

SUBMISSION TO SEC CRYPTO TASK FORCE

(March 25, 2025)

Security Status

Blockchain technology has given rise to novel assets that rely on cryptographic protocols for their existence (“crypto assets”). Market participants have expressed a reasonable desire to determine with ease whether such an asset is a security or is being offered or sold as part of an investment contract. When crypto assets that are sold along with promises of future work to develop the ecosystem within which those assets operate, analyzing them under Howey’s investment contract test can be difficult. Market participants have expressed concern that the Howey test, as the Commission has applied it, is a complex analysis that can be difficult to apply consistently. One of the Task Force’s goals is to make it easier for investors, market participants, and the Commission to categorize crypto assets and crypto asset transactions. To that end, the Task Force is considering questions, including the following:

- 1. What type of regulatory taxonomy would provide a predictable, legally precise, and economically rational approach to determining the security status of crypto assets and transactions in such assets without undermining settled approaches for evaluating the security status of non-crypto assets and transactions?***

A regulatory taxonomy for crypto assets should focus on functionality and economic reality rather than strict definitions of "security". The regulatory framework should be merit- and technology-neutral. The Howey test and Reves test are difficult to apply consistently. Clarity can be provided by identifying categories of crypto assets that do not fall within the SEC's authority. This would foster innovation by regulated firms while maintaining investor protection and regulatory oversight, as the deployment of blockchain technology within the financial markets can significantly increase the reach and effectiveness of the SEC.

- 2. Should the Commission address when crypto assets fall within any category of financial instruments, other than investment contracts, that are specifically listed in the definition of “security” in the federal securities laws?***

The SEC should address when crypto assets fall within existing categories of financial instruments, beyond just investment contracts. Figure Markets, for example, utilizes blockchain to increase market efficiency and transparency, which benefits all participants by allowing them to track their legal rights related to deposited assets.

Clear regulatory guidelines will foster responsible innovation by regulated firms, while concerns about unregulated crypto activities should not hinder the deployment of blockchain by legitimate entities. Clear definitions enable regulators to effectively monitor market activities and ensure compliance.

3. Certain crypto assets are used in a variety of functions inherent to the operation of a blockchain network, such as mining or staking as part of a consensus mechanism or securing the network, validating transactions or other related activities on the network, and paying transaction or other fees on the network. These technology functions may be conducted directly or indirectly, such as through third-party service providers. What types of technology functions are inherent to the operation of a blockchain network? Should the Commission address the status of technology functions under the federal securities laws and, if so, what issues should be addressed?

Activities like mining, staking, and transaction validation are inherent to blockchain network operations. These functions, whether direct or through third parties, should be assessed by the SEC with consideration for promoting market efficiency, regulatory oversight, and responsible innovation. The SEC should clarify the status of these technological functions under federal securities laws to encourage regulated firms to adopt and deploy blockchain where useful, while addressing risks associated with unregulated actors.

For example, the SEC could specify that validators are not undertaking investment activity but instead are providing validation services in order to ensure regulatory compliance without stifling technological advancement. To the extent that information is required about the compliance status of validation activities, the SEC should obtain such information from the firms performing those activities directly rather than looking to the decentralized and distributed technology which comprises the blockchain to be able to record and provide such information upon request.

4. Users of liquid staking applications receive a so-called “liquid staking token.” This token represents their staked crypto asset, and the token can be used in other activities, all while continuing to participate in the proof-of-stake protocol. Should the Commission address the status of liquid staking tokens under the federal securities laws, and, if so, what issues should it address?

Liquid staking tokens represent staked crypto assets and enable further participation in other activities while still being staked. Figure Markets can track security entitlements (SEs) on the Provenance Blockchain, which represents a beneficial ownership interest in assets held in decentralized MPC custodial accounts. Using liquid staking tokens within a regulated framework, like Figure's, can remove barriers between instruments, increase market efficiency, and boost regulatory effectiveness. Concerns from unregulated crypto uses should not impede regulated firms from deploying and innovating with blockchain technology.

Scoping Out

The Commission may be able to provide greater clarity to investors and other market participants by identifying categories of crypto assets (and transactions) that do not fall within its authority. In some cases, these types of crypto assets may be within another regulator's authority. In determining what falls outside the Commission's authority, the Commission should look to the economic reality of what is being offered or sold. Simply saying something is not a security does not mean it is not a security.

5. Should the security status of certain categories of crypto assets be addressed, such as stablecoins, wrapped tokens, and NFTs?

Yes, the security status of crypto assets like stablecoins, wrapped tokens, and NFTs should be clarified. Addressing the security status of these crypto assets will clarify regulatory compliance, foster innovation, and protect investors. Further, given that the scope and diversity of crypto assets is likely to continue to expand greatly in the coming years as blockchain technology is more deeply integrated in different aspects of daily life, these clarifications around security status should be made in such a way as fosters future innovation.

6. How can the Commission establish a workable taxonomy while remaining merit- and technology-neutral?

To establish a workable taxonomy while remaining merit- and technology-neutral, the SEC should focus on categorizing crypto assets based on their function and the rights they confer, rather than the underlying technology. For instance, crypto assets could be classified by whether they function as securities, commodities, or payment instruments. Tokenized security entitlements, as used by Figure Markets, could provide a framework for representing traditional financial instruments on a blockchain, ensuring that investors can track their legal rights with respect to deposited assets. This approach would allow regulated firms to deploy blockchain technology and innovate rapidly. The SEC's reach and effectiveness in monitoring market activities and ensuring compliance with regulations would be increased through greater deployment of blockchain technology

Public Offerings

People who have conducted or attempted to conduct registered or qualified token offerings have expressed frustration about the cost and feasibility of registration. Tokens and their issuers can differ significantly in some aspects from traditional securities and their issuers. Allowing token issuers to use appropriately tailored registration regimes may protect investors better than insisting that they use registration forms and mechanisms that are designed for other types of securities offerings.

7. Could disclosure guidance and/or targeted relief address the concern, or are new forms or other mechanisms needed?

To address concerns about the cost and feasibility of non-security token registration, disclosure guidance and targeted relief offer a balanced approach. Tailoring registration for token issuers, who differ from traditional securities issuers, can better protect investors. A safe harbor could encourage blockchain development by offering a grace period for registration, fostering broader participation and innovation. Clear objective decentralization thresholds would provide regulatory clarity for issuers. Considering new registration statuses with tailored requirements for platforms trading crypto assets may also be warranted. These steps align with Figure's goals by promoting market efficiency, responsible innovation, and regulatory oversight.

8. Should the Commission develop tailored disclosure requirements for offerings or classes of specific categories of crypto assets? What types of disclosures would be important for investor protection? Should disclosure occur both at the time of sale and on an ongoing basis? If so, what information should the ongoing disclosure contain and how should that disclosure occur?

