



Recommendation Letter - *From End User Distribution to Social Mining: Evolving Frameworks for Token Dissemination and Community Engagement in the Digital Asset Economy*

Refer to:

1. [Digital Asset Market Structure Discussion Draft.pdf](#) 05/05/2025
2. Request Letter_ STO+ Proposal.pdf 03/05/2025
3. [Recommendation Letter_ Supplementary Clarification No. 2.pdf](#) 03/27/2025
4. [Recommendation Letter - Supplementary Clarification No. 3.pdf](#) 04/01/2025
5. [Recommendation Letter - Supplementary Clarification No. 5.pdf](#) 04/16/2025

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Introduction

The dawn of the Web3 era has heralded a transformative shift in how digital value is created, distributed, and governed. Central to this evolution are digital tokens, which serve multifaceted roles as units of utility, governance rights, and investment vehicles. However, the mechanisms for distributing these tokens present a complex challenge, requiring a delicate balance between fostering network growth through broad participation, incentivizing user contributions, and adhering to stringent regulatory frameworks designed to protect investors and maintain market integrity. As blockchain-based platforms and decentralized applications proliferate, innovative approaches to token dissemination are emerging, moving beyond traditional capital-raising events to more participatory and engagement-driven models.

Two notable concepts addressing this challenge are "End User Distribution," as outlined in the "Digital Asset Market Structure Discussion Draft", and "Social Mining," a framework detailed in proposals by Knowpia Inc.. "End User Distribution" represents a legislative attempt to define a compliant pathway for distributing digital commodities with nominal value exchange, intended not to constitute an offer or sale of a security or commodity. "Social Mining," on the other hand, is a more specific, platform-centric mechanism proposed by industry actors, where users earn tokens through non-financial contributions, thereby directly linking token issuance to platform value creation.

This thesis will argue that Social Mining represents a sophisticated and practical application of the regulatory considerations and objectives aimed for by broader concepts like End User Distribution. It bridges the gap between the need for widespread token dissemination to cultivate utility and robust community engagement, and the imperative to navigate the complex legal frameworks governing securities and commodities. By examining the nuances of both concepts, their underlying intentions, and their proposed operational mechanics, this paper will illustrate how Social Mining can be viewed as an evolved, actionable model that seeks to fulfill the spirit of



regulatory concepts like End User Distribution in the dynamic landscape of the digital asset economy.

Understanding End User Distribution: A Regulatory Proposal

The "Digital Asset Market Structure Discussion Draft" introduces "End User Distribution" as a defined term within proposed amendments to the Securities Act of 1933. This concept is designed to address specific scenarios of digital commodity dissemination. According to the draft, an "End User Distribution" is characterized as a distribution of a unit of a digital commodity that satisfies two primary conditions: first, it "does not involve an exchange of more than a nominal value of cash, property, or other assets"; and second, it "is distributed in a broad and equitable manner based on conditions capable of being satisfied by any participant in the blockchain system".

The draft further elaborates that such distributions can take the form of incentive-based rewards, including those provided:

- To users of the digital commodity or any related blockchain system.
- For activities directly related to the operation of the blockchain system, such as mining, validating, staking, or other activities intrinsically tied to its functioning.
- To existing holders of another digital commodity, proportional to their holdings, akin to an airdrop.

The most significant legal implications of defining a distribution as an "End User Distribution" lie in its explicit exclusion from traditional regulatory triggers. The draft states unequivocally that an End User Distribution "does not involve the offer or sale of a digital commodity" and, critically, "does not involve the offer or sale of a security". This classification is pivotal, as it suggests a potential safe harbor for certain token distribution activities, exempting them from the comprehensive registration and disclosure requirements typically mandated for securities offerings or commodity sales.



