

Dear Chairman Uyeda,

I am writing to you on behalf of Myself and all crypto enthusiasts to propose a framework for the regulation of cryptocurrencies that aligns with the recent executive order signed by President Trump on January 23, 2025, titled "Executive Order to Establish United States Leadership in Digital Financial Technology" (Executive Order on Strengthening American Leadership in Digital Financial Technology). This framework aims to provide regulatory clarity while fostering innovation and protecting investors in the rapidly evolving crypto space.

Given the administration's commitment to positioning the United States as a leader in digital financial technology, it is essential to develop a regulatory approach that encourages the growth of the crypto industry while addressing the risks associated with it. The proposed framework, which I outline below, seeks to achieve this balance.

#### The Satoshi Test

To determine whether a crypto asset should be subject to regulatory oversight, I propose the adoption of a "Satoshi test." This test is designed to be more adaptable to the unique characteristics of cryptocurrencies compared to the traditional Howey test.

The Satoshi test would consider the following factors:

1. Investment of Value: Whether the asset involves the commitment of money or other resources (e.g., staking or mining).
2. Centralized Control: The degree to which the asset is controlled or influenced by a central entity or team.
3. Expectation of Returns: Whether there is an expectation of profit, price appreciation, or other returns from the asset.
4. Efforts of Others: If the value of the asset depends on the efforts of third parties, such as developers or promoters.
5. Decentralization Level: An assessment of how decentralized the project is, with highly decentralized assets potentially exempt from certain regulations.

6. Transparency: The extent to which the project provides clear and comprehensive disclosure of its operations, risks, and governance.

By incorporating these factors, the Satoshi test can help classify crypto assets in a way that is more nuanced and appropriate for the crypto ecosystem, potentially reducing regulatory uncertainty while ensuring investor protection.

### Regulatory Components

In light of the executive order's emphasis on regulatory clarity and the facilitation of banking access for crypto companies, the following regulatory components are suggested:

- Development and Governance: Encourage projects to provide regular updates on their development, governance structures, and smart contract audits to enhance security and trust.
- Assets: Coins and Tokens: Develop a classification system that differentiates between various types of tokens (e.g., utility tokens, security tokens) based on their functionality and characteristics, guiding the level of regulatory oversight.
- Economic Activities: Staking, Mining, Rewards: Implement guidelines for staking, mining, and reward systems to ensure transparency and fairness, encouraging industry self-regulation through best practices.
- Funding Mechanisms: Raising Rounds, Marketing Wallet Control: Require clear disclosure of funding rounds, including initial coin offerings (ICOs) and initial exchange offerings (IEOs), and establish a registry for voluntary disclosure to prevent fraud.
- Trading Platforms: DEX and CEX: Ensure centralized exchanges (CEX) register and comply with regulations, while developing guidelines for decentralized exchanges (DEX) to promote transparency, respecting their decentralized nature.
- Wallets: All Different Types: Set security standards for wallet providers (hardware, software, custodial, non-custodial) to protect users, encouraging best practices for wallet management and custody solutions.

These components aim to create a regulatory environment that is conducive to innovation while safeguarding investors from fraud and market manipulation.

## Investor Protection Measures

To further protect investors, I recommend:

- Launching education campaigns to inform the public about crypto risks and benefits.
- Establishing dispute resolution mechanisms for investor-project conflicts.
- Considering compensation funds or insurance for fraud victims, such as rug pulls.
- Collaborating internationally to address cross-border crypto issues.

In conclusion, the proposed framework seeks to align with the administration's vision of making the United States the "Crypto Capital of the world" while ensuring investor protection. By adopting the Satoshi test and implementing the suggested components, we can foster a thriving and secure crypto ecosystem. I am eager to engage in further dialogue with the SEC to refine this framework. Thank you for considering these proposals. A more detailed breakdown is included below.

Sincerely,

Ronald Hale

---

## Comprehensive Analysis of Crypto Regulation Framework Proposal

As of March 2025, the cryptocurrency industry remains a dynamic and rapidly evolving space, with significant regulatory challenges. The letter to the SEC proposes a framework for crypto regulation, aligning with President Trump's executive order on January 23, 2025, titled "Executive Order to Establish United States Leadership in Digital Financial Technology" (Executive Order on Strengthening American Leadership in Digital Financial Technology). This order aims to provide regulatory clarity and foster innovation, reflecting a shift from the previous administration's more stringent approach. The proposal introduces the "Satoshi test" to classify crypto assets and outlines comprehensive regulatory components, focusing on investor protection against fraud and rug pulls.

Recent developments, such as the creation of a new SEC Crypto Task Force under Acting Chairman Mark T. Uyeda, announced on January 21, 2025 (SEC.gov | SEC Crypto 2.0: Acting Chairman Uyeda Announces Formation of New Crypto Task Force), and the nomination of Paul Atkins as SEC Chairman (still in confirmation as of March 7, 2025, per Trump Securities & Exchange Commission Nominee Paul Atkins: Policy), indicate a pro-crypto stance. This context shapes the proposal, emphasizing deregulation and industry support while addressing risks.

### The Satoshi Test: A Proposed Framework

Given the limitations of the Howey test for cryptocurrencies, which assesses if an asset is an investment contract based on four criteria (investment of money, common enterprise, expectation of profits, efforts of others), a new "Satoshi test" is proposed. This test, inspired by research suggesting the need for a nuanced framework (Does Crypto Pass the Howey Test?), adapts to crypto's unique characteristics:

- Investment of Value: Includes not just money but also computational resources (e.g., for mining) or staking assets, reflecting diverse value commitments.
- Centralized Control or Influence: Focuses on whether a central entity or team significantly influences the asset's value or development, addressing decentralization levels.
- Expectation of Returns: Captures expectations of price appreciation, dividends, or yield, common in staking or governance tokens.
- Efforts of Others: Assesses if returns depend on third-party efforts, such as developers, rather than market forces.
- Decentralization Assessment: Introduces a spectrum to evaluate decentralization, with highly decentralized assets potentially exempt, aligning with recent proposals like FIT21 (The Ever-Shifting Landscape of U.S. Crypto Regulation).
- Transparency and Disclosure: Mandates clear disclosure of project details, risks, governance, and economic mechanisms, crucial for preventing fraud like rug pulls.

This test aims to classify assets needing SEC oversight, protecting investors by ensuring transparency and accountability, and fits the current administration's focus on regulatory clarity.

## Detailed Regulatory Components

The proposal covers all aspects requested, organized into categories for clarity, reflecting the executive order's emphasis on innovation and banking access:

### Development and Governance

- Ongoing Disclosure: Projects should provide regular updates on development, changes, and risks, ensuring investors are informed.
- Governance Structures: For tokens with voting rights, clear governance models must be disclosed, preventing manipulation.
- Smart Contract Audits: Encourage audits and security standards, given the prevalence of hacks, with recent SEC proposals targeting communication protocol systems (Recent SEC Proposed Rulemaking Could Impact Blockchain Trading Platforms).

### Assets: Coins and Tokens

- Classification into categories (e.g., utility tokens for network use, security tokens for investment) based on the Satoshi test, addressing diversity. Research suggests many ICOs meet Howey criteria, indicating a need for regulation (What Is the Howey Test & Does Crypto Pass?).

### Economic Incentives: Staking, Mining, Rewards

- Guidelines to prevent market manipulation, with disclosure of reward structures and risks. Staking and mining, integral to consensus, require oversight to ensure fairness, especially given their role in yield generation, with a focus on industry self-regulation.

### Funding Mechanisms: Raising Rounds, Marketing Wallet Control

- Oversight of ICOs, IEOs, and other fundraising rounds, with strict disclosure to prevent scams. Marketing wallet control ensures transparency, addressing concerns about fund misuse, and a voluntary registry is proposed to facilitate compliance.

## Trading Platforms: DEX and CEX

- Centralized Exchanges (CEX): Must register with the SEC, comply with KYC/AML, and ensure investor protection, similar to stock exchanges.
- Decentralized Exchanges (DEX): Subject to guidelines promoting transparency, respecting decentralization, reflecting recent debates on their regulation (The Ever-Shifting Landscape of U.S. Crypto Regulation).

## Wallets: All Different Types

- Standards for hardware, software, paper, custodial, and non-custodial wallets, focusing on security and user protection. Custody solutions for institutions and measures against hacks align with SEC's focus on investor safety (SEC Crypto Regulations: What Financial Advisors Need to Know).

## Investor Protection and Enforcement

- Education Campaigns: SEC-led initiatives to educate investors on risks, given the "Wild West" nature of crypto markets (What Is the Howey Test & Does Crypto Pass?).
- Compensation Funds: Potential for funds or insurance to compensate fraud victims, addressing rug pulls.
- Dispute Resolution: Mechanisms for resolving investor-project disputes, enhancing trust.
- Enforcement: Penalties for non-compliance, monitoring, and whistleblower protections, with recent enforcement actions showing high activity (SEC Continues to Regulate Cryptocurrency Through Record-High Enforcement Efforts).
- International Coordination: Collaboration with global bodies to address cross-border issues, given crypto's global nature (What is next for crypto regulation in the US?).

## Comparative Analysis: Securities vs. Crypto Regulation

The framework mirrors securities regulation, with registration, disclosure, and enforcement, but adapts to crypto's decentralized nature. The Satoshi test, unlike the Howey test, incorporates decentralization and transparency, addressing controversies around asset classification, especially given SEC Chair Gary Gensler's view that most tokens are securities (The Howey Test,

Crypto, and Community Banks). Under the new administration, with a pro-crypto stance, this approach aligns with reducing regulatory overreach.

### Tables for Clarity

Below is a table summarizing the Satoshi test criteria compared to the Howey test:

Criteria	Satoshi Test	Howey Test
Investment of Value	Money, property, or resources (e.g., staking)	Investment of money
Common Enterprise/Central Control	Centralized influence by team or entity	Common enterprise (pooled investments)
Expectation of Returns	Profits, price appreciation, dividends, or yield	Reasonable expectation of profits
Efforts of Others	Dependent on third-party efforts (developers, etc.)	Profits derived from efforts of others
Additional Factors	Decentralization level, transparency	None explicitly

Another table for regulatory components:

Category	Key Regulations
Development/Governance	Disclosure, voting rights, smart contract audits
Assets (Coins/Tokens)	Classification via Satoshi test, utility vs. security
Economic Incentives	Staking, mining, rewards oversight, anti-manipulation
Funding Mechanisms	ICO/IEO regulation, marketing wallet transparency

| Trading Platforms | CEX registration, DEX transparency, listing rules |

| Wallets | Security standards, custody solutions, theft prevention |

#### Unexpected Detail: International Implications

An unexpected aspect is the emphasis on international coordination, given crypto's borderless nature. This could lead to harmonized global standards, impacting U.S. leadership in blockchain technology, as noted in recent reports (A New Era for Crypto Regulation & Innovation?).

This proposal provides a comprehensive framework for SEC oversight of cryptocurrencies, addressing all requested components and introducing the Satoshi test to protect investors. It aligns with recent regulatory trends, acknowledging the complexity and ongoing debates, ensuring a balanced approach to innovation and safety under the current administration's policies.