To foster blockchain innovation and protect investors, the SEC should establish tailored disclosure requirements for specific non-security crypto-asset categories. For offerings, clear disclosures about the crypto-asset's functionality, risks, and underlying technology are crucial. Ongoing disclosures should focus on material changes, such as protocol updates, security audits, and network performance metrics, ensuring transparency and enabling informed decision-making. These disclosures, facilitated through blockchain's transparent ledger and self-custody wallets, would enhance investor access to information and improve regulatory oversight, aligning with goals of market efficiency and regulatory effectiveness. This balanced approach supports legitimate uses of blockchain technology by regulated investment firms such as Figure while addressing concerns about unregulated deployments

9. Does Regulation A under the Securities Act, including the disclosure and ongoing reporting requirements, provide a useful vehicle to conduct offerings of crypto assets? Would revising aspects of Regulation A make it more useful for crypto asset offerings?

Regulation A under the Securities Act, with appropriate revisions, could serve as a useful vehicle for conducting offerings of crypto assets. The disclosure and ongoing reporting requirements of Regulation A could foster transparency and investor protection, addressing concerns associated with unregulated crypto offerings. By leveraging blockchain for these offerings, efficiencies can be introduced, and artificial barriers removed, spurring innovation. Moreover, the enhanced monitoring capabilities afforded by blockchain benefit regulators, ensuring compliance. Any revisions to Regulation A should consider the unique aspects of crypto assets, providing a tailored framework that encourages regulated firms like Figure to deploy blockchain technology while maintaining regulatory oversight and investor safeguards.

Safe Harbor from Registration

I previously proposed that the Commission consider putting in place a non-exclusive safe harbor—provisionally called Rule 195—that would, among other things, provide a time-limited exemption from the registration requirements under the Securities Act for offers and sales of crypto assets during the development of a blockchain project. My motivation for suggesting such a safe harbor was to enhance and encourage disclosure and provide network developers with a grace period within which, under certain conditions, they can facilitate broad participation in and the development of a functional or decentralized network. At the end of the safe harbor's term, token transactions may not be securities transactions if the network had matured into a decentralized or functioning network that is not dependent on a single person or group to carry out the essential managerial or entrepreneurial efforts. The safe harbor, which would include tailored disclosures subject to the antifraud provisions in the federal securities laws, is intended to respond to the concern that the disclosure requirements under the federal securities laws applicable to registration and offering statements, as well as ongoing

reporting, are not tailored for blockchain projects and crypto assets. To be clear, any safe harbor the Task Force recommends will not offer protection for perpetrators of securities fraud.

10. Should the Commission consider a version of Rule 195, my proposed token safe harbor? Is the iteration on my proposed safe harbor known as “Safe Harbor X,” or some other iteration, a better approach?

Yes, the Commission should consider a version of Rule 195, as a token safe harbor would encourage blockchain development within regulatory parameters. A safe harbor can allow a grace period for developers while ensuring investor protection through tailored disclosures and antifraud provisions. Figure Markets uses decentralized MPC custodial accounts and security entitlements (SEs) to provide a secure platform for trading digital and traditional assets. Tokenized SEs, held in self-custody on Provenance Blockchain, represent a beneficial ownership interest in deposited assets. This framework aligns with regulatory goals by increasing transparency, enabling continuous auditing by MPC hosts and investors, and reducing risks associated with centralized custody solutions.

11. Should the safe harbor be available retroactively for projects that comply with the disclosure requirements?

Yes, retroactive application would encourage broader participation and help to incorporate existing blockchain projects into the regulatory framework. Applying the safe harbor retroactively would incentivize projects to adopt similar transparent and auditable mechanisms, fostering greater regulatory oversight and investor protection while promoting innovation within the digital asset space.

12. If a safe harbor of some form is the right approach, what disclosure requirements would be feasible for early-stage projects to provide to token purchasers the material information regarding the blockchain project, crypto assets, and development team? What information should be required to be updated on an ongoing basis, and how should that information be provided?

To promote blockchain benefits while addressing regulatory concerns, early-stage crypto projects seeking safe harbor should provide transparent disclosures about the blockchain project, associated crypto assets, and the development team. Information on the functionality of the tokens and details of the development team should be updated regularly to ensure ongoing transparency, leveraging the blockchain's inherent capabilities for efficient data management. These disclosures, recorded on the blockchain, would enhance transparency for token purchasers and regulators alike. Such a framework ensures that legitimate, regulated firms can innovate using blockchain, fostering market efficiency and regulatory oversight, without being hindered by the missteps of unregulated entities.

13. At the expiration of the safe harbor as envisioned, if the network were sufficiently decentralized or functional, registration of the tokens would not be required. If decentralization is used as an indicator of network maturity, should the Commission define objective quantitative thresholds (such as percentage thresholds for ownership and control) to provide greater clarity for issuers, developers, or minters of tokens regarding whether their networks and protocols are sufficiently decentralized and to allow third parties to verify decentralization?

a. Is dispersion of control a better framework than decentralization? If so, how should ownership of governance tokens and voting rights be considered in assessing dispersion of control? How should the delegation of voting rights be taken into account?

b. If an exit marker is achieved, who should be responsible for notifying the Commission?

To address the SEC's question on defining decentralization for crypto tokens, Figure believes the best approach would include objective, quantitative thresholds such as percentage thresholds for ownership/control and the number/geographic distribution of independent nodes. A dispersion of control framework, considering the distribution of governance tokens and voting rights, might also be more practical than strict decentralization. The SEC should consider mechanisms that prevent voting power concentration and establish guidelines for voting rights delegation.

To promote innovation within regulatory boundaries, the SEC should provide a limited safe harbor. For example, the SEC could adapt Regulation A or Rule 195 to provide an explicit framework for crypto asset offerings. Regulatory clarity fosters innovation, enhances SEC oversight, and legitimizes regulated firms like Figure. This approach aligns with Figure's goals of increasing market efficiencies, supporting regulatory oversight, and enabling responsible blockchain deployment within the U.S. financial markets. When a crypto project achieves its exit marker, the token issuer should primarily notify the SEC, supplemented by a smart contract that automatically triggers a notification and verification by independent auditors.

14. How should the decentralization of a deployed protocol best be evaluated? How should permissioned aspects of crypto-adjacent software or participant roles, such as validators, relayers, and sequencers, be considered? Are there tech-neutral thresholds that can be agreed upon for determining thresholds for decentralization?

To evaluate decentralization of a deployed protocol, a tech-neutral threshold should focus on control distribution rather than complete decentralization, as permissioned aspects are inherent in regulated finance. Factors to be considered could include the following:

- The number and independence of key participants like validators, relayers, and sequencers.
- The degree of influence any single participant can exert.
- The transparency and auditability of the protocol's operations.

For Figure, this could mean leveraging blockchains like Provenance for security and compliance while ensuring enough decentralization to prevent single-party control. This approach balances

regulatory needs with innovation, fostering efficiency and benefiting market participants, while regulators can effectively monitor activities.

Trading

Secondary market trading of crypto assets raises a variety of issues, some of which may fall within the Commission's authority. The Commission's authority in secondary markets generally is limited to assets that themselves are securities based on their intrinsic economic properties or rights, so we have to grapple with how to regulate platforms and market participants that trade securities alongside non-securities.

