

July 7, 2025

Commissioner Hester M. Peirce
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Comment on Regulatory Framework for Digital Assets and Tokenized Securities

Dear Commissioner Peirce,

We write on behalf of our client, who is currently developing a protocol that leverages regulated insurance products and blockchain technology to deliver programmatically compliant tokenized insurance products. The core mechanism behind our client's system is the use of smart contracts—self-executing code that enables real-time regulatory compliance. As such, the compliance function is no longer delegated to, or dependent on a back-office activity, which may be subject to human error, but is automated, auditable, and enforced on-chain.

We commend the Securities and Exchange Commission (“Commission” or “SEC”) for recognizing the value of smart contracts and tokenized securities and agree with your remarks at the SEC Crypto Task Force Roundtable on May 12 stating that tokenizing securities “on open, composable crypto networks mobilizes them and makes them usable in new and enhanced ways.” We believe that the SEC’s proactive support for on-chain financial products is vital to keep our nation’s economy competitive in the years to come and we are encouraged by Chairman Paul Atkins’s July 2 remarks on CNBC’s *Squawk Box*, in which he stated, “Tokenization is the next step in order to have much more efficiency across markets.” Nevertheless, we believe that the window of opportunity for the SEC to spearhead competitive digitized economy is closing rapidly as other nations have come to recognize the value of on-chain financial technology faster than the United States. Our client has already created a network of top-tier institutional advisors, insurance carriers, and digital asset custodians that are ready to bring our client’s tokenized insurance products to market. However, without clearer guidance from the Commission, key U.S.-based innovations risk migrating offshore.

This letter offers specific recommendations for actions that the Commission can take to support innovation while upholding market integrity and investor protection, including: (I) a request for further SEC action or clarification on tokenized insurance-backed bonds; (II) support for compliance-by-design using smart contracts; (III) a proposal for a tiered regulatory framework

based on asset risk and investor type; (IV) modernization of transfer agent regulations to accommodate digital-native assets; (V) updates to custody rules for tokenized assets; and (VI) cross-border access and harmonization of international standards.

I. Request for Further SEC Action or Clarification

We respectfully urge the Commission to issue interpretive guidance or no-action letters specific to tokenized structures that are backed by traditional, well-regulated insurance instruments. While these products are technologically innovative in their tokenized form, they are fundamentally grounded in long-standing structures that are already familiar to regulators and investors. In light of this, we offer three specific actions the Commission could take to provide greater legal clarity and regulatory support.

First, we recommend the Commission issue interpretive guidance or a no-action letter to clarify how tokenized insurance products should be treated under Regulation D and Regulation S. Many issuers face legal uncertainty regarding whether their tokenized offerings fall within the scope of the securities laws, and whether such offerings can rely on existing exemptions. This lack of clarity has created unnecessary barriers to responsible innovation. Targeted guidance would help firms structure offerings that both satisfy legal requirements and expand access to tokenized insurance products.

Second, we propose the creation of a regulatory sandbox or pilot program allowing compliant market participants to develop and test tokenized insurance products in a controlled, risk-mitigated environment. Such a framework would facilitate oversight, allow the Commission to assess emerging compliance models in practice, and create a collaborative channel between regulators and the technology community. Carefully defined eligibility standards and operational guardrails would ensure investor protection while supporting practical experimentation.

Third, we recommend the Commission update its “Framework for ‘Investment Contract’ Analysis of Digital Assets”¹ to explicitly address tokenized real-world assets such as insurance products. These products often originate within an investment contract structure but later function as standalone, utility-like digital assets when they no longer rely on the managerial efforts of a promoter. Revised guidance should clarify when and how a token transitions out of securities status under the *Howey* test, helping market participants avoid regulatory overhang and focus on product maturity and compliance integrity.

¹ https://www.sec.gov/about/divisions-offices/division-corporation-finance/framework-investment-contract-analysis-digital-assets?utm_source=chatgpt.com

II. Support for Compliance-by-Design Approaches

We strongly support regulatory frameworks that enable programmatic compliance through smart contracts and distributed ledger technology. Our client's protocol integrates securities law restrictions directly into token architecture, making compliance automatic and transparent. For example, Regulation D and Regulation S restrictions are enforced at the token level through programmable features such as whitelisting eligible investors, implementing lock-up periods, and geofencing transfers to prevent improper cross-border flows. These measures reduce reliance on manual oversight and improve consistency.

We recommend the Commission publish technical templates or safe harbors for smart contract-based compliance tools. Doing so would encourage lawful innovation and reduce legal costs for issuers seeking to integrate regulatory logic into their token designs. Templates could include standards for implementing Rule 144 lock-ups, resale limitations, and recordkeeping protocols.

Additionally, we propose the establishment of collaborative working groups² that include the SEC, Financial Industry Regulatory Authority, custodians, and compliance software providers. These groups could review smart contract structures, share best practices, and develop a shared vocabulary and reference architecture for programmatic compliance. In doing so, the Commission would leverage industry resources and foster safe experimentation while retaining oversight authority.

III. Proposal for a Tiered Regulatory Framework

We recommend the Commission adopt a risk-based, tiered approach to regulating tokenized assets. Not all digital assets carry equal risk, and regulatory treatment should reflect differences in structure, asset backing, and investor type.

Our client's tokenized bonds are backed by regulated insurance products, which offer predictable, low-risk yield and principal protection. These products are marketed exclusively to accredited investors, who are presumed to have sufficient sophistication and access to information. Accordingly, subjecting such products to the same burdens as unregulated, speculative assets would stifle innovation without enhancing investor protections. We propose lighter-touch compliance requirements for instruments backed by regulated, transparent assets. A tiered framework could calibrate obligations based on asset type, market volatility, counterparty exposure, and investor classification.

² Past Commissions have tended to view the industry as adversaries in contexts similar to this one. We believe it is past time that the industry and the Commission work together as collaborators and not as opponents within the framework set by the staff.

IV. Modernization of Transfer Agent Regulations

Legacy transfer agent rules do not align with the reality of digital-native tokenized assets. Manual, certificate-based systems create inefficiencies and are prone to error, particularly when applied to blockchain-based instruments that inherently maintain ownership records and transfer restrictions. We recommend that the Commission formally recognize blockchain-based ledgers as authoritative books and records for ownership. This would legitimize what is already common practice among digital asset issuers and streamline recordkeeping.

Furthermore, the Commission should permit smart contracts or protocol-level tools to act as compliant transfer agents. These systems can enforce lock-ups, validate investor qualifications, and issue disclosures directly on-chain. Such automation would reduce costs and improve data integrity. To encourage adoption of these technologies, we also suggest the creation of a safe harbor for tokenized insurance products that embed transfer restrictions in code. This would give issuers confidence that their systems satisfy the Commission's expectations while advancing transparency and operational efficiency.

V. Custody Rules Modernization for Tokenized Assets

The treatment of custody for digital assets remains a significant barrier to entry for compliant token issuers and market participants. Current rules under Rule 15c3-3 and the Investment Company Act were not designed to accommodate programmable assets, multi-signature wallets, or decentralized custodial structures. We recommend the Commission develop custody standards tailored to tokenized assets. These standards should address safekeeping, segregation, disaster recovery, and transaction authorization procedures for novel digital custodial environments.

Additionally, we propose that the Commission formally recognize digital-native custodians, subject to appropriate registration and oversight. These entities should be permitted to serve as qualified custodians for tokenized products under a clear and predictable framework. Finally, we urge the SEC to include custodial innovation in any regulatory sandbox or pilot program. Experimentation in a supervised environment would yield valuable insights and reduce risk.

VI. Cross-Border Access and Harmonization

Digital asset markets are inherently global, but regulatory regimes remain fragmented. U.S. issuers face uncertainty in managing compliance across jurisdictions, especially when attempting to structure offerings under both Regulation D and Regulation S. We recommend the Commission issue guidance on best practices for separating U.S. and non-U.S. token flows, including the use of geofencing, jurisdictional tagging, and secondary market controls. This would reduce the risk of unintentional tainting and preserve compliance status.

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We also encourage the SEC to support the development of global investor accreditation and identity systems. Interoperable know-your-customer/anti-money laundering registries could streamline onboarding and enhance regulatory confidence across borders. Finally, we propose the Commission engage with peer regulators in the EU, UK, Singapore, and other jurisdictions to promote harmonization in the treatment of tokenized assets. Global alignment would reduce compliance costs and improve market access for U.S.-based projects.

VII. Conclusion

We commend the Commission for its leadership in addressing digital asset regulation and appreciate the opportunity to provide comment. By updating legacy rules, issuing interpretive guidance, and supporting pilot programs, the SEC can protect investors while fostering responsible innovation.

Tokenized insurance-backed products represent an opportunity to modernize financial markets and expand access to safe, yield-generating instruments. We urge the Commission to take the next step in supporting these developments through practical, risk-adjusted regulation.

Our client's on-chain insurance products have the potential to unlock new avenues for stable-yield capital flows, expand safe access to underserved investor classes, and cement the United States's leadership in programmable finance. We would welcome the opportunity to engage with the Crypto Task Force in further dialogue and to participate in any relevant working groups or pilot initiatives.

Respectfully,

Stephen T. Gannon
Partner
Davis Wright Tremaine LLP