

Re: SEC Crypto Task Force RFI Written Comments from Syracuse University Professor Lee W. McKnight and Spring 2025 IST 408/608 Blockchain Management students\*

Title: ***Distinguishing Jokers from Thieves. Rug Pullers vs SEC Crypto Policies 3.0: Nolo Contendere by Regulatory Design***

Date: April 25, 2025

Dear Commissioner Pierce and colleagues,

We appreciate the SEC's Request for Information on cryptocurrency and digital asset regulatory questions. This letter shares Syracuse University Blockchain Management undergraduate and graduate students' guidance for the SEC Crypto Task Force.

We will also request a meeting to stimulate your fresh thinking on digital asset regulatory oversight automation. We would then demonstrate a novel rug pull investor protection approach, and other SEC policy-related innovations we have created. We would prove it is possible to devise both policies and mechanisms that can do far better for both innovators and investors, than the present, confused law, regulation and policy circumstances allow. We argue here and would demonstrate then that it cannot be argued that digital asset regulatory automation for investor protection is infeasible. Of course that presumes the law permits, which is now finally a possibly moving target.

Please see Appendix 1 for our further specific comments in response to your RFI. Please also note that the views expressed are our own, and may not be shared by Syracuse University or any institution with which we are affiliated. On behalf of myself, and my incredible IST 408/608 Blockchain Management students,

Respectfully,

Lee W. McKnight, Syracuse University Associate Professor

University Senate Agenda Committee

Senior Research Associate, Autonomous Systems Policy Institute

Affiliate, Institute for Security Policy and Law, Smart Cities and Civic Technologies  
Research Center; Dynamic Sustainability Laboratory; and Lender Center

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Appendix 1

## ***Distinguishing