15. *Should the Commission create a new entity registration status with tailored registration requirements for any platform that trades crypto assets that are securities? Should the Commission use or adapt the existing requirements for national securities exchange registration or the alternative trading system exemption from such registration, and if so, how?*

The SEC should adapt the existing requirements for Alternative Trading System (ATS) exemption for platforms trading crypto assets that are securities, with tailored registration requirements. This approach supports the use of blockchain in U.S. financial markets, fostering market efficiencies and innovation. It also extends the reach of the SEC in monitoring market participants. For instance, Figure Markets leverages blockchain for trading various assets, using tokenized security entitlements (SEs) on the Provenance Blockchain to ensure transparency and self-custody. The SEC can ensure investor protection and compliance by adapting ATS regulations to include specific standards for crypto assets and blockchain technology. This balances the need for regulatory oversight with the innovative potential of regulated firms.

In adapting these requirements, the SEC should keep in mind that with blockchain technology, there is no post-trade settlement or clearing, given the nature of how distributed ledger technology operates. Where FINRA rules have hard coded such actions into the work flows of ATS, these requirements should be updated to account for how this technology operates today and the scope for further innovation in the near future.

16. *What updates to the Commission rulebook are needed for side-by-side pairs trading of securities and non-security crypto assets to allow for enhanced interoperability and composability in finance?*

To allow side-by-side trading of securities and non-security crypto assets and enhance interoperability and composability, the SEC should clearly define crypto assets that are not securities, thus providing regulatory certainty. For crypto assets, the rules should permit regulated entities to use blockchain technology, provided they adhere to existing regulatory obligations. Tokenized security entitlements (SEs) representing both securities and non-security crypto assets can ensure transparency and verifiability. Figure Markets uses SEs ledged on the Provenance Blockchain, allowing continuous auditing and verification of asset ownership. This framework supports the integration of digital and traditional assets under existing securities laws, while still allowing for the efficiencies of blockchain.

Importantly, blockchain technology is removing the silos that have traditionally existed between different categories of financial instruments and across various asset classes. The presumption that crypto assets and tokenized securities must necessarily move on separate sets of rails is no longer valid.

17. Does execution in offchain order books or on blockchain networks pose complexities for broker-dealers in satisfying any applicable best execution obligations? Does onchain execution pose complexities for broker-dealers in satisfying their best execution obligations, given onchain complexities such as transaction ordering and block construction? Should any rules, guidelines, or disclosures be modified to address broker-dealer execution reasonably available under the circumstances in offchain and onchain trading environments?

Broker-dealers executing orders off-chain or on blockchain networks face complexities in fulfilling best execution obligations. On-chain execution introduces challenges related to transaction ordering and block construction. Existing rules, guidelines, or disclosures should be modified to address these complexities in both trading environments. There are elements of the NMS construct that will need to be updated to fully account for the innovations that blockchain technology provide. For example, in order for NMS to require simultaneous security listings across all exchanges, this presumes the continued role of DTC as a common register. With blockchain technology, DTC becomes optional.

For Figure Markets, leveraging security entitlements (SEs) on the Provenance Blockchain for trading offers transparency and efficiency. This approach ensures a continuously auditable source of ownership and faster transaction speeds, and lower costs, which benefits market participants. Figure's decentralized MPC custody accounts, combined with SEs, promote investor control and regulatory oversight. The traceability of transactions on a public blockchain enhances the SEC's monitoring capabilities, aligning with regulatory goals.

18. The crypto markets are inherently transparent because they use open-source data, from public blockchains to open application programming interfaces (“APIs”). Are there programmatic/technological ways that crypto market participants, intermediaries, potential self-regulatory organizations, or regulators can monitor crypto markets using open-source data? How would this take into consideration nested accounts on centralized exchanges, given that this activity may not appear in public ledgers? Is open-source data sufficient for the market to monitor trading and therefore what non-public information might warrant mandatory disclosure? What sort of open-source tools can be used for enhanced transparency, such as proof of reserves, or proof of holdings? What are the limitations of such tools and such data?

Figure Markets uses security entitlements (SEs) to represent a beneficial ownership interest in assets maintained in decentralized MPC custodial accounts. Since SEs are held in self-custody and represented on Provenance Blockchain, a public layer 1 blockchain optimized for financial transactions, the risk of Figure Markets being able to remove, change, or misrepresent the quantity of an investor's SEs is significantly mitigated. Any investor can audit the decentralized MPC custodial accounts, the L1 assets within those accounts, and the SEs because they are

ledgered on public L1 blockchains. This ensures transparency, allowing any SE holder to verify that the amount of L1 assets held in the MPC custodial accounts is sufficient to cover future withdrawals.

Open-source data may not be sufficient alone to monitor trading activity, especially within nested accounts on centralized exchanges. Limitations of open-source data include the potential for wash trading, front-running, and other manipulative practices that are difficult to detect without access to non-public data. Additionally, open-source data may not provide in itself sufficient insight into the risk management practices of market participants, although vendors and tools exist today which would allow financial firms such as broker-dealers to monitor trading and limit manipulative practices.

19. *With the understanding that both APIs and public ledgers can provide order books, what would be a good strategy for regulators to efficiently ingest and analyze order book data? How can the regulators leverage publicly available data to become more efficient and alleviate regulatory burdens?*

To efficiently ingest and analyze order book data, regulators should utilize APIs and public ledgers. A sound regulatory strategy would involve developing standardized APIs that regulated entities like Figure Markets use to provide real-time access to order book data. Regulators can then analyze this data alongside publicly available information on ledgers like Provenance Blockchain to monitor trading activity, ensure compliance, and detect potential market manipulation. This approach would leverage blockchain's inherent transparency, increasing regulatory effectiveness while reducing burdens on regulated firms and promoting innovation. This framework would foster confidence in the use of blockchain technology within traditional financial markets, while giving regulatory agencies ready access to transaction data in order to fulfill its oversight functions.

20. *How should Commission registrants assess Maximal Extractable Value (“MEV”) when they consider building or transacting in these environments? How best should Commission registrants delineate between the different types of MEV occurring onchain? In what ways is the market addressing the MEV in which MEV extractors order or re-order transactions to engage in front running, back running, or so-called “sandwich attacks”?*

To address MEV, registrants can distinguish between different types of MEV that occur on-chain, such as front running, back running, and sandwich attacks. Figure Markets uses security entitlements (SEs) that are publicly ledgered and settled on the Provenance Blockchain to ensure transparency. This approach allows for increased monitoring by the SEC. Figure Markets enforces decentralized decision making ensures each MPC host independently reviews relevant blockchain data from different sources and follows software-enforced policies before signing a blockchain transaction.

Custody

Market participants have broad and specific questions regarding custody requirements for Commission regulated entities—broker-dealers, investment advisers, and investment companies—including whether existing requirements suffice for custodying crypto assets. The Task Force is seeking input on answers to these questions so that individuals and organizations can safely, legally, and practicably custody client crypto assets themselves or with a third party.

21. Should the Commission amend existing rules, propose new rules, or provide guidance to facilitate custody arrangements for crypto assets? If so, what rule amendments or new rules would be appropriate, and to which types of activities should they apply? Should the Commission propose any specific changes to its rules to accommodate the self-custody of crypto assets by entities registered with the Commission? If so, what conditions should apply to self-custody arrangements to mitigate any related risks? Should the requirements for crypto assets that are securities and those that are not differ?