The regulatory intent behind the "End User Distribution" concept appears to be the creation of a compliant pathway for projects to disseminate tokens to build network effects, encourage platform utility, and reward operational contributions, without these activities being automatically classified as regulated financial offerings. This acknowledges that not all token distributions are primarily investment-focused. However, the concept, as presented in the draft, remains relatively broad and relies on future joint rulemaking by the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) to further define its parameters and operational scope. This leaves room for interpretation regarding what constitutes "nominal value" and "broad and equitable manner," highlighting the need for more granular frameworks to guide practical implementation.

Introducing Social Mining: A Platform-Centric Incentivization Model

Coinciding with regulatory explorations like End User Distribution, industry participants like Knowpia Inc. have proposed more concrete mechanisms for participatory token issuance, notably "Social Mining". Social Mining, as detailed in Knowpia's submissions, refers to "a protocol-driven mechanism by which users earn platform-native tokens (ST+) in exchange for non-financial contributions such as content creation, social engagement and governance participation". This model explicitly distinguishes itself from both traditional computational mining (like Proof-of-Work or Proof-of-Stake) and direct capital investment.

In the Social Mining framework, tokens (often designated as ST+ tokens within Knowpia's STO+ proposal) are not purchased but *earned*. The "work" performed by users is not computational but rather consists of actions that directly enhance the value, engagement, and governance of the platform. These activities, such as creating valuable content, actively participating in community discussions (e.g., following, liking, commenting, sharing), or contributing to platform governance, become the basis for token issuance. Knowpia Inc. emphasizes that "Social Mining does not involve capital



contribution or the expectation of profits from others. It is a decentralized, voluntary mechanism of network growth and token issuance".

The ST+ tokens earned through Social Mining are initially envisioned to function primarily as utility tokens within the platform's ecosystem. They can be used for accessing premium features, rewarding users for contribution, participating in governance votes, or other platform-specific utilities. Only under specific conditions, such as a voluntary transfer or listing on a secondary market, might these ST+ tokens transition to take on the characteristics of a full security token (ST), as proposed under Knowpia's "Unified Dual-Nature Token Model" within their STO+ framework.

The advantages of Social Mining, as articulated by its proponents, are numerous. It boasts virtually zero energy consumption compared to computational mining and presents a very low barrier to entry, allowing anyone with a basic internet-connected device to participate. This fosters wider, more genuinely user-driven decentralization. Furthermore, the value created is directly tied to platform utility and community growth, as user activities inherently build the ecosystem. This model also promotes sustainability, where platform value growth enhances token utility, rather than relying solely on speculative token price increases. The incentive mechanism directly rewards measurable contributions, aligning user actions with the platform's success.

Connecting the Concepts: Social Mining as an Evolution of End User Distribution Principles

The title of this thesis, "From End User Distribution to Social Mining," suggests a progression or an evolutionary linkage between these two concepts. Indeed, Social Mining can be interpreted as a specific, well-defined, and operationalized strategy that not only aligns with but also provides a practical pathway for achieving the regulatory spirit envisioned by the broader, more abstract concept of End User Distribution.



Both concepts fundamentally aim to facilitate the wide dissemination of digital tokens based on forms of participation or contribution, rather than primarily through financial investment. They both implicitly or explicitly seek to differentiate these types of distributions from traditional sales of securities or commodities that would trigger more stringent regulatory oversight.

The "nominal value exchange" criterion of End User Distribution finds a strong parallel in Social Mining's emphasis on "non-financial contributions." In a Social Mining model, the "value" exchanged by the user to earn tokens is their time, effort, creativity, and engagement – activities that contribute to the platform's ecosystem but do not typically involve a significant outlay of cash or other traditional assets from the user. This aligns with the intent to avoid classifying the initial token acquisition as a purchase for significant value, a key element in distinguishing it from a securities sale.

Similarly, the requirement for "broad and equitable distribution" in End User Distribution is inherently addressed by the design of Social Mining. By rewarding a wide array of platform-enhancing activities that are accessible to a large user base (e.g., content creation, social interaction), Social Mining naturally promotes a more distributed token ownership structure than, for instance, a limited private sale to accredited investors. The conditions for earning tokens are based on participation and are, in principle, "capable of being satisfied by any participant in the blockchain system," as stipulated for End User Distribution.

