part of what the industry calls the "security budget" for proof-of-stake or proof-of-work blockchains. Because block producers can earn extra fees by reordering transactions (within the rules of the protocol), those extra profits can:

- **Attract more validators/miners**: The potential upside from MEV can incentivize more participants to secure the chain.
- **Bolster network security**: Higher validator or miner participation means a more robust network, making 51% attacks or other threats less likely.

From this perspective, MEV is neither inherently good nor bad—rather, it is an emergent phenomenon that can (a) incentivize robust participation in the blockchain and (b) be mitigated or channeled by protocol-level or user-level tools if participants wish to limit it.

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4. DEX Users Have Private Ordering Solutions If They Dislike MEV

On decentralized exchanges, MEV is associated with open mempools where anyone can observe unconfirmed trades. However, **private ordering solutions already exist** to address front-running concerns:

- **Private or Encrypted Transaction Relays**: Services like Flashbots and other "private relay" solutions allow users to submit transactions without exposing them to the public mempool.
- **Transaction Bundling**: Some protocols bundle user transactions so that block producers can only accept or reject the entire bundle, thwarting transaction-by-transaction ordering attacks.

- **Sealed-Bid Auctions**: Protocols experimenting with sealed-bid or commit-reveal strategies can reduce the advantage of seeing others' orders in real time.

These tools demonstrate that the market is already developing ways to mitigate or avoid MEV if desired. From a regulatory standpoint, there is no immediate need for an SEC intervention—especially when the phenomenon does not stem from a broker-dealer, adviser, or regulated exchange duty. If decentralized markets want to minimize MEV, they already have workable "private ordering" or "MEV-resistant" solutions.

Conclusion

In short, **MEV is a technical blockchain phenomenon** relevant to transaction ordering in permissionless networks—**not** a question of securities regulation. Miners and validators are not broker-dealers or exchanges that owe best-execution or fiduciary duties; regulated trading venues have internal systems that circumvent mempool-based reordering; MEV can have a legitimate role in funding network security; and users who dislike the practice can turn to private ordering or sealed-bid solutions. Consequently, **MEV lies outside the SEC's core scope** and does not require Commission-driven rulemaking for investor protection in registered contexts.

Question 1

1. Recognize That Not All Tokens Finance a Central Entity

A key inquiry for the SEC's taxonomy is whether a token finances the development of a **centralized, corporate-controlled** project or whether it supports an **open-source initiative** guided by a community. When tokens:

- **Operate under open-source licenses** with no restrictive IP or paywalls,
- **Allow composability and forking** at the community's discretion, and
- **Lack a single corporation or controlling sponsor** that owns the codebase,

they diverge significantly from the typical "issuer–shareholder" relationship on which the 1933 and 1934 Acts were built. A flexible

taxonomy should **not** automatically treat such openly developed, community-run projects as securities merely because they issue a token.

2. Contextualize the 1933 and 1934 Acts in the Age of Decentralized Collaboration

The core architecture of securities regulation arose when companies featured **centralized management**, **formal IP ownership**, and **traditional top-down governance**. By contrast, many emerging "DeFi" or "DePin" (decentralized physical infrastructure) communities:

- **Structure themselves around DAOs**, open memberships, or informal teams. And many feature a Foundation entity and a Labs entity and also feature unaffiliated developers contributing to the project as well,
- Rely on **global, permissionless** participation (contributors can come and go),
- May have **no single legal entity** controlling the protocol or user interactions,
- Distribute token-based governance or utility in a manner akin to open collaboration rather than raising capital for a single corporate sponsor.

To remain technology-neutral yet future-friendly, the Commission's taxonomy must allow for the possibility that a token represents a **permissionless, open-source ecosystem** rather than a share in a centralized enterprise.

3. Avoid Overly Narrow Definitions That Freeze Innovation

Even if today's decentralized projects typically rely on certain structures (e.g., foundations, labs, early dev teams, DAOs), the next generation of protocols may adopt **wholly new models**—for instance:

- **AI-led or code-driven** projects with minimal human oversight,
- **Novel LLC (ie, MetaLex)** innovations,
- Self-executing smart contracts that **automate governance** and upgrades.

While the taxonomy should be cognizant of current decentralization designs, it should also be cognizant that locking the taxonomy to current

"decentralized patterns" risks stifling these as-yet-unimagined approaches. The Commission's rules should support **permissionless experimentation** so that a lone developer can **deploy groundbreaking code** without automatically triggering burdensome registration as though it were a central corporate issuer.