To facilitate custody arrangements for crypto assets, the SEC should provide guidance that distinguishes between crypto assets that are securities and those that are not. For registered entities engaging in self-custody, a decentralized MPC (Multi-Party Computation) custody model should be accommodated, ensuring independent, trusted hosts manage private key shares, thus preventing unilateral asset movement. To mitigate risks, the SEC should consider mandating the use of tokenized security entitlements (SEs) on a public blockchain like Provenance. These SEs, representing a beneficial ownership interest in the assets, should be held in self-custody wallets, providing transparency and auditability. This approach fosters market efficiencies, enhances regulatory oversight, and allows legitimate firms to innovate responsibly.

The decentralized MPC allows multiple parties to approve transactions through a gating process, thereby adding an extra layer of control which allows for conditional execution of parts of the computation. In sum, an entity that possesses blocking rights within a gating process would satisfy the role of qualified custodian.

22. Public, permissionless blockchains are being used to tokenize permissioned assets. To the extent the custody rules for broker-dealers, investment advisers, and investment companies are implicated, how should the Commission differentiate between native crypto assets of permissionless blockchains and tokenized permissioned assets? Does either type of crypto asset present greater risks of theft or loss?

The SEC should differentiate between native crypto assets and tokenized permissioned assets based on the regulatory status of the issuer and the asset itself. Regulated entities issuing tokenized assets should adhere to existing custody rules, while native crypto assets should be evaluated based on their inherent characteristics and potential risks. Figure Markets uses a decentralized multi-party computation (MPC) custody to ensure customers retain control, mitigating the risk of theft or loss. Security entitlements (SEs) are used to represent assets and are publicly recorded on the Provenance Blockchain, enhancing transparency and auditability. This framework allows regulated firms to innovate using blockchain while maintaining compliance and investor protection, and these methods allow for effective regulatory monitoring.

23. Are there commonly accepted practices and standards for auditing and accounting for crypto asset investments and transactions, including those related to valuation? How about with respect to verifying the existence and valuation of crypto assets, both among auditors and attestation providers (including non-accountant providers)? Should the Commission propose additional or specific requirements to address the unique nature of crypto assets?

To address the SEC's question on auditing and accounting for crypto assets, Figure Markets' approach offers a potential path forward. Figure Markets uses security entitlements (SEs) to represent a beneficial ownership interest in assets held in decentralized MPC custodial accounts. These SEs are tokenized and held by investors through self-custody on the Provenance Blockchain. The continuous auditing of the L1 blockchain by MPC hosts ensures the quantity of L1 assets matches the outstanding SEs, enhancing transparency and verifiability. This system allows for independent verification by any party, promoting trust and regulatory oversight. Standardizing such practices could provide a framework for auditing crypto assets, leveraging blockchain's inherent transparency while addressing valuation and existence verification concerns.

Broker-Dealer Custody and Other Financial Responsibility Requirements

24. Should the Commission modify its Special Purpose Broker-Dealer Statement (“SPBD Statement”) or formally withdraw it? If the former, what should those modifications be? For example, should the Commission expand the SPBD Statement to cover broker-dealers that custody crypto asset securities alongside crypto assets that are not securities? If the Commission decides to eliminate the SPBD Statement, should the Commission propose any modifications to the customer protection rule (17 CFR 240.15c3-3) to address crypto assets?

The SEC should modify its Special Purpose Broker-Dealer (SPBD) Statement to accommodate broker-dealers that both custody crypto asset securities and crypto assets that are not securities.

A fundamental issue with SPBD is that the broker-dealer are required to decide which crypto assets are a security. The determination of whether a particular crypto asset is a security forces broker dealers into the place of a regulator, making attempts to determine the regulatory status of particular crypto assets like SOL, which was litigated by the SEC as a security, but never directly stated by the SEC. Clear guidance on which assets are securities would help make this determination more clearer for broker-dealers.

Any modification to SPBDs should recognize that blockchain technology can enhance market efficiencies and regulatory oversight. Multi-Party Computation (MPC) for self-custody promotes a "truth over trust" environment, where investors maintain control, aligning with regulatory goals. Tokenized security entitlements (SEs) on public, permissioned blockchains can provide transparency and verifiability, enabling continuous auditing by both investors and regulators. Regulation of firms using blockchain should be distinct from unregulated crypto deployments. Modifying customer protection rules to include crypto assets should consider these

technological advancements, ensuring customer protection without stifling innovation by regulated entities.

25. The net capital rule (17 CFR 240.15c3-1) requires a broker-dealer to maintain sufficient liquid assets to meet all liabilities, including obligations to customers, counterparties, and other creditors and to have adequate additional resources to wind down its business in an orderly manner, without the need for a formal proceeding if the firm fails financially.

a. Under the net capital rule, assets held by a broker-dealer must be readily convertible into cash to count as allowable for meeting minimum net capital requirements (e.g., intangible assets, furniture, fixtures, equipment, and most unsecured receivables are not readily convertible into cash under the rule and, therefore, do not qualify as allowable net capital). How should a given crypto asset be evaluated to assess whether it is readily convertible into cash?

b. Under the net capital rule, securities and commodities are treated as readily convertible into cash. However, they are subject to deductions (known as haircuts) to account for the market, credit, liquidity, basis, and other risks inherent in the instrument. The haircuts range from 0 to 100 percent. For example, exchange-traded equity securities have a 15 percent haircut, while securities without a ready market (e.g., securities that are not exchange traded) are subject to haircuts as high as 100 percent. Commodities are subject to a 20 percent haircut. How should crypto assets be evaluated to determine the appropriate haircut to apply?

To evaluate the eligibility of a crypto asset as "readily convertible into cash" under the net capital rule, the SEC should consider the unique features of Figure Markets' decentralized approach, which aligns with promoting market efficiency, regulatory oversight, and responsible innovation. For example, the purpose of haircuts is to ensure broker-dealers have sufficient liquid assets to meet obligations of its customers and creditors. Recently, the SEC has considered these haircuts using a risk based approach, which includes ease of liquidity. The SEC should consider the same approach to allowing crypto asset haircuts for broker-dealers to meet their net-capital obligations. Once the SEC defines each type of crypto asset and its security status, the SEC should be able to use a risk based approach to determine which crypto assets broker-dealers should be allowed to use in its net-capital calculation

Under Figure Market's decentralized approach, security entitlements (SEs) representing assets in decentralized MPC custodial accounts can be deemed liquid assets due to the structure that Figure Markets has created. The sum of all outstanding SEs for a given L1 asset is always equal to or less than the quantity of L1 assets held in the decentralized MPC custodial account. This ratio is guaranteed because MPC hosts continually audit the L1 blockchain to ensure receipt of the L1 asset and monitor the total amount of SEs in circulation.