Where Social Mining offers a more evolved proposition is in its attempt to provide a more granular and proactive framework for the regulatory treatment of the tokens earned. The STO+ framework, within which Knowpia's Social Mining model is situated, proposes a clear lifecycle for tokens like ST+. These tokens begin as utility-focused assets (ST+) earned through platform contributions and are recommended to be exempt from certain securities restrictions like lock-up periods during this in-platform phase. The transition to a security token (ST) with full securities law implications is envisioned to occur only upon a deliberate action, such as listing on a secondary market. This



"phased status recognition" offers a more concrete and potentially auditable pathway than the broader "End User Distribution" concept, which, as a legislative draft item, currently awaits detailed rulemaking for its practical application.

The STO+ framework, particularly the "Unified Dual-Nature Token Model" preferred by Knowpia, acts as an enabler for this distinction. It provides an architectural design where a single token can possess these dual natures, with smart contracts governing its state and transitions based on context and user action. This model attempts to embed compliance logic directly into the token's design, thereby seeking to proactively address regulatory concerns about the often-blurry lines between utility and security tokens. Social Mining, therefore, isn't just a distribution method; it's an integrated part of a larger proposed ecosystem (STO+) that considers the entire lifecycle and regulatory posture of the tokens being distributed. It can be viewed as an industry-led proposal that seeks to operationalize principles—such as incentivizing genuine network participation without immediate securities implications—that regulators themselves appear to be grappling with, as evidenced by the inclusion of concepts like "End User Distribution" in legislative drafts.

Challenges and Ongoing Regulatory Dialogue

Despite the sophisticated approach of Social Mining within a framework like STO+, challenges and regulatory scrutiny will undoubtedly persist. A primary concern for regulators will be to ensure that such mechanisms are not used as a disguised means to conduct unregistered securities offerings. The definition and consistent application of "nominal value" in the context of End User Distribution, and "non-financial contribution" in Social Mining, will be critical. Regulators will need to be satisfied that the value provided by users is genuinely for platform building and utility access, rather than a veiled investment of assets expecting profit from the efforts of others.



The complexity of dual-nature or convertible tokens, where an ST+ token can transition into an ST token, also requires robust oversight and clear, transparent mechanisms. Ensuring that these transitions are well-understood by users and occur under conditions that trigger appropriate regulatory compliance (e.g., disclosures, trading restrictions if applicable) will be paramount. The "facts and circumstances" approach, often cited by the SEC, will likely be applied rigorously to assess the economic realities of any such distribution model.

Conclusion

The journey from the conceptual outlines of "End User Distribution" in legislative proposals to the detailed operational models of "Social Mining" within frameworks like STO+ reflects a critical evolution in the digital asset space. Social Mining offers a compelling, practical, and more developed model that embodies the core intent behind broader regulatory considerations like End User Distribution: to foster innovation, encourage widespread network participation through equitable token dissemination, and reward genuine user contributions, all while seeking a compliant path within existing and evolving legal structures.

It represents a proactive effort by industry innovators to design systems that are not only technologically advanced but also thoughtfully constructed with regulatory considerations in mind. By focusing on contribution rather than capital, and by proposing clear distinctions and transitions in token functionality (from utility ST+ to security ST), Social Mining, particularly when integrated into a comprehensive framework like STO+, provides a more nuanced and potentially sustainable approach to tokenomics.

The success of such models will ultimately depend on continued dialogue and collaboration between innovators like Knowpia Inc. and regulatory bodies such as the SEC and CFTC. As Web3 platforms continue to redefine user interaction and value



creation, frameworks that can clearly distinguish between utility-driven participation incentives and investment-focused offerings will be essential for the healthy and compliant growth of the digital asset economy. Social Mining, as an evolution of principles aimed at by concepts like End User Distribution, offers a significant step in that direction.

Respectfully submitted,

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