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4. Preserve the "Miracle" of Rapid, Grassroots Innovation

Moments like "DeFi Summer 2020" showcased **how quickly** open-source software, community governance, and token-based incentives can ignite a global wave of new applications. A future-friendly taxonomy should:

- **Encourage** transparent, open-source disclosures and best practices, *not* impose one-size-fits-all corporate-style prospectus requirements on code-based experiments,

In short, the Commission's framework should permit the next leap in **permissionless innovation** without prematurely classifying all tokens as securities.

Conclusion

The SEC's evolving taxonomy must align with the fundamental question: **Is there a central enterprise seeking investor capital, or is this token simply enabling an open, community-driven ecosystem?** By acknowledging new governance structures, open-source licensing, and purely community-led development, the Commission can **retain investor protection** while **leaving the door open** for the next wave of decentralized breakthroughs—a "miracle" akin to past moments of explosive crypto innovation.

Question 4

Liquid staking and token-swapping processes are **network-level functionalities** rather than **securities transactions**:

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1. **Staking as a Network Function**

- Staking is a built-in protocol mechanism for securing proof-of-stake blockchains; it is not, in itself, an offering of a security.
- When users stake crypto assets (e.g., ETH) to validate transactions or secure the network, they are *participating* in the network's consensus process, not contributing capital to a centralized issuer in exchange for an ownership or profit-sharing interest.

2. **Exchange of Liquid Staking Tokens**
   - A token like **stETH** represents a staked position in the underlying blockchain's native asset (in this case, ETH).
   - Exchanging **stETH** for another token—whether on a decentralized exchange or through some other protocol mechanism—is akin to **technical "wrapping,"** as in "wrapping" BTC on Ethereum. It is a **conversion or swap** function at the network level, not a sale of a security.
3. **Comparison to "Wrapped" Assets**
   - Wrapping tokens (e.g., WBTC on Ethereum) has long been treated as a **cross-chain or interoperability** process, not a securities issuance.
   - Similarly, stETH is effectively a "receipt" or "voucher" token for staked ETH, and wrapping it into another token during the rehypothecation process does not typically **create** a new security arrangement. It is at most a non-security loan.

Conclusion: Because staking and wrapping, (like stETH) are **network functionality** rather than **fundraising activities** or **profit-sharing arrangements** led by a centralized issuer, these processes typically do not implicate the **federal securities laws** on their own. They should be recognized as routine blockchain mechanisms rather than securities transactions.

Question 18

Real-time blockchain-based data solutions (like **The Graph** and its GRT token) can supplant traditional disclosure systems (like EDGAR) in the DeFi context:

1. DeFi Protocols Leverage Real-Time Data Infrastructure

- **The Graph** blockchain and its GRT token power a decentralized indexing network that continuously gathers, organizes, and delivers onchain data.
- DeFi analytics platforms, such as **DeFi Llama**, rely on this infrastructure to display near-instant protocol metrics—*e.g.,* total value locked (TVL), liquidity pools, and yield rates—across numerous DeFi protocols.
- This live, programmatic data drastically improves visibility into crypto markets for both users and developers.

2. EDGAR Reporting Is Less Relevant for Onchain Projects

- Traditional corporate disclosure via **EDGAR** is typically **periodic** (e.g., quarterly or annual) and tailored to centralized entities issuing registered securities.
- DeFi projects often do not operate under a single corporate structure, nor do they distribute conventional shares. Instead, they function through **permissionless smart contracts** and open-source code.
- Because these DeFi protocols already produce a **continuous public record** (transaction data on the blockchain) and deliver curated analytics via The Graph or similar tooling, the standard EDGAR disclosure model—*periodic, PDF-based, and tailored to hierarchical corporations*—is not well-suited.

3. Continuous, Automated Transparency Obviates Static Filings

- The **real-time nature** of blockchain data means that token holders and protocol participants can monitor treasury balances, loan collateralization, transaction flow, and more—**instantly** and **24/7**.
- **GRT**-enabled services provide continuous updates, empowering stakeholders to make informed decisions without depending on a central entity's periodic SEC filings.

- This level of transparency far exceeds what EDGAR-based disclosures can achieve for decentralized, rapidly evolving ecosystems.

Conclusion

For decentralized projects relying on **onchain, real-time data feeds**, requiring EDGAR-style disclosures can be redundant or even counterproductive. **Blockchain networks** like **The Graph** and related analytics platforms (e.g., DeFi Llama) already fulfill the transparency function—arguably more effectively—than a static, issuer-centric filing regime.

Question 21

No additional conditions should be imposed on self-custody of crypto assets, and why **doxxing** (forced disclosure of private wallet addresses) is dangerous:

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1. **Self-Custody Is a Core Feature of Public Blockchains**
    - Self-custody of tokens embodies the "permissionless, decentralized, and immutable" nature of public ledgers.
    - Requiring special conditions or licensing to self-custody undermines one of the **chief virtues** of blockchain technology, which is direct user control over funds without intermediaries.
2. **Forced Disclosure of Destination Wallets Poses Security Risks**
    - Publicly doxxing personal wallet addresses can invite **physical attacks**, including the threat of kidnappings or "wrench attacks," especially if bad actors learn a target's on-chain holdings. The SEC cannot guarantee the security of data collected by the Commission from hacking.
    - This safety risk alone is reason enough to avoid mandating personal information or wallet details simply for self-custody.