Figure Markets employs decentralized MPC custodial accounts. Private key shares are distributed amongst MPC hosts, requiring two or more MPC hosts to independently agree before depositing and transferring assets to an investor wallet. Figure Markets ensures that SEs can be redeemed for the original L1 asset through a safeguard mechanism that involves two key elements: UCC Article 8 and agreements with MPC hosts. Agreements with each MPC host stipulate that they will sign blockchain transactions to release deposited assets after the

corresponding SEs are surrendered. Since investors hold SEs in self-custody, they can also directly surrender them to withdraw their assets from MPC custody.

26. The recordkeeping rules for broker-dealers (17 CFR 240.17a-3 and 17 CFR 240.17a-4) require the creation and maintenance of accounting and operational records designed to assist a firm in tracking and understanding its assets, liabilities, positions, and obligations to customers (e.g., cash owed to customers and securities held for customers).

a. What challenges, if any, do the requirements of these recordkeeping rules present with respect to crypto assets that are not an issue for traditional securities? What modifications to the rules could address these challenges?

b. Should crypto assets generally be treated as if they are traditional securities for purposes of these recordkeeping rules?

Broker-dealers face several challenges complying with recordkeeping rules when dealing with crypto assets. One challenge involves tracking crypto assets that do not fit neatly into traditional securities classifications. To address this, the SEC could allow for digital ledger-based records that provide a transparent and immutable audit trail of crypto asset transactions. This aligns with the goal of increasing the reach and effectiveness of financial regulators. Modifications should also clarify how to record unique crypto transactions like staking, mining, and airdrops. For example, the books and records requirements under 17a-4 could be adapted to allow firms to track and understand its assets, liabilities, positions and obligations to customers.

For Figure Markets, security entitlements (SEs), which are digital representations of a customer's interest in assets held on the exchange, are publicly recorded on the Provenance Blockchain. These SEs can be tracked to the Layer 1 asset in the decentralized MPC custodial account. For recordkeeping purposes, crypto assets should generally be treated as traditional securities, but with supplemental guidance that accounts for the unique characteristics and functionalities of blockchain-based assets. This would allow regulated firms like Figure to innovate rapidly while maintaining compliance and ensuring investor protection. This approach would foster market efficiencies and benefit all participants by removing artificial barriers between different types of instruments.

Investment Adviser Custody and Other Requirements

27. What challenges do registered investment advisers (“RIAs”) face in complying with the Investment Advisers Act of 1940 (“Advisers Act”) as it relates to investments in crypto assets that are securities? What common practices, if any, have developed to address these challenges?

a. Could best execution or recordkeeping obligations, or compliance with Form ADV or Form PF disclosure requirements, be clearer in the crypto asset context?

b. Do any crypto asset characteristics or market structures place advisory client crypto assets at a greater or different risk of theft, loss, or misappropriation? If so, how can those risks be addressed?

RIAs currently face challenges regarding best execution and recordkeeping due to the novelty of crypto assets. Current regulations may lack clarity in the crypto context. Crypto assets held by advisory clients may face heightened risks of theft, loss, or misappropriation because of the decentralized nature of blockchain and nascent security infrastructure. To address these risks, several steps can be taken, including embrace decentralized Multi-Party Computation (MPC) to ensure client control over assets while leveraging trading efficiencies. Tokenized security entitlements (SEs) can be used, held in self-custody, to represent a beneficial ownership interest in assets within decentralized MPC custodial accounts. MPC hosts can audit the L1 blockchain to ensure the proper receipt of assets and monitor the total amount of SEs in circulation. Figure Markets uses policies enforced decentrally through software to ensure each MPC host independently reviews relevant blockchain data before signing a blockchain transaction. Regulatory clarity could foster the use of such technologies that align with existing regulations, allowing regulated firms to innovate while maintaining investor protection and enabling regulatory oversight.

28. *Can RIAs trade, stake, vote, or otherwise participate without moving crypto assets outside a qualified custodian? Should the Commission amend the existing RIA custody rule to provide an exception to allow RIAs to move client crypto assets temporarily out of qualified custodial arrangements to engage in staking, voting, or other novel participatory features of crypto assets? If so, should that exception be subject to time limits or other limitations or requirements?*

RIAs should be able to engage with crypto assets for trading, staking, and voting without systematically removing them from qualified custodians, as this would foster market efficiencies and innovation while maintaining regulatory oversight. The SEC should consider amending the RIA custody rule to allow temporary movement of client crypto assets for these purposes, subject to specific limitations. Figure Markets' model of tokenized security entitlements (SEs) on the Provenance Blockchain offers a potential solution. Time limits and requirements for temporary movement could be tied to specific smart contract functions or governance protocols, ensuring assets are returned to custody promptly. Figure Markets' approach of using policies enforced decentrally through software to protect investor assets could be a model for the industry to follow.

29. *What clarifications, if any, are needed in the Advisers Act regulations to address the cold or hot storage of crypto assets held in custody on behalf of a client?*

a. *What requirements, if any, should the Commission consider for the custody of crypto assets held in each type of wallet on behalf of a client? Should the requirements be the same for both types of wallets?*

b. *How would a requirement to maintain custody of some or all crypto assets in either cold or hot storage affect an adviser's ability to transact in those crypto assets or otherwise implement its investment strategy?*

c. *What means are available to mitigate the risks related to maintaining crypto assets in hot storage?*

Given the distinct attributes of various wallets, the SEC should establish particular standards for each type.

To ensure proper key management, Figure employs decentralized MPC custody, with private key shares distributed among vetted MPC hosts, enabling self-custody for investors. Thresholds are set to prevent unilateral asset movement. Figure creates tokenized security entitlements (SEs), which are publicly ledgered on Provenance Blockchain, to represent a client's ownership. These SEs, held in self-custody wallets, enhance transparency and verifiability, aligning with regulatory monitoring goals. This approach allows the benefits of blockchain to be realized by regulated investment firms while protecting customers.

Investment Company Custody

30. What challenges do registered investment companies (“funds”) face in complying with section 17(f) of the Investment Company Act and the rules thereunder (governing custody) with respect to investments in crypto assets? Are any specific requirements of section 17(f) or the rules thereunder categorically inconsistent with custody of crypto assets? Do funds anticipate that custodians currently eligible to act as fund custodians under the Investment Company Act and the custody rules (e.g., banks, foreign banks, broker-dealers) will offer fund custodial services for crypto assets?

Registered investment companies face challenges complying with section 17(f) of the Investment Company Act when investing in crypto assets due to the traditional custody rules not aligning well with the nature of crypto assets. Current regulations may struggle with the unique aspects of crypto custody, potentially hindering innovation. However, Figure Markets offers a solution that embraces blockchain technology while addressing regulatory concerns. Figure Markets uses decentralized MPC (multi-party computation) custody accounts, where private key shares are distributed among vetted MPC hosts, ensuring no single entity can unilaterally move assets. This approach aligns with the goals of increasing market efficiencies and regulatory oversight. Furthermore, Figure Markets employs security entitlements (SEs) that represent a beneficial ownership interest in the assets, ledgered on the Provenance Blockchain, enhancing transparency and auditability.

