

Dragonchain Feedback to Commissioner Hester M. Peirce article *There Must Be Some Way Out of Here* dated Feb. 21, 2025.

Below are Dragonchain's responses to the questions posed in the Task Force inquiry. For any question outside the scope of Dragonchain's work—particularly those focused on securities regulations and financial instruments—our response is: "Dragonchain is not interested in this area and has no feedback."

We wish to emphasize that Dragonchain is a software platform and DRGN is a software license. We believe that the SEC does not intend to regulate software or software-based licenses that have no financial investment characteristics.

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 taxonomy should clearly distinguish between:

- Software licenses and utility tokens (e.g., DRGN, which is a tokenized micro-license for access to blockchain services).
- Financial securities and investment vehicles (which DRGN is not).

A proper framework should recognize that not all blockchain-based digital assets are securities. Some are merely mechanisms for software functionality, similar to API keys or SaaS subscription models.

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?

Dragonchain is not interested in this area and has no feedback.

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?

Blockchain functions include:

- Consensus mechanisms (Proof-of-Stake, Proof-of-Work, hybrid systems).
- Smart contract execution (automation of transactions without intermediaries).
- Decentralized identity management (as utilized in Dragonchain's architecture).

These functions are purely software-based and should not fall under securities regulations. Any attempt to regulate software itself would create uncertainty across the broader technology industry.

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?

Dragonchain is not involved in liquid staking and has no feedback.

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

Dragonchain has no feedback on stablecoins or wrapped tokens.

NFTs, however, should not be presumed to be securities, as they are **digital collectibles** with use cases in gaming, identity, and authentication.

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

The SEC should not conflate software-based systems with financial investments. A proper taxonomy should:

- Separate utility software from financial instruments.
- Use clear functional criteria (e.g., "Does this token act as a software license?").
- Avoid regulating technology itself, as this would create broad legal uncertainty.

7-12. [Public Offering & Safe Harbor Questions]

Dragonchain is not interested in this area and has no feedback.

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?

Decentralization is not necessarily relevant to the classification of a software system. Many useful blockchain applications are centralized software platforms. The Commission should avoid using decentralization as the only criterion.

14-25. [Financial Regulations, Trading & Custody Questions]

Dragonchain is not interested in this area and has no feedback.

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. 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?

For non-financial utility tokens, these recordkeeping rules are not applicable. It would be illogical to apply securities-based accounting frameworks to software licenses like DRGN, which function similar to API access keys.

27-45. [Investment Adviser, Lending, and Tokenized Securities Questions]

Dragonchain is not interested in this area and has no feedback.

46-48. [Sandbox & Innovation Questions]

A regulatory sandbox that allows non-financial blockchain innovations to operate without undue restrictions would be beneficial. Many real-world applications—such as verifiable credentials, fraud prevention, and enterprise blockchain applications—are being delayed due to regulatory uncertainty.

The SEC should ensure that software innovation remains unimpeded while still addressing fraud risks in financial applications.

Dragonchain urges the SEC to:

- Recognize that non-financial utility tokens are distinct from securities.
- Avoid applying financial regulations to software-based blockchain tools.
- Support a sandbox for innovation to allow software-based blockchain advancements to flourish.

We appreciate the opportunity to provide input and remain committed to working toward regulatory clarity that fosters innovation.

Sincerely,

Joe Roets & Dragonchain Team

info@dragonchain.com