Conclusion: Mandating conditions on self-custody or doxxing wallets would undermine the fundamental permissionless character of crypto

networks and expose users to **serious physical security threats**. Instead, the framework should preserve users' right to control their crypto directly, aligning with the **core principles** of public blockchains.

Question 23

The **SEC's Office of the Chief Accountant** and the **PCAOB** should explore emerging on-chain auditing innovations, like **Kraken's Merkle root reserve-proof tool**:

1. **Merkle Root Proof-of-Reserves**
    - Traditional audits rely on point-in-time attestations and sampling. By contrast, a **Merkle root proof-of-reserves** system can cryptographically verify a custodian's on-chain holdings in near real-time, without revealing confidential customer details.
    - Kraken and other crypto exchanges have pioneered such tools to improve transparency about whether customer deposits are fully backed by on-chain assets.
2. **Staff-Wide Briefings on Emerging Solutions**
    - The Office of the Chief Accountant and the PCAOB could benefit from **direct education** on these cryptographic auditing techniques.
    - Engaging with innovators—rather than solely relying on legacy frameworks—would help regulators refine or supplement existing accounting and attestation standards for digital assets.
3. **Enhanced Trust and Efficiency**
    - Merkle-based reserve proofs can reduce reliance on manual reconciliations, provide more **frequent confirmations**, and foster stakeholder trust by demonstrating that custodied crypto assets match customer liabilities.
    - If integrated into a recognized auditing standard, these tools could **streamline** compliance for crypto entities while preserving robust investor protections.

Conclusion: To address the unique nature of crypto asset custody and the demand for real-time verification, the SEC's Office of the Chief Accountant and the PCAOB should schedule **staff-wide briefings** from innovators like Kraken. Embracing Merkle root proof-of-reserves methods would better align auditing practices with the transparency and automation inherent in blockchain technology.

Question 25

"Readily convertible into cash" status should **not** be confined to "stablecoins" recognized under pending legislation, but should extend to other overcollateralized tokens (like **Maker DAI**) that are functionally liquid:

1. **Don't Restrict "Readily Convertible" Only to Legislatively Defined Stablecoins**
    - Pending or proposed legislation often narrowly defines "stablecoin," potentially omitting decentralized, overcollateralized tokens like DAI.
    - In practice, many such tokens already trade with high liquidity and maintain stable value, so they function as the **crypto equivalent** of cash in large portions of the market.
2. **Overcollateralization + Auto-Liquidation = High Resilience**
    - Maker DAI and other similar tokens are secured by an **overcollateralized** pool of assets, automatically liquidated if the collateral value drops below set thresholds.
    - This design has **proven resilient** through extreme crypto market volatility—often more robust than certain traditional finance arrangements in similarly turbulent conditions.
    - Because these tokens are quickly redeemable on exchanges, they can be **effectively converted to fiat** without the risk of a bank-like run or slow redemption process.

3. **Regulatory Framework Should Recognize De Facto Cash Equivalents**
    - Rather than limiting "readily convertible into cash" to stablecoins recognized by legislation or narrow definitions, the Commission should **evaluate each token's actual liquidity profile** and collateral mechanics.
    - Overcollateralized tokens with reliable auto-liquidation processes and strong secondary-market liquidity meet the spirit of "readily convertible into cash" for net capital and accounting purposes.

Conclusion: For net capital rules and other relevant provisions, the SEC should treat well-structured, **overcollateralized tokens** (like Maker DAI) as *functionally* equivalent to cash, given their robust collateral backing, auto-liquidation protections, and significant liquidity in real-world trading markets.

Question 26

A broker's reference to a link on a **public blockchain scanner** should suffice to meet recordkeeping requirements under SEC rules:

1. **Blockchain Explorers as a Secure, Permanent Record**
    - Public blockchain scanners (e.g., Etherscan, Polygonscan) present each transaction's details in real time and store them on an **immutable** ledger.
    - The transaction hash, timestamp, sender, receiver, asset type, and amount are all **publicly verifiable** and permanent.
2. **A Simple, Auditable Source of Truth**
    - By furnishing a **direct link** to a specific transaction on a blockchain explorer, a broker effectively references data that is immutable and readily reviewable by any party—including regulators.
    - This approach could **streamline compliance** since the blockchain record already includes more detail than

a traditional off-chain ledger might require, and it's updated automatically.