By combining decentralized MPC custody with SEs on a public blockchain, Figure Markets allows funds to manage crypto assets in self-custody, mitigating the risks associated with traditional centralized custodians. This framework enables greater regulatory reach by providing a transparent and verifiable record of asset ownership and transactions. This innovative approach demonstrates how regulated investment firms can deploy blockchain technology to foster innovation, improve security, and enhance regulatory compliance within the existing legal framework.

31. Can a fund comply with the requirements of section 17(f) and the rules thereunder when trading, staking, voting, or otherwise engaging with crypto assets in which it invests? Should the Commission consider any changes to rule 17f-2 (the self-custody rule) or any other rules to facilitate transactions in crypto assets, and if so, what tailored conditions should the Commission propose to mitigate any related risks?

To enable funds to comply with Section 17(f) while engaging with crypto assets, the SEC should consider amending rule 17f-2 to accommodate the unique characteristics of blockchain technology and decentralized finance.

Multi-party computation (MPC) offers a solution for self-custody that aligns with the goals of increasing market efficiencies, enhancing regulatory oversight, and enabling innovation by regulated firms. By distributing private key shares among independent, trusted MPC hosts, no single entity can unilaterally move assets, thereby mitigating the risk of misuse or theft. This decentralized custody model, combined with security entitlements (SEs) tracked on a public blockchain like Provenance, provides a transparent and verifiable record of ownership. This approach fosters transparency and allows for continuous auditing of assets, which enhances the reach and effectiveness of regulators.

As discussed above, the decentralized MPC allows multiple parties to approve transactions through a gating process, thereby adding an extra layer of control which allows for conditional execution of parts of the computation. In sum, an entity that possesses blocking rights within a gating process would satisfy the role of qualified custodian.

The SEC should establish tailored conditions for MPC-based custody that include:

- Independent audits: To ensure the integrity and security of MPC hosts.
- Clear policies: For transaction authorization and approval processes, implemented and enforced decentrally through software.
- Threshold requirements: To prevent any single MPC host from unilaterally moving assets.
- Transparency: Through public ledgering of SEs and underlying assets on a blockchain.

32. *Should any provisions relating to investment company custody be revised to account for investment activities or other transactions that are unique to crypto assets (e.g., staking, mining, airdrops)? Do the existing custody rules present obstacles to such activities or transactions? How might these activities or transactions place a fund's assets at risk of theft or loss?*

To accommodate investment activities unique to crypto assets like staking, mining, and airdrops, revisions to investment company custody provisions are needed to reduce obstacles and potential risks. Figure Markets uses decentralized MPC (multi-party computation) custodial accounts to ensure investors retain control over their assets while benefiting from the efficiency of a centralized exchange, addressing the risks of theft or misuse. This approach fragments private keys among vetted MPC hosts, requiring consensus for asset movement, aligning with security entitlements (SEs) tracked on Provenance Blockchain to provide a transparent, auditable record of ownership. Figure Markets' approach ensures the amount of outstanding SEs always corresponds to the amount of L1 assets available for withdrawal in the decentralized MPC custodial accounts. This system could serve as a model for how regulated investment firms can deploy blockchain technology to enhance market efficiencies, foster innovation, and improve regulatory oversight. Further, by requiring a QC to be necessary but not sufficient to release collateral, the MPC wallet can satisfy QC rules while working within a defi ecosystem with perfected interest in collateral.

Crypto Lending

Crypto platforms may offer custodial and noncustodial services through which people can lend their crypto assets in return for interest. Crypto lending concepts vary widely, challenging many traditional notions of financial products. I would welcome any input you have on these diverse products to ensure the Commission has an adequate understanding.

33. How should the Commission approach various crypto lending concepts in a way that doesn't stifle the potential opportunities they provide?

To foster innovation and ensure investor protection, the SEC should consider a regulatory approach to crypto lending that acknowledges the technology's potential to break down traditional financial barriers while addressing legitimate risks. The most important factor on which the SEC should focus is disclosure of risk and investor protection. Where disclosure of operations, structure, fees and risk to potential lenders are equal to or above that of traditional markets, the role of the SEC regulation should be minimal. For regulated investment firms like Figure, which are already subject to SEC oversight, the focus should be on adapting existing regulations to the specifics of crypto lending rather than imposing blanket prohibitions. The SEC should establish clear guidelines around disclosure, custody, and capital requirements for crypto lending platforms. For platforms like Figure Markets, which employ decentralized MPC custody and security entitlements (SEs), the SEC should recognize these mechanisms as providing enhanced transparency and investor control. The use of blockchain for settlement, as seen with Figure Markets and Provenance Blockchain, should be encouraged as it offers faster transaction speeds and lower costs. Furthermore, the SEC should consider tailored registration requirements for platforms trading crypto assets that are securities. This approach would allow regulated firms to continue exploring the benefits of crypto lending while ensuring investor protection and regulatory oversight, and would prevent unregulated actors from misusing crypto lending concepts.

34. Participation in traditional securities lending programs, such as fully paid securities lending programs offered by broker-dealers, generally does not represent a new securities transaction or implicate Investment Company Act registration requirements. How are crypto lending programs similar to or different from traditional securities lending programs?

Like traditional programs, crypto lending involves temporarily transferring assets for a fee, but blockchain technology introduces greater transparency and real-time monitoring. Figure Markets' use of security entitlements (SEs) on the Provenance Blockchain ensures every loan is recorded on a public ledger, fostering transparency and auditability.

Unlike traditional programs, the blockchain-based approach allows regulators to directly monitor lending activity, verify collateralization, and ensure compliance in real-time, thereby increasing investor protection. Figure Markets mitigates risks associated with unregulated crypto lending by operating within a regulated framework, utilizing decentralized MPC custody to safeguard assets and enforce policies via smart contracts.

Crypto Exchange-Traded Products (“ETPs”)

Exchange Act Section 6(b)(5) requires that an exchange’s rules be designed to prevent fraudulent and manipulative acts and practices. In reviewing listing applications for crypto asset-based ETPs, the Commission previously has considered whether the exchange has a comprehensive surveillance-sharing agreement (“SSA”) with a regulated market of significant size related to the underlying or reference assets. How should the Commission address listing applications for crypto asset-based ETPs going forward?

35. If the listing exchange does not have an SSA with a regulated market and no regulated market for the crypto asset underlying an ETP exists, could the listing exchange address concerns regarding fraud and manipulation based on the size and liquidity of the underlying spot market? What would be an appropriate measure of size and liquidity that would address these concerns? Are there more appropriate ways to address concerns regarding fraud and manipulation?

In the absence of a surveillance-sharing agreement (SSA) or a regulated market for the underlying crypto asset of an Exchange Traded Product (ETP), the listing exchange can address fraud and manipulation concerns by focusing on the size and liquidity of the underlying spot market. An appropriate measure could be the average daily trading volume (ADV) and market capitalization of the crypto asset across multiple reputable exchanges. A minimum threshold for both ADV and market capitalization should be established to ensure sufficient liquidity and market depth to deter manipulation. The listing exchange should implement real-time monitoring of trading activity and establish clear rules and procedures for addressing suspicious behavior.

