



Recommendation Letter - Supplementary Clarification No. 3 - Recommendation for Operational Structure and Clarification of STO+, ST, and ST+ Mechanisms

Refer to:

- 1. Request Letter No. 250301 - 250305 (Proposal to the US Security and Exchange Commission (SEC) : Introduction of the "STO+ Token" Classification), Date 03/05/2025**
- 2. Recommendation Letter Supplementary Clarification No. 1 - on STO+ Token's Platform-based Transfer and Payment Mechanism, 03/23/2025.**
- 3. Recommendation Letter Supplementary Clarification No. 2 - Recommendation for Exemption from Locking Period for Social-Mined Tokens (ST+) under STO+ Classification, 03/27/2025.**

Submitter:

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Date: 03/31/2025



Securities and Exchange Commission (SEC)
Crypto Task Force
100 F Street NE
Washington, DC 20549

Dear Ms. Hester Peirce,

On behalf of Knowpia Inc., we are pleased to provide an operational-level supplement and clarification regarding the STO+, ST, and ST+ token models in alignment with our proposed Security Token Offering (STO+) framework. Based on the proposal previously submitted to the SEC and supported by the enclosed Recommendation Letters, we hereby detail the operational structure and compliance measures that ensure adherence to SEC regulations.

1. Token Distribution Mechanism: ST and ST+

- **ST+ Token (Social Mining Token):**

- ST+ is generated through a decentralized Smart Contract that rewards platform users based on their contribution (e.g., content creation, curation, commenting, sharing, and community governance).
- As a Utility Token, ST+ does not require a lock-up period and constitutes the majority of the total token issuance.
- Control Mechanism: ST+ minting, issuance, and distribution are governed by Smart Contracts, preventing human interference and ensuring investor protection. These details of ST Token Smart Contract shall be outlined in the STO+ product documents.
- Smart Contracts allocate ST+ to users based on their platform contributions without manual oversight.

- **ST Token (Lock-up Security Token):**

- A smaller portion of tokens are minted through Smart Contract for private investors, employees, advisors, etc. as ST Token. These tokens representing Security Tokens will be subject to lock-up periods per SEC securities regulations.



- **Lock-Up Compliance:** ST tokens adhere to applicable lock-up periods under Reg D, Reg CF, and other relevant securities laws. Upon expiration of the lock-up period, ST tokens may be freely traded.
- **Control Mechanism:** ST minting, issuance, and distribution are governed by Smart Contracts with locking period, preventing human interference and ensuring investor protection; these details of ST Token Smart Contract shall be outlined in STO+ Private Placement Memorandum.
- Upon expiration of the lock-up period, Smart Contracts enable seamless conversion and transfer of ST tokens, ensuring compliance with securities laws while maintaining transparency.
- The issuance, transfer, and conversion of ST and ST+ tokens are controlled entirely by Smart Contracts, preventing human manipulation. This ensures compliance with SEC regulatory frameworks while safeguarding investor interests.
- By automating these processes, Smart Contracts guarantee accuracy, compliance, and protection for both token types, minimizing the risk of errors or manipulation.

2. ST+ to ST Conversion and Trading Platform Guidelines

Per the clarifications outlined in Supplementary Clarification No. 2, ST+ remains a Utility Token within the platform and is exempt from Rule 144 lock-up restrictions.

When Transferred to Secondary Markets, upon entering a trading platform, ST+ is converted to ST and becomes subject to the securities trading framework:

- **Trading Platform Compliance:**
 - Trading platforms facilitating converted ST transactions must adhere to SEC regulations to ensure transparent and compliant trading environments.
 - SEC shall allow trading platforms to trade converted ST tokens **without lockup period restrictions** similar to post-lock-up transactions.
 - KYC Mandatory Verification for ST Holders:
 - All **ST Token Holders** (including investors, team members, and advisors) must complete Know Your Customer (KYC) and Anti-Money Laundering (AML) verification before receiving their ST tokens.