3. **Meets Core Purposes of Recordkeeping**
    - SEC recordkeeping rules aim to ensure that brokers retain accurate, accessible documentation of customer transactions.
    - A blockchain link offers **equal or better transparency**, audibility, and tamper-resistance compared to conventional paper or PDF records.
4. **No Separate "Paper File" Required**
    - Because the transaction log is permanently hosted on a public blockchain, there is no risk of losing or corrupting the data.
    - Thus, requiring a broker to **maintain separate or duplicative** off-chain logs can be unnecessary if the on-chain link is recognized as meeting the same official record standard.

Conclusion: A broker's link to a blockchain explorer transaction log can fulfill recordkeeping obligations under SEC rules. The blockchain itself functions as a **public, tamper-evident ledger**, and referencing the relevant transaction ID ensures regulators (and others) can **verify** the trade details at any time—meeting or exceeding the goals of traditional recordkeeping requirements.

Question 29

Investment advisers (IAs) and **broker-dealers (BDs)** should develop and provide clients with a short, practical guide to **hot vs. cold storage** before facilitating any self-custody transition from custodied crypto to self-custody on customer's behalf:

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1. **Brief, Easy-to-Understand Primer**
    - The guide should explain, in plain language, what cold storage is (e.g., Ledger, Trezor hardware devices) and how it **differs** from hot wallets.

- Provide **step-by-step** instructions on how to set up a hardware wallet, generate private keys securely, and store backup seed phrases.

2. **Common Risks of Hot Wallets**
    - Outline typical hacking tactics (phishing, malware, compromised browser extensions) and how bad actors exploit them.
    - Emphasize the **importance of private key hygiene**—never sharing seed phrases, verifying the authenticity of wallet software, and using secure endpoints.
3. **Safe Transition to Cold Storage**
    - Remind clients that they can **transfer** assets back to a hot wallet whenever they want to trade or engage with dApps, but that cold storage is often the safer default for **long-term holding**.
    - Highlight that hardware wallets protect assets by keeping private keys **offline**, drastically reducing exposure to hacks.
4. **Potential IA/BD Support**
    - IAs and BDs can walk clients through the process—**without** taking control of private keys—so clients understand how to manage self-custody responsibly.
    - Offering this guidance ensures investors know the **pros and cons** of each storage method and can make an informed decision about where to keep their digital assets.

Conclusion: A short but thorough primer on **cold vs. hot storage**—covering security basics, wallet setup, and safe key management—can help IAs and BDs equip clients to **self-custody** their crypto assets securely, while still leaving open the option to move back to hot storage if and when they wish to transact.

Question 47-48

I propose using **regulatory agreements**—as I have outlined in a RealClearPolicy piece titled "DOGE Commission Should Use Regulatory Contracts to Bind Reform" (see https://www.realclearpolicy.com/articles/2025/01/07/doge_commission_should_use_regulatory_contracts_to_bind_reform_1082928.html.)—for sandbox-style initiatives:

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1. Regulatory Agreements as a Flexible Sandbox Mechanism

- In addition to market wide exemptions, the SEC could execute **"regulatory contracts"** with individual innovators, specifying tailored compliance obligations and safe-harbor conditions. Think of it as a Super-No-Action Letter.

2. Benefits of "Contractual" Safe Harbors

- **Clarity for All Parties**: Instead of uncertain no-action letters or broad-based rulemaking, a regulatory agreement spells out the exact obligations and limits on the project, ensuring both parties have a stable reference point.
- **Easier Iteration**: If the project's nature changes (e.g., scaling from a small DeFi prototype to a larger network), the agreement could be **amended** with updated conditions rather than demanding a new rulemaking.
- **Prevents Regulatory Overreach**: Well-defined contractual obligations restrain the SEC from imposing unexpected or ex-post rules that hamper innovation midstream. This becomes important in the event a future SEC is as hostile to crypto innovation as the prior administration.

3. International Alignment via Contract Templates

- Given the **global** nature of crypto markets, such regulatory contracts could facilitate **cross-border synergy**. Different regulators could adopt or adapt the same basic contractual template, letting projects expand internationally without navigating an entirely separate regime at each step.
- This approach can **streamline global sandbox** efforts, making it easier for participants to scale beyond one jurisdiction under consistent compliance parameters.

Conclusion

My recommended approach for **Questions 47–48** is to develop a **regulatory sandbox** framework grounded in **formalized agreements** (or "contracts") between the SEC and each participant. This approach fosters **legal certainty**, encourages iterative compliance, and aligns with the **practical demands** of innovative crypto projects—all while preserving essential investor protections.

I hope these responses are useful to the Task Force's work.

Sincerely,

0BProfessor J.W. Verret