36. How should the Commission consider market capitalization, unique number of wallets, trading volume, the number of spot markets, geographic distribution of spot markets, size and frequency of price divergences, or speed of price convergence/arbitrage?

In assessing crypto asset ETPs, the SEC should consider the unique attributes of blockchain. Market capitalization and trading volume inform the size/liquidity of the underlying asset. The number/geographic distribution of spot markets can reveal concentration/fragmentation, while the size/frequency of price divergences and arbitrage speed highlight market efficiency. The Provenance blockchain offers a continuously auditable source. The ability for regulators or other market participants to access on-chain data enhances transparency and oversight, aligning with regulatory goals and responsible innovation.

37. How should the Commission consider crypto asset-based ETPs that are investing in assets that are already referenced in crypto asset-based exchange-traded funds registered as investment companies under the Investment Company Act?

The SEC should consider crypto asset-based ETPs that invest in assets already referenced in crypto asset-based ETFs registered under the Investment Company Act, with the goal of increasing market efficiencies, promoting regulatory oversight, and enabling regulated firms to

innovate. Figure Markets employs decentralized MPC custodial accounts with security entitlements tracked on Provenance Blockchain, ensuring transparency and control. This framework could serve as a model for ETPs, as it offers self-custody, reduces the risk of misuse or theft, and provides a continuously auditable source of ownership. Standardizing reporting on the blockchain would allow the SEC to have visibility of the assets under management in both the ETF and the ETP, and be alerted to when those assets are being double counted across multiple funds.

38. What factors should the Commission consider with respect to an SSA between an exchange listing an ETP on a crypto asset and a spot crypto market?

In considering a comprehensive SSA between an exchange listing a crypto asset ETP and a spot crypto market, the SEC should evaluate factors that promote market efficiency, regulatory oversight, and responsible innovation. An SSA should provide for broad access to data on trading, order books, and customer identification to allow the SEC to effectively monitor market activities and enforce compliance. For Figure Markets, whose platform supports trading of digital assets with on-chain settlement and self-custody through multi-party computation (MPC), the SSA could account for the unique features of blockchain-based trading and security entitlements. The agreement could also ensure that regulatory concerns stemming from unregulated crypto deployments do not impede regulated entities like Figure from leveraging blockchain to enhance transparency, reduce costs, and foster innovation in the financial markets.

39. How should the Commission weigh the reliability, frequency, and dissemination of pricing information on the crypto assets underlying the ETP in its consideration?

When weighing the reliability, frequency, and dissemination of pricing information on the crypto assets underlying the ETP, the SEC should prioritize transparency and real-time data accessibility to ensure accurate valuation and investor protection.

The reliability of pricing data can be enhanced by using data from spot markets with established track records and robust surveillance mechanisms. Frequent updates to pricing information should be available to reflect the volatility of crypto assets, which can be facilitated using open-source data from public blockchains and programmatic APIs. Dissemination should occur through easily accessible channels, ensuring that market participants and regulators can readily monitor crypto markets using open-source data to enhance transparency.

Tokenized Securities

Creating a digital representation of a security on a blockchain or issuing a security directly on a blockchain does not change the substance of the security but may benefit issuers and investors. Moreover, the use of a blockchain-based database may be more secure in some respects than using a centralized database with a single point of failure. Tokenization also may give rise to unique risks and challenges.

40. Tokenization enables dematerialized securities to be mobilized (i.e., not held in and confined to a single centralized ledger). Are there any provisions under the federal securities laws that prevent these securities from being used in new blockchain-based transactions and applications, and, if so, what steps should the Commission consider taking to facilitate this innovation while mitigating any related risks? Are there amendments or new rules that the Commission should consider to ensure a merit- and technology-neutral approach to tokenization? Does the type of blockchain used (i.e., permissioned versus permissionless) bear on this risk assessment?

No provisions under existing federal securities laws flatly prevents the use of tokenized securities in blockchain-based transactions. Certain recent interpretations of existing regulations to tokenized securities have stifled innovation and limited the efficiency gains from blockchain technology.

To facilitate innovation, the SEC should provide clear guidance on how existing laws apply to tokenized securities, focusing on functional outcomes rather than the current feature-sets of underlying technology. For example, tailored disclosure requirements for offerings or classes of crypto assets could be developed. The type of blockchain used, whether permissioned or permissionless, could be considered in detail in the risk assessment.

In addition, the ability of a qualified custodian to fulfill its regulatory obligations by using decentralized MPC should be clarified, as this technology allows multiple parties to approve transactions through a gating process, thereby adding an extra layer of control which allows for conditional execution of parts of the computation. In sum, an entity that possesses blocking rights within a gating process would satisfy the role of qualified custodian.

Finally, the OTC Reporting Facility (ORF) requirements are an unnecessary burden for blockchain-native exchanges and are not required for FINRA to achieve its reporting and information dissemination goals.

41. How do the programmability and composability properties of blockchain technology and blockchain-based technologies, such as smart contracts, affect the role of a transfer agent? Are there provisions in the transfer agent rules that prevent transfer agents from using blockchain technology for this purpose to the fullest extent possible? Is an offchain record still needed as an official or a complementary record in a tokenization arrangement? Are there any legal or regulatory impediments to using onchain identity solutions?

Transfer agent rules should be interpreted to allow the use of blockchain technology to its fullest extent, as blockchain can streamline record-keeping, transfer processing, and identity verification, enhancing efficiency and transparency. The SEC should make clear that blockchain technology used in connection with a securities transaction can be sufficient for regulatory purposes in connection with a transfer agent's obligations.

An off-chain record may occasionally be needed in certain limited situations as a complementary record for legal or regulatory purposes, or for correcting errors. Legal and regulatory impediments to using on-chain identity solutions should be addressed to enable more efficient and secure identity verification processes, supporting and re-inforcing compliance with AML/KYC requirements. Embracing these technological advancements can lead to increased

market efficiencies and innovation, while also enhancing the reach and effectiveness of financial regulators.

42. Does the tokenization of redeemable registered investment company securities, such as those of a mutual fund or money market fund, raise any unique issues under the Investment Company Act or the rules thereunder? Would secondary transactions in these securities (e.g., peer-to-peer transactions or transactions occurring on or through an ATS) require relief from any provisions of the Investment Company Act? If so, should the Commission propose any changes to facilitate tokenization of registered investment company securities, and what should any such conditions be?

The tokenization of redeemable registered investment company securities does present unique considerations under the Investment Company Act, but these can be addressed through interpretive guidance to foster innovation and market efficiency. Allowing regulated entities like Figure to tokenize these securities will help remove artificial barriers between different types of financial instruments, provided appropriate measures are in place. A key condition should be ensuring transparency and auditability, which aligns with the SEC's monitoring goals. Figure Markets' approach, which involves security entitlements (SEs) tracked on the Provenance Blockchain, offers a model where ownership and asset quantity can be verified. The use of decentralized MPC custodial accounts, where private keys are fragmented among MPC hosts, also mitigates risks associated with centralized custody. The SEC could consider a regulatory framework that allows regulated firms to innovate using blockchain, without imposing unnecessary restrictions based on concerns arising from unregulated crypto activities.