- KYC ensures that all participants are identified, and their profiles are verified, reducing the risk of fraudulent activities.
- Profile and Wallet Registration:
 - Upon successful KYC verification, the verified holder's profile and associated wallet address are recorded in the Smart Contract.
 - Only wallets associated with KYC-verified holders can participate in ST token trading after the lock-up period.
- Informing and Data Sync with Trading Platform
 - Once KYC is approved, the verified holder's profile and wallet address are shared with the trading platform.
 - Trading platforms integrate with the Smart Contract to query and validate the KYC status of ST holders using APIs or direct contract calls.
- Automated Whitelisting:
 - Verified wallets are automatically **whitelisted** on the trading platform, allowing seamless transfer and trading of ST tokens post-lock-up.
 - Non-KYC-compliant wallets are blocked from initiating or receiving ST token transactions on trading platforms.
- Lock-Up Period Enforcement:
 - ST tokens issued to private investors, team members, and advisors are subject to lock-up periods as mandated by **Reg D, Reg CF, and other applicable SEC regulations.**
 - The Smart Contract prevents any transfer of ST tokens during the lock-up period by blocking transfer functions until the period expires.
- Unlock and Trading Authorization:
 - After the lock-up period ends, ST holders can transfer their tokens to a trading platform to initiate trading.



- The Smart Contract triggers an **unlock event** that updates the token's status, allowing it to be freely transferred and traded.
- ST Token Transfer and Trading Authorization
 - Trading platforms validate wallet addresses before allowing any transfer and trading activity.
 - Only wallets associated with KYC-verified profiles and whose lock-up period has expired can participate in transfer and trading.

3. SEC On-Chain Transparency and Real-Time Monitoring

- **Public Blockchain Visibility:**
 - Since both ST and ST+ transactions occur on a public blockchain (such as Ethereum or Base Network), all token transfers, conversions, and lock-up periods are recorded on-chain.
 - SEC or designated auditors can track transactions using blockchain explorers (e.g., **Etherscan**) by monitoring the smart contract addresses.
 - All KYC, lock-up, and transfer information is recorded on the blockchain for real-time audit and monitoring by the SEC.
- **Transaction Indexing and Data Feeds:**
 - APIs and indexing services such as The **Graph** can be used to provide real-time token movement updates.
 - SEC can leverage these APIs to automate the tracking of large token movements or unusual trading patterns.

4. Smart Contract Audit and Compliance Reporting

- **Pre-Deployment Audit:**
 - Third-party audits can verify that Smart Contracts comply with SEC security and operational requirements before deployment.
- **Post-Deployment Monitoring:**
 - Regular security audits ensure that the Smart Contract functions correctly and has not been tampered with.



- Periodic compliance reports can be generated and submitted to the SEC to ensure continued adherence.

5. Custom Event Logging and Notifications

- **Smart Contract Event Triggers:**

- Smart Contracts can emit events for key activities (e.g., minting, transferring, and converting tokens).
- These events can be programmed to notify the SEC of significant transactions in real-time.

- **Blockchain Analytics and Alerts:**

- SEC can utilize blockchain analytics platforms like **Chainalysis** or **Elliptic** to detect unusual patterns and assess compliance.
- Alerts can be configured for high-value transactions or token transfers exceeding predefined thresholds.

6. Off-Chain Compliance Documentation

- **Automated Reporting Tools**

- Tools like **OpenZeppelin Defender** can facilitate compliance reporting by generating periodic summaries of Smart Contract activity.

7. Regulatory Collaboration and Innovation

Knowpia Inc. remains committed to ongoing collaboration with the SEC to refine the operational framework surrounding ST, ST+, and the STO+ model.

We appreciate the SEC's continued support in ensuring compliance and innovation in the Web3 space. We look forward to working closely with the SEC Crypto Task Force to advance the STO+ model and ensure the protection of investors and the broader digital asset ecosystem.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kecheng Lai".

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