March 24, 2025

Acting Chairman Mark Uyeda and Commissioner Hester Peirce
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: SEC Crypto 2.0 Formation of New Crypto Task Force

Dear Acting Chairman Uyeda and Commissioner Peirce:

We support the establishment of the Presidential Working Group on Digital Asset Markets and commend the Commission's leadership for establishing SEC Crypto Task Force. We appreciate the opportunity to comment on Commissioner Peirce's statement "*There Must Be Some Way Out of Here*" outlining key regulatory questions for which the SEC Crypto Task Force is seeking public input. Our comments focus on questions 17, 18 and 19 posed under the Commissioner's statement, with direct responses under Annex A of this letter. In sum, the SEC should clarify that digital asset securities transactions (both "on chain" and "off-chain") are subject to the same trade reporting requirements as for standard securities. This reporting requirement will advance the Commission's mission of protecting retail investors, providing legal certainty for financial transactions, and promoting financial innovation while ensuring market integrity.

CoinRegTech, operating as a regulatory service provider, has been assessing the market structure of crypto asset securities and virtual currencies (collectively "digital assets"), centralized trading platforms and "DeFi" protocols (collectively "trading platforms"), market participants, and industry practices. Digital assets and the associated distributed ledger technology ("DLT" or "public ledgers") hold great promise for financial markets and capital formation. However, the failures of several platforms raise serious issues with respect to retail investor protection, as well as market structure and overall integrity. Accordingly, we propose the following regulatory recommendations:

1. The SEC should address investor protection and market structure issues involving digital asset securities that are facilitated by off-chain transactions on trading platforms.
2. To perform the Commission's market oversight duties, the SEC should revise the Exchange Act rules to require the timely reporting of all transactions deemed digital asset securities.
3. The SEC and CFTC should work jointly to authorize and regulate a digital asset repository of transactions ("DART"). DART would record transactions (those committed to a public ledger as well as off-chain transactions) and the associated customer ownership, regardless of the classification of the digital asset as a "security" or a "commodity."

I. Background Information

The underlying blockchain technology is the innovative aspect of digital assets enabling transactions via a peer-to-peer and decentralized protocol. Blockchain technology provides a novel solution to prevent the "double spending" problem, a function normally provided by a trusted central intermediary (e.g., banks or clearinghouses).[1] We note that off-chain transactions are prevalent on centralized trading platforms, while such transactions are not as common with decentralized finance protocols or DeFi. Centralized trading platforms are the major trading venues for digital assets with 91% market share, while decentralized exchanges (DEXs) only account for roughly 9% of the volume for digital assets.[2]

The digital asset market has grown significantly with an estimated 20% of Americans having owned or traded digital assets.[3] A host of companies have established centralized operations to match purchasers and sellers of digital assets ("centralized trading platforms"). These trading platforms are typically registered with both FinCEN and the States as money service businesses ("MSBs"). Trading platforms (both centralized and DeFi) listing digital assets are performing functions common to registered stock exchanges or Alternative Trading Systems. The following summarizes the settlement process for digital assets transacted on centralized platforms.

Most centralized trading platforms require customers to establish accounts by depositing their digital assets or USD into a central wallet ("omnibus account"), which is owned and controlled by the trading platform. As such, these trading platforms are serving a "custodial" role by holding customer assets in a central wallet or omnibus account. Customers may deposit and withdraw their digital assets from a trading platform to their external wallets. In addition to execution fees, trading platforms "typically assess deposit and withdrawal fees when customers transfer digital assets and USD into and out of their accounts."[4]

When a customer requests withdrawal of digital assets from the omnibus account, trading platforms place unconfirmed transactions into a memory pool. This memory pool is accessed by miners who mine/validate and commit new blocks of digital asset transactions to the appropriate public ledger. The centralized trading platform assesses a mining (proof of work) or validation (proof of stake) fee on each digital asset transaction recorded on a public ledger, and customers pay a withdrawal fee to platforms.[5]

Centralized trading platforms provide services to help customers lower trading expenses and avoid mining/validation fees. Mining/validation fees cut into customer returns, especially when frequently transacting. Internally recording and transferring digital assets among customer accounts on an internal ledger for executed transactions is a major cost saver offered by centralized trading platforms; however, it poses significant systemic risks as well as opportunities for market manipulation. This internal process

[1] Satoshi Nakamoto, "Bitcoin: A Peer-to-Peer Electronic Cash System" (Oct. 31, 2008). link
[2] CoinGecko "What is DeFi's Market Cap and Market Share?" (March 2025). link
[3] Frank, Thomas "One in five adults has invested in, traded or used cryptocurrency, NBC News poll shows" CNBC (Mar. 31, 2022). link
[4] NYOAG "Virtual Markets Integrity Initiative Report" (Sept. 18, 2018) at pg. 7. link
[5] NYOAG "Virtual Markets Integrity Initiative Report" (Sept. 18, 2018) at pg. 13. link

for off-chain transactions does not mine or validate new blocks on the appropriate public ledger for digital asset transactions. Instead, centralized trading platforms internally record digital asset transfers among customers, which allows customers to transact without incurring mining/validation fees ("off-chain transactions"). However, there is no record of off-chain transactions on the appropriate public ledger and customers rely solely on the internal recordkeeping of centralized trading platforms to track their record of ownership.[6] A report by the U.S. Department of Treasury states:

> "Data pertaining to **off-chain activity is extremely limited and subject to voluntary disclosure by trading platforms and protocols. As a result, the quality of off-chain data is less verifiable**, and coin and token prices (and other data) may differ markedly between platforms. Unlike traditional registered exchanges, CEXs and DeFi protocols operating today either are not complying with, or are not subject to, obligations to report accurate trade information periodically to regulators or to ensure the quality, consistency, and reliability of their public trade data."[7]

Off-chain transactions are inconsistent with Satoshi Nakamoto's Bitcoin White Paper that required all Bitcoin transactions to be recorded on a public ledger.[8] As evident by the failures of FTX, Celsius and the numerous regulatory enforcement actions, not all trading platforms use industry best practices to protect customer funds or ethically manage these funds that are held in a custodial capacity.[9] In addition, participants in the digital asset markets are predominately retail investors who are unable to fend for themselves. Former SEC Chairman Jay Clayton and former CFTC Chairman Timothy Massad recommended U.S. regulators:

> "Require all crypto intermediaries to implement basic customer protections. **For all the novelty and promise of blockchain technology, most crypto trading isn't recorded on chain but rather on traditional ledgers kept by centralized intermediaries.** But these entities claim the products they trade don't make them subject to registration with the Securities and Exchange Commission or Commodity Futures Trading Commission, which means that investor protection rests on state laws written for the telegraph era that are woefully inadequate, particularly when trading and leverage are present."[10]

The absence of verifiable transactions prevents the assessment of systemic risks because digital assets are increasingly interconnected with the traditional financial system.[11]

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[6] Soares, Xenia "On-Chain vs. Off-Chain Transactions: What's the Difference?" CoinDesk (Aug. 29, 2022) at pg. 12. link
[7] U. S. Dept. of the Treasury "Crypto -Assets: Implications for Consumers, Investors, and Businesses" (Sept. 2022). link
[8] Satoshi Nakamoto, "Bitcoin: A Peer-to-Peer Electronic Cash System" (Oct. 31, 2008) at pg. 3. link
[9] CFTC Release Number 8613-22: "CFTC Releases Annual Enforcement Results" (Oct. 20, 2022). link; and SEC Release Number 2022-206: "SEC Announces Enforcement Results for FY22" (Nov. 15, 2022). link
[10] Clayton, Jay & Massad, Timothy "How to Start Regulating the Crypto Markets—Immediately" WSJ (Dec. 4, 2022). link
[11] FSOC "Report on Digital Asset Financial Stability Risks and Regulation" at pg. 14-15 (2022). link

II. Challenges of Decentralized Exchanges (DEXs) Performing Traditional Financial Functions:

While DEXs introduce transparency and automation through blockchain technology, these novel protocols fundamentally differ from the manner traditional financial institutions perform core services (e.g., settlement, clearing, and custody of customer funds). Unlike centralized entities, DEXs rely on self-executing smart contracts and decentralized governance. Therefore, it is problematic to impose traditional regulatory frameworks to ensure market integrity and investor protections. As previously noted, DEXs only account for approximately 9% of the trading volume for digital assets.

One of the most pressing challenges is the absence of an accountable intermediary over DEX operations. In traditional finance, clearinghouses and custodians play a crucial role in mitigating counterparty risk, ensuring accurate recordkeeping, and protecting customer assets.[12] However, DEXs settle transactions automatically on-chain without oversight by a regulator or registered entity. This raises concerns for ensuring confirmation of trade terms prior to clearing and addressing smart contract failures or cyber exploits. Additionally, the pseudonymous and borderless nature of DEXs complicates regulators' ability to enforce compliance, monitor fraudulent activities, and ensure adequate investor protections across multiple jurisdictions.[13]

The absence of a regulated custodian in DEXs presents heightened risks for the protection of customer funds. While decentralized custody models aim to reduce reliance on third parties, these models also expose users to vulnerabilities such as private key mismanagement, hacks, and protocol failures. Without clear regulatory oversight, users bear full responsibility for their assets, making consumer protection more difficult compared to traditional custodial frameworks.[14] Moreover, the rapid evolution of decentralized finance is exacerbating the challenge of establishing standardized compliance mechanisms for settlement, clearing, and custody within decentralized networks.

III. Digital Asset Repository of Transactions ("DART"):

The reporting of financial transactions (e.g., equities, fixed income, and futures) is a fundamental component of various global regulations that increases transparency in financial markets. The SEC requires the reporting of on-exchange and off-exchange securities transactions to the FINRA Repositories, and Regulation ATS requires comprehensive recordkeeping and record preservation requirements.[15] The Dodd-Frank Act and subsequent CFTC Rules require the reporting of all swap data to a licensed repository operating under the Swap Data Repository ("SDR") Core Principles.[16] As registered entities, SDRs must adhere to the System Safeguard Rules of the CFTC.[17] Much like SEC

[12] Harvey, Campbell; Hasbrouck, Joel; & Saleh, Fahad "The Evolution of Decentralized Exchange: Risks, Benefits and Oversight" Wharton Initiative on Financial Policy (July, 2024) at pg. 19. link
[13] Id. at pg. 25.
[14] Id at pg. 23-24.
[15] SEC Rule 613 (CAT) link; FINRA Rule 6622 Transaction (OTC Reporting Facility) link; 17 CFR 242.300–242.304. link
[16] Dodd-Frank Act section 728 amended CEA section 21 pertaining to 17 CFR 49 Swap Data Repositories: Registration Standards, Duties and Core Principles (2011).
[17] CFTC Fact Sheet "Final Rules on System Safeguards Testing Requirements." (Sept. 8, 2016). link

Regulations Systems Compliance and Integrity ("SCI") and Service Provider ("S-P"), System Safeguard Rules require registered entities to maintain policies and procedures for testing cybersecurity and analyzing system safeguard measures including: (1) vulnerability testing, (2) penetration testing, (3) controls testing, (4) security incident response plan testing, and (5) enterprise technology risk assessment.[18] Lastly, SDRs provide a central facility of reported swap data that includes transactional details and ownership information, which provides a workable regulatory framework for a DART registration and the reporting of all digital assets.

The governance framework of a DART registration should sufficiently address conflicts of interest, mandate fair and open access, and prohibit any mandatory purchases of bundled services. To maximize the utility of such a repository, it should have the authority to verify digital assets held by centralized trading platforms that facilitate off-chain transactions. Daily, trading platforms should provide the repository with identifying information regarding account holders and the underlying transactional details for digital assets held in an omnibus wallet. It is feasible for DART to search the appropriate public ledger to ensure transactions are not part of a hacking scheme or subject to an encumbrance.

A dedicated repository, such as DART, would fulfill these necessary duties for the SEC and CFTC. CoinRegTech has developed a trade repository that can record transactions and confirm ownership, regardless whether digital assets are deemed either "securities" or "commodities." This type of service is essential to address investor protection and market integrity issues.

IV. Summary:

Distributed ledger technology attempts to replace trusted intermediaries with a public and immutable record of digital asset transactions and ownership. Due to the longstanding and wide spread use of off-chain transactions, public ledgers no longer provide an immutable record of all digital asset transactions and ownership. Furthermore, off-chain transactions create significant opportunity for market manipulation and pose systemic risks to the financial system.

Reporting to a registered repository is a policy option that addresses the issues presented by off-chain transactions. In the interest of improved market structure and protecting retail investors, the time has come to apply sensible and proven regulations to digital assets, while not needlessly impacting future innovation. Please feel free to contact me (bruce.tupper@coinregtech.com) regarding this letter.

Sincerely,

Bruce A. Tupper

Bruce A. Tupper
President & Founder, CoinRegTech

[18] 17 CFR Parts 240, 242, and 249 link; and 17 CFR 248.30(a). link

Annex A - Commissioner Peirce's Statement - Responses to Questions

Question 17. Execution Complexities for Broker-Dealers in Off-Chain Order Books and Blockchain Networks

Execution of digital asset transactions through off-chain order books and on-chain networks presents unique challenges for broker-dealers in meeting best execution obligations. Broker-Dealers must exercise diligence to obtain the most favorable order executions for their clients. Off-chain transactions lack transparency and hinder price discovery, making it difficult to assess execution quality. Conversely, on-chain transactions, while publicly verifiable, may suffer from latency issues and network congestion. We recommend that:

- The SEC provide clear guidance on how best execution standards apply to digital asset securities traded across these models.
- Broker-Dealers incorporate execution quality assessments that consider both off-chain and on-chain trade reporting mechanisms.
- The SEC explore requiring trading platforms to disclose execution methodologies and liquidity data to enhance transparency for market participants.

Question 18. Programmatic and Technological Solutions for Monitoring Crypto Markets

Open-source blockchain data provides a novel opportunity for regulators, self-regulatory organizations, and intermediaries to enhance market surveillance. However, nested accounts within centralized trading platforms obscure ownership and transactional data, limiting the effectiveness of public ledger monitoring. To address these concerns, we recommend:

- The SEC collaborate with industry stakeholders to create a framework for integrating on-chain and off-chain data into a comprehensive monitoring system - DART. The development of standardized reporting mechanisms that require centralized trading platforms to disclose transactional details of nested accounts while preserving user privacy.
- The use of blockchain analytics tools to detect illicit activities, market manipulation, and wash trading patterns.

Question 19. Leveraging Publicly Available Data for Regulatory Efficiency

Regulators can significantly improve oversight efficiency by leveraging publicly available blockchain data. However, substantial gaps in off-chain transaction reporting limit the usefulness of on-chain data for comprehensive market surveillance. To enhance regulatory effectiveness and reduce compliance burdens, we propose:

- Establishing a DART to serve as a centralized repository for all digital asset transactions, regardless of whether they occur on-chain or off-chain.
- Standardizing disclosure and reporting requirements for both centralized trading platforms and DEXs that addresses order management, trade execution, customer account information, and settlement practices.