43. How should the Commission approach tokenized securities that seek to maintain a stable value and may be designed to be used as a means of payment or settlement? What are the challenges and impediments to the usability and transferability of these tokenized securities, particularly securities issued by offchain entities (e.g., registered investment companies)? Should transactions involving the use of these tokenized securities as a means of payment be treated differently from other security-based transactions?

Figure Transferable Certificates (known commercially as "YLDS") are a type of face-amount certificate issued by Figure Certificate Company (FCC). These certificates seek to maintain a stable value and were designed as a means of payment/settlement, but with the added feature of providing holders with yield, an element initial attempts at stablecoins have lacked to date. YLDS have several key features which are highly innovative and beneficial to holders and users of stablecoins:

- Issued as digital representations of FCC's face-amount certificates that can be transferred through peer-to-peer transactions and through transactions on a registered alternative trading system ("ATS").
- Issued daily at a face amount of \$0.01.

- Simple interest accrues daily and is credited daily to the YLDS holder of record (determined on each day's record time). Accrued interest is paid monthly in U.S. dollars or will automatically be reinvested.
- May be surrendered at any time at face amount (\$0.01/certificate), plus accrued interest (minus any applicable expenses or fees).
- YLDS are intended to be used for investment in assets that yield back highly-liquidated, investment-grade assets that can be held in a digital format.

In sum, YLDS are intended to be used as an alternative to currently available stablecoins that do not offer any yield, are not regulated under the Investment Company Act and are in bearer form. YLDS are intended to be used as a settlement mechanism for transactions on registered alternative trading systems, similar to a settlement currency, and can be used to make peer-to-peer payments to one another, as an alternative to other currently available payment systems.

44. Do other federal laws, or state corporate or commercial laws present challenges to firms seeking to issue tokenized securities or engage in activities involving tokenized securities?

Specific areas of federal and state laws, beyond securities laws, that could present challenges to firms like Figure issuing tokenized securities or engaging in activities involving tokenized securities potentially include the following:

- Custody rules for broker-dealers, investment advisors, and investment companies are implicated to the extent that broker-dealers, investment advisors and investment companies custody tokenized securities. The ability of a qualified custodian to fulfill its regulatory obligations by using decentralized MPC should be clarified, as this technology allows multiple parties to approve transactions through a gating process, thereby adding an extra layer of control which allows for conditional execution of parts of the computation. In sum, an entity that possesses blocking rights within a gating process would satisfy the role of qualified custodian.
- There are elements of the NMS construct that will need to be updated to fully account for the innovations that blockchain technology provide. For example, in order for NMS to require simultaneous security listings across all exchanges, this presumes the continued role of DTC as a common register. With blockchain technology, DTC becomes optional.
- Article 8 of the Uniform Commercial Code (UCC) is relevant to security entitlements. When investors deposit financial assets into a "securities account" held by an intermediary, they acquire a security entitlement if they meet the conditions outlined in Article 8 of the UCC.

45. The Commission recently adopted rule amendments to shorten the standard settlement cycle for most broker-dealer transactions from "T+2" to "T+1," subject to certain exceptions. Tokenization is often characterized as an innovation that facilitates instant or simultaneous settlement ("atomic settlement") if all parts of a transaction are executed and settled on the same blockchain. What are the benefits of atomic settlement, and what are the risks? Should the Commission consider taking any actions that would encourage adoption of atomic settlement?

Atomic settlement, facilitated by tokenization and blockchain technology, offers numerous benefits. Instant or simultaneous settlement can remove artificial barriers between financial instruments, fostering market efficiencies and innovation. This efficiency benefits all market participants and the broader US economy. A move to atomic settlement would align with recent rule amendments to shorten the standard settlement cycle. The increased transparency from blockchain technology enhances the reach and effectiveness of the SEC and other regulators in monitoring market activities and ensuring compliance.

46. *What issues are raised by the tokenization of securities subject to National Market System (“NMS”) requirements? Should the Commission clarify any requirements or provide relief from any requirements under Regulation NMS? Are there any other SEC rules that should be clarified or amended to address the trading of tokenized equity or debt securities?*

The SEC should consider clarifying Regulation NMS requirements to accommodate the unique characteristics of blockchain-based securities, as well as amending other SEC rules to address trading of tokenized equity or debt. Since tokenized securities can be held in self-custody wallets, this allows for direct ownership and control by investors. The use of blockchain technology enhances transparency and auditability. Trading venues for tokenized securities could benefit from tailored registration requirements that recognize the technology's capabilities. By clarifying existing requirements developed in an era of more limited technologies, the SEC can promote the responsible development and adoption of blockchain technology in U.S. financial markets, while retaining regulatory oversight.

Sandbox and Related International Issues

Last year, I proposed the creation of a micro-innovation sandbox (“Sandbox”), which could be used for small-scale projects, including tokenization and blockchain projects.

47. *Would the Sandbox help foster tokenization and blockchain innovation? What types of products and services across the fintech landscape would firms like to test in the Sandbox? What regulatory, technical, and operational barriers pose the biggest challenges to innovation in this space? Could the Sandbox mitigate those challenges?*

A regulatory sandbox could foster blockchain innovation by providing a controlled environment for firms like Figure to test tokenization and other blockchain applications. This would allow for the exploration of products and services that can remove barriers between different types of financial instruments, increasing market efficiencies. Operationally, a sandbox could help firms navigate the complexities of integrating blockchain with existing systems and meeting compliance requirements. A sandbox could allow for the development of tailored disclosure requirements for offerings or specific classes of crypto assets, ensuring investor protection. Technical barriers, such as ensuring interoperability between different blockchains and legacy systems, could also be addressed within a sandbox. The sandbox can help to foster greater regulatory reach via blockchain technology and can help regulators develop expertise in cutting-

edge technology. This would allow artificial barriers erected between different types of instruments to be removed leading to increased market efficiencies and more rapid innovation, benefiting all market participants and the US economy generally.

48. *Could a cross-border Sandbox address challenges that U.S. and non-U.S. firms face when attempting to innovate in multiple jurisdictions? If so, how should the Commission structure it to operate globally? Do sandboxes in other jurisdictions serve as a good model?*

A cross-border sandbox could help both US and non-US firms overcome innovation challenges across multiple jurisdictions. The SEC could structure such a cross-border sandbox to foster collaboration and regulatory compliance, promoting efficient markets and innovation. This could address issues related to tokenized securities and ensure merit- and technology-neutral approaches to tokenization. To operate globally, the SEC should consider:

- Harmonizing international regulatory standards for blockchain applications to ensure consistent compliance across jurisdictions.
- Establishing clear guidelines for cross-collateralization and trading of digital assets in multiple jurisdictions, reducing costs and increasing efficiency for active traders.
- Adopting decentralized technologies like MPC and SEs to safeguard investor interests and prevent misuse of assets, promoting trust and verifiable ownership.
- Implementing robust monitoring mechanisms on public blockchains to improve regulatory oversight and ensure compliance.

By addressing the issues with blockchain through a cross-border sandbox, regulators can foster responsible innovation while protecting market participants.