

Dear Crypto Task Force,

The SEC Crypto Task Force's upcoming roundtable, "Between a Block and a Hard Place: Tailoring Regulation for Crypto Trading," highlights the need for clear regulations in the rapidly evolving crypto market. This letter addresses key aspects like coin and token creation, DAO management, and investor protection, aiming to align with the task force's goals of fostering innovation while safeguarding investors.

### Investor Protection Measures

Protecting investors from fraud, money laundering, and rug pulls is crucial. The SEC should implement a ban list of individuals and entities known for exploiting investors, similar to stock market practices, and require regulated entities to screen against it. Educational resources should also be provided to help investors understand risks, especially given the high incidence of scams like impersonation and investment frauds, as noted in recent reports (Crypto Scam Tracker).

### Regulatory Framework for Crypto Assets

Mirroring stock market rules, tailored for blockchain, can regulate coin creation and token issuance by requiring registration and disclosures for securities-like tokens. Stablecoins need regular auditing and reserve transparency, while meme coins should face stricter scrutiny due to their speculative nature. DAOs should have clear governance and voting transparency, and mining regulations could promote sustainable practices. This approach ensures a balanced framework, as seen in the EU's MiCA regulation (EU MiCA Regulation).

### Conclusion

By addressing these areas, the SEC can create a robust regulatory environment that protects investors while supporting blockchain innovation. This letter provides actionable recommendations for the task force's consideration.

# Comprehensive Analysis and Recommendations for SEC Crypto Task Force

## Background and Context

The SEC Crypto Task Force's roundtable, "Between a Block and a Hard Place: Tailoring Regulation for Crypto Trading," scheduled for April 11, 2025, aims to address the regulatory challenges posed by crypto assets. Given the current time, March 27, 2025, this discussion is timely as the crypto market continues to grow, with increasing instances of fraud and investor exploitation. The task force, led by Commissioner Hester M. Peirce, seeks to provide clarity on the application of federal securities laws to crypto assets, focusing on protecting investors, maintaining fair markets, and facilitating capital formation (SEC Crypto Task Force).

This analysis covers coin creation, token creation, DAO management through voting rights, stable coins, meme coins, mining, centralized exchanges (CEX), decentralized exchanges (DEX), hot wallets, cold wallets, rewards, staking, NFTs, and on-chain Ethscriptions & Ordinal Art saved in call data. It emphasizes protecting investors from fraud, anti-money laundering, and rug pulls, proposing a ban list for exploiters and mirroring stock rules tailored to blockchain.

## Detailed Regulatory Recommendations

### Classification of Crypto Assets

To effectively regulate the diverse crypto ecosystem, a classification system is essential, inspired by the EU's Markets in Crypto-Assets (MiCA) regulation (EU MiCA Regulation). The following categories and recommendations are proposed:

- **Stablecoins:** These should be treated similarly to traditional financial instruments, requiring issuers to maintain sufficient reserves, provide regular proof of reserves, and undergo auditing. This addresses stability concerns and prevents fraud, given their role in the ecosystem.

- **Utility Tokens:** Tokens providing access to specific products or services should focus on functionality, ensuring they are not used for speculative purposes, with disclosures on their utility and risks.
- **Security Tokens:** Tokens representing ownership or investment should be registered with the SEC, following IPO-like disclosure requirements, to protect investors from unregistered offerings.
- **Meme Coins and Speculative Assets:** Given their high risk of scams, stricter disclosure requirements are needed, including transparency on project teams and financials, to mitigate rug pulls and speculative trading.

| Asset Type                | Regulatory Focus                   | Key Measures                     |
|---------------------------|------------------------------------|----------------------------------|
| Stablecoins               | Stability, reserve backing         | Audits, proof of reserves        |
| Utility Tokens            | Functionality, non-speculative use | Disclosure on utility, risks     |
| Security Tokens           | Investor protection, registration  | IPO-like disclosures, SEC filing |
| Meme Coins                | Scam prevention, transparency      | Strict disclosures, team details |
| Issuer and DAO Management |                                    |                                  |

For coin and token creation, issuers of securities-like tokens should register with the SEC, providing detailed white papers, financial statements, and regular updates, mirroring stock market practices. This aligns with the SEC's focus on investor protection (Investor.gov on Crypto Assets).

DAOs, managed through voting rights, require specific regulations to ensure transparency and fairness. DAOs should have clear governance documents, transparent voting processes, and dispute resolution mechanisms. Those handling securities or significant assets should register with the SEC, ensuring investor protection in decentralized governance structures.

### Exchange and Wallet Regulations

CEXs should register with the SEC, implement Know-Your-Customer (KYC) and Anti-Money Laundering (AML) procedures, and maintain high security standards to prevent fraud and money laundering. DEXs, given their decentralized nature, pose challenges, but the SEC could require transparency and market manipulation prevention for platforms facilitating securities trading.

Wallet providers, including hot and cold wallets, should adhere to minimum security standards, such as multi-signature transactions for large amounts, regular security audits, and transparency about practices. Insurance or compensation mechanisms should be mandated to protect users from hacks, addressing vulnerabilities highlighted in recent crypto scams (Crypto Scam Tracker).

### Mining, Rewards, and Staking

Mining, essential for blockchain security, should be regulated to promote sustainability. Miners should use renewable energy sources, with transparency on energy usage, and the SEC could implement incentives like carbon taxes to encourage green practices. This addresses environmental concerns and prevents malicious activities like 51% attacks.

Rewards and staking, integral to network participation, require transparency in distribution and disclosure of risks, such as locked funds or network failure. Regulations should prevent misleading claims about returns and ensure staking does not lead to centralization, protecting investors from speculative schemes.

### NFTs and On-chain Data Storage

NFT marketplaces should verify authenticity and protect intellectual property rights, given the high incidence of fraud in NFT sales. For on-chain data storage, such as Ethscriptions and Ordinal Art saved in call data, the SEC should encourage efficient data management, possibly through off-chain solutions or transaction fees, to prevent blockchain bloat and maintain network efficiency.

### Investor Protection and Enforcement

To protect against fraud, money laundering, and rug pulls, a ban list of individuals and entities known for exploiting investors should be created, mirroring stock market practices. Regulated

entities must screen against this list and report suspicious activities, enhancing enforcement. Educational resources should be provided to inform investors about risks, given the \$5.6 billion in reported crypto scam losses in 2023 (What To Know About Cryptocurrency and Scams).

### International Cooperation and Alignment

Given the global nature of crypto, the SEC should cooperate with international regulators, such as through the Financial Action Task Force, to establish consistent standards, especially for cross-border activities. This aligns with global efforts to combat money laundering and terrorist financing, as seen in various international regulatory frameworks (Cryptocurrency Regulations Around the World).

### Conclusion

The proposed regulations aim to create a balanced framework that protects investors from fraud, money laundering, and rug pulls while fostering blockchain innovation. By mirroring stock market rules, tailored for blockchain, and implementing specific measures for each crypto aspect, the SEC can ensure a fair and transparent market. This comprehensive approach, informed by international best practices like the EU's MiCA, will support the task force's mission and enhance investor confidence.

Ronald Hale