

MEMORANDUM

To: Crypto Task Force Meeting Log
From: Crypto Task Force Staff
Re: Meeting with Representatives of Wall Street Blockchain Alliance

On March 27, 2025, Crypto Task Force Staff met with representatives from Wall Street Blockchain Alliance.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. Wall Street Blockchain Alliance representatives provided the attached document, which was discussed during the meeting.



March 2025

Commentary Submitted by the Wall Street Blockchain Alliance (WSBA) to the U.S. Securities and Exchange Commission (SEC) Crypto Task Force regarding Digital Assets

Introduction

The Wall Street Blockchain Alliance (WSBA) welcomes the opportunity to engage with the Securities and Exchange Commission (SEC) Crypto Task Force in shaping a regulatory framework that fosters responsible innovation while ensuring market integrity and investor protection. WSBA is a non-profit trade association dedicated to promoting the responsible adoption of digital assets and blockchain technology across financial markets. We represent a broad coalition of industry participants, including traditional financial institutions, digital asset firms, legal experts, and technology innovators.

The SEC plays a pivotal role in overseeing the digital asset ecosystem, particularly in determining whether certain cryptoassets qualify as securities under U.S. law. However, the current regulatory environment is marked by uncertainty, fragmented enforcement actions, and a lack of formalized guidance, creating challenges for issuers, investors, and market participants. WSBA believes the SEC has a critical opportunity to provide clarity, establish balanced oversight, and promote responsible innovation.

We respectfully submit the following key areas where the SEC's leadership can help establish regulatory certainty while ensuring the U.S. remains a global leader in digital asset markets.

1. Clear Framework for Digital Asset Classification

Previously, the SEC has primarily relied on enforcement actions to determine whether a digital asset qualifies as a security under the Howey Test (SEC v. W.J. Howey Co.). However, this approach has not provided the industry with clear guidance. The absence of a formal rulemaking process has led to regulatory ambiguity, conflicting court decisions, and inconsistent compliance expectations.

The industry requires a formal and transparent framework to differentiate between digital securities and non-securities. The current reliance on the SEC v. W.J. Howey Co. test has led to inconsistent judicial interpretations, creating uncertainty for businesses and investors. The WSBA urges the SEC to initiate a rulemaking process that clearly defines:

- Criteria for distinguishing securities from non-securities in digital asset markets.
- The conditions under which a digital asset can transition from a security to a commodity or other non-security classification (e.g., based on decentralization and network functionality).

- A time-limited safe harbor is needed to allow digital asset projects to develop without the immediate risk of enforcement, as long as they meet transparency and disclosure requirements.

Court decisions, such as SEC v. Ripple Labs (2023), which ruled that institutional sales of XRP constituted securities offerings, while secondary market sales are not, underscore the necessity for a clear and consistent framework from the SEC to distinguish primary issuances from secondary transactions. The current uncertainty is stifling innovation and driving blockchain development offshore.

2. A Viable Compliance Path for Digital Asset Issuers

Many blockchain-based projects aim to comply with securities laws but lack a practical regulatory pathway. Existing registration processes, such as Form S-1 for public offerings, are ill-suited for token-based projects operate on decentralized networks.

To address this issue, the WSBA recommends that the SEC establish:

- A modified securities offering framework specifically designed for digital asset issuances, similar to Regulation A+, but tailored for blockchain-based assets.
- A streamlined disclosure regime that takes into account the unique characteristics of blockchain projects (e.g., smart contract audits, token distribution schedules).
- A sandbox program allowing digital asset firms to test compliance models under SEC supervision before undergoing full registration.

These initiative would create a regulatory environment that encourages compliance instead of driving innovation offshore.

3. Balancing Regulation with Innovation

Many digital asset firms struggle to navigate unclear regulatory expectations while striving to remain compliant. To tackle this issue, we propose the following measures:

- The SEC should issue formal guidance on decentralized finance (DeFi) projects, including governance structures and compliance obligations.
- Implement a sandbox program similar to other jurisdictions, allowing companies to test innovative products under regulatory oversight before facing the risk of enforcement actions.
- Establish no-action letters for companies that demonstrate good faith compliance efforts, reducing the fear of arbitrary enforcement actions.

4. Regulatory Clarity for Digital Asset Trading Platforms

The SEC has asserted that most digital assets are securities, implying that platforms listing them must register as national securities exchanges (NSEs) or alternative trading systems (ATs). However, the current frameworks for NSEs and ATs were not designed with

blockchain-based trading in mind, leading to legal uncertainty and compliance challenges for U.S. exchanges.

The WSBA recommends that the SEC:

- Establish a dedicated framework for digital asset exchanges that accounts for their unique market structure and trading mechanisms.
- Provide clear guidance on the registration process for platforms that facilitate the trading of both securities and non-securities.
- Differentiate between custodial and non-custodial trading models, ensuring that decentralized finance (DeFi) protocols and centralized exchanges receive appropriate regulatory treatment.

Recent legal battles demonstrate the urgent need for SEC-led rulemaking to clarify whether crypto exchanges are facilitating unregistered securities transactions or providing a lawful trading environment. Additionally, the approval of Bitcoin spot ETFs in 2024 illustrates changing regulatory attitudes, underscoring the necessity for consistent and transparent regulatory treatment of digital asset markets.

5. Predictability and Fairness in SEC Enforcement

SEC enforcement has been essential in addressing fraudulent activities in digital asset markets. However, the lack of clear guidance prior to enforcement actions creates legal uncertainty, which can discourage responsible innovation.

The WSBA urges the SEC to:

- Prioritize rulemaking over enforcement to ensure due process and set clear compliance expectations.
- Publish formal industry guidance before initiating enforcement actions, allowing firms to adjust their operations accordingly.
- Work with Congress to develop a legislative framework instead of relying solely on court interpretations of securities law.

Court rulings, including SEC v. LBRY, illustrate that applying decades-old securities laws to modern blockchain technology remains highly contentious and often leads to contradictory judicial outcomes. By establishing clear, forward-looking rules, the SEC can enhance investor protection while providing market participants with the confidence to innovate within a compliant framework.

6. Enhancing Transparency in Enforcement Actions

Regulation by enforcement has stifled industry growth and led to unpredictable litigation outcomes. The SEC Crypto Task Force should:



- Publish clear enforcement priorities and provide pre-litigation guidance to market participants.
- Implement a notice-and-comment process for rulemaking, ensuring industry feedback is incorporated before new regulatory actions are taken.
- Provide standardized disclosure requirements for token issuers to prevent legal ambiguity.

Conclusion

The WSBA stands ready to collaborate with the SEC, policymakers, and industry stakeholders to create a regulatory environment for digital assets that balances investor protection with responsible innovation. We believe that:

- Formalized guidance is needed to clarify asset classification, compliance pathways, and exchange registration.
- Enforcement should be predictable and fair, with clearly defined rules established prior to any punitive actions.
- Interagency cooperation is essential to aligning SEC oversight with the evolving landscape of digital asset landscape.

The digital asset space presents immense opportunities for financial innovation and economic growth. By working together, we can craft a balanced regulatory framework that protects investors, fosters industry growth, and maintains U.S. leadership in blockchain technology.

We appreciate the opportunity to contribute to this discussion and look forward to engaging with the SEC Crypto Task Force to shape the future of digital asset regulation.

Respectfully submitted,

Wall Street Blockchain Alliance (WSBA)