

March 19, 2025

Commissioner Hester Peirce  
Chair, SEC Crypto Task Force  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-0213

Re: Responses to Commissioner Peirce's "There Must Be Some Way Out of Here"

Dear Commissioner Peirce:

Thank you for the opportunity to respond to your Statement, "There Must Be Some Way Out of Here." Below are brief responses to questions 23, 25, 27(a) and 32 from the same, couched in a broader request for the SEC to issue guidance related to the use of decentralized oracle networks (e.g., the Pyth Network) as financial benchmark systems that are appropriate for verifying the fair valuation of crypto assets and other securities.

Blockchain technology is, in many respects, about introducing new, more effective tools designed to solve existing problems. For markets, data is paramount; data availability, data transparency, and data durability are critical. Decentralized oracles, when properly organized and maintained, present the opportunity to provide our markets with more accurate, robust, and verifiable data. These blockchain-based, permissionless oracles can offer a reliable, real-time, and tamper-resistant means to determine asset values, and explicit SEC interpretive guidance on their permitted use, and how they may fit within the context of the existing IOSCO Principles for Financial Benchmarks (the "*Framework*") would greatly benefit regulated entities and enhance market transparency.

## **I. Introduction to Decentralized Oracle Networks**

Decentralized oracle networks ("*DONs*") are networks of independent, pseudonymous data providers that feed off-chain information (like market prices) into blockchain systems, typically for use in smart contracts. Rather than relying on a single source or entity, a decentralized oracle aggregates data from multiple trusted providers (including, among others, reputable exchanges, asset managers, and trading firms), then uses a consensus mechanism to validate that data before it's delivered. This design ensures the data's authenticity and accuracy: any one faulty or malicious source is outweighed by the many honest sources, and in some cases faulty or malicious sources are economically penalized to disincentivize poor performance. The result is a tamper-resistant, robust feed of information that can be trusted by all parties.

As an example, the Pyth Network demonstrates the reliability of the DON model. Pyth is a decentralized financial data network that publishes more than 1,000 real-time price feeds (including digital assets, equities, FX, and commodities) to dozens of blockchains. Over 120 major market participants – including renowned exchanges and trading firms like Jump, Jane Street, CBOE, Binance, OKX, and Bybit – contribute price data directly into the Pyth Network. Each contributor publishes its own vetted prices (i.e., their own trade fills), and Pyth's on-chain programs aggregate these inputs into a single price feed with an accompanying confidence interval (reflecting data consensus and quality). Because the data comes straight from first-party sources (exchanges, market

makers, etc.) and is combined via decentralized consensus, the resulting price is both accurate and resistant to manipulation. For audit and valuation purposes, a network like Pyth can serve as an independent, third-party source to verify prices, much like a pricing service or quotation platform, but with the added assurances of decentralization (no single insider can doctor the numbers) and transparency (all price updates are recorded on a public ledger in real time).

## **II. The SEC should issue interpretive guidance that DONs are acceptable benchmark tool for crypto asset prices**

It's important to emphasize that nothing in current SEC regulations explicitly prohibit the use of DONs as information sources for price data.<sup>1</sup> SEC fair value and accounting rules are generally principles-based and technology-neutral – they focus on whether management and auditors obtain consistent, sufficient, appropriate evidence for valuations, not on dictating the exact source of that evidence. However, many SEC-regulated entities have adopted, whether expressly or implicitly, the principles set forth in the Framework. In theory, this Framework was designed to operate as a broad principles-based set of practices and standards. In practice, it may currently be dissuading some regulated entities from taking full advantage of decentralized oracle networks, which can often be a more reliable source of data than traditional benchmarks.

Companies often rely on third-party pricing services or data vendors for valuing hard-to-price assets. A DON can be viewed as a new type of pricing service – one that, if properly vetted, meets or exceeds the same quality criteria as traditional vendors. Certain aspects of DONs, including their decentralized structure, near-infinite scalability, and transparency, have the capacity to substantially enhance financial benchmark reliability. However, their unique architecture presents challenges for integration within the existing Framework without additional guidance from regulators.

Laying out guidance that explicitly permits the use of decentralized oracle feeds under certain conditions would yield practical benefits across several SEC-regulated sectors:

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<sup>1</sup> For example, certain existing SEC regulations (such as Investment Company Act rules and Form PF instructions) require funds to use fair value for assets lacking readily available market quotations. Similarly, advisers must follow U.S. GAAP or IFRS fair value standards when calculating NAV for reporting. Under GAAP's ASC 820 and IFRS 13, fair value is defined as the price that would be received to sell an asset in an orderly transaction in the principal market. Both accounting standards emphasize using observable, market-based inputs whenever possible (Level 1 or 2 inputs in the fair value hierarchy) and prioritizing relevance and reliability of data. **Importantly, neither GAAP nor SEC rules prescribe where data must come from** – what matters is that the values reflect an exit price and that the process is in good faith and well-documented. Decentralized oracles can fit squarely within this framework. When an oracle like Pyth publishes a price for, say, an equity or crypto asset, it is drawing on actual market transaction data (e.g., trades from various crypto exchanges). If those underlying markets are active, the oracle's price is effectively an aggregation of readily available market quotations and actual trade fills, just delivered through a novel mechanism. In such a case, using the oracle would satisfy the requirement to use a market quote (akin to a consolidated tape of multiple exchanges). Even if one argued the oracle is a "pricing service," SEC Rule 2a-5 (the fair value rule for funds) permits reliance on pricing services as long as the fund's board or valuation designee oversees and evaluates their quality. The SEC has emphasized the need for due diligence on pricing vendors – ensuring they have robust methodologies and controls – and a well-established decentralized oracle network could meet these criteria. For instance, an adviser could review the oracle's methodology (aggregation, filtering of data, contributor list) and even back-test its outputs against actual market trade ranges, just as they would test a traditional vendor.

- A. Investment Funds (NAV Calculations (Question 27(a)): Funds holding digital assets could use DON-derived prices to supplement NAV calculations. In addition to relying on exchange quotes or an index for crypto-native asset prices, a DON provides a volume-weighted or aggregated price from multiple trading venues where liquidity is the deepest, aligning valuations with actual market conditions in real time. Interpretive guidance with respect to RIA's ability to rely upon DONs when calculating NAV on Form PF would also provide much needed assurances to advisers as they seek to report digital asset holdings.
- B. Broker-Dealers (Risk and Collateral Management; Question 25(b)): Broker-dealers can incorporate DON data into risk models and regulatory calculations. For instance, VaR and stress testing models would benefit from the high-frequency, multi-source data to more precisely gauge market volatility and exposure to blockchain-based assets in real-time. Similarly, firms determining haircuts for crypto assets under the net capital rule can reference oracle feeds to assess a crypto asset's liquidity and "readily convertible to cash" value with confidence. Using oracle prices for margin collateral valuation and client account balances could similarly enhance accuracy in meeting capital and customer protection requirements.
- C. Auditors and Attestation Providers (Question 23): Audit firms and non-accountant attestation providers can use decentralized oracle outputs as an independent price benchmark when verifying clients' crypto asset holdings. Rather than solely trusting management's chosen pricing source, auditors could cross-check valuations against oracle data that is transparent and tamper-resistant. This extra layer of verification aligns with emerging standards for auditing crypto assets, providing regulators and investors greater assurance that reported values and existence of assets have been objectively validated by reference to an impartial decentralized system.
- D. Custodians and Exchanges (Asset Verification & Liquidity; Question 32): Qualified custodians, trading platforms, and clearing agencies holding crypto on behalf of clients could leverage DONs to support proof of reserve attestations and real-time asset verification. DONs can pull on-chain data to confirm the existence of assets (e.g., querying blockchain addresses) and pair it with market prices to determine current valuation. This helps to assure that customer assets are both present and appropriately valued, thereby facilitating audits and satisfying any custody reporting obligations. Additionally, continuous oracle pricing helps these entities monitor liquidity – if markets become thin or volatile, the oracle's confidence intervals can signal increased valuation uncertainty, prompting risk mitigation in line with SEC guidance on liquidity management.

Allowing decentralized oracle networks for valuations would be in harmony with the SEC's longstanding principles. Fair value determinations are meant to reflect the price that would be received in an orderly transaction – in practice, the current market value. Oracles like Pyth epitomize this by drawing on actual transaction data across a wide array of marketplaces to compute an equilibrium price. They thereby mirror the "fair value" that unconnected market participants have collectively set. Moreover, these networks promote market transparency. The Pyth oracle's aggregation process, for example, is open and verifiable: every data point can be traced to its source institution, and the price calculations are auditable on-chain in real time. This transparency discourages fraud and errors, as any stakeholder (including SEC examiners) can monitor how the valuation was derived. In essence, decentralized oracles provide the kind of reliable, multi-source pricing that SEC rules seek to foster, and they do so in a manner that enhances oversight and public

trust in the numbers. Adopting such technology is simply an evolution of the SEC's fair valuation framework, leveraging innovation to better achieve the Commission's goals of accuracy and integrity in the markets.

We respectfully request that the SEC issue interpretive guidance explicitly permitting the use of decentralized oracle networks for asset valuation, including crypto asset valuation, and existence verification within SEC-regulated activities, provided those networks meet an updated set of principles. By clarifying that investment funds, broker-dealers, custodians, and other registrants may rely on decentralized oracles for pricing data, and that the Framework should not be read to exclude their use where these new principles are met, the Commission would provide much-needed certainty and encourage prudent innovation. This step would empower market participants to employ state-of-the-art, resilient tools for Net Asset Value calculation, risk measurement, collateral valuation, and audit verification, all within the bounds of SEC oversight. Endorsing decentralized oracles through formal guidance will ultimately enhance the accuracy and consistency of crypto asset valuations, reduce operational risks (through automation and tamper-resistant data), and reinforce market transparency. We believe this approach aligns with the SEC's mission to protect investors and maintain fair, orderly, and efficient markets, and we urge the Commission to take this forward-looking action.

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Thank you for your consideration. We are available to discuss these recommendations and provide any further information the Commission may require.

Sincerely,



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