

To,
Crypto Task Force,
US Securities and Exchange Commission

SUBJECT: - Laws/Rules for preventing fraud by Centralized Exchange acting as Crypto Custodian

Respected Sir/Madam,

Indian Cryptocurrency Exchange named "Wazirx" got hacked on 18th July, 2024, where in ETH and ERC20 tokens worth approx. \$234 million were stolen from a single Multisig Ethereum Wallet. This amounted to nearly 45% of the total user assets with Wazirx and nearly 100% of all ETH and ERC20 tokens stored in a single wallet. Prior to the hack, in January, 2023, Wazirx had released its Proof of Reserves and claimed they have greater than 1:1 Reserves to Liabilities ratio and have sufficient reserves to meet unforeseen circumstances. This claim by Wazirx of sufficient reserves continued until June, 2024.

After the hack on 18th July, 2024, Wazirx has stopped trading and withdrawals/deposits of crypto assets has been blocked. Then on 27th Aug, 2024, Wazirx announced they are approaching Singapore High Court to implement a scheme where in the unaffected/unhacked non-Ethereum crypto assets (worth approx. \$284 million) belonging to Wazirx users will be distributed across all users in order to socialize the loss suffered by ETH & ERC20 token holders. Wazirx is themselves not contributing a single penny to compensate for the losses suffered by ETH & ERC20 token holders, instead has illegally withheld unaffected/unhacked non-Ethereum crypto assets. The reasoning being given by Wazirx is, "since all crypto assets are 'fungible' & hence they are interchangeable and belong to common pool after the hack." This is absolutely false statement and purposely fooling users and concerned authorities, since cryptocurrencies are still unregulated in India and majority do not have the technical knowledge.

Every Crypto Asset is 'fungible' (interchangeable) within its blockchain (e.g.: 1 XRP is interchangeable with another 1 XRP on XRPL Blockchain, 1 ALGO is interchangeable with another 1 ALGO on ALGORAND Blockchain, 1 XLM is interchangeable with another 1 XLM on STELLAR Blockchain and similarly 1 ETH is interchangeable with another 1 ETH on ETHEREUM Blockchain) **and its fungibility is lost across blockchains.** In the case of Wazirx, all non-ETHEREUM tokens are unaffected and the owners of these tokens are being forced to compensate the ETH and ERC20 token holders. This should not be allowed of crypto custodians like centralized exchanges, under the pretext of common pool due to fungibility of tokens.

Request the "Crypto Task Force" at US SEC to formulate appropriate laws/rules to ensure crypto custodians like centralized exchanges do not misuse the users' crypto assets and in cases like Wazirx where the ownership of crypto assets is easily identifiable, only the owners of the crypto assets be allowed to withdraw.

Thanking you,

Yours faithfully,

Amar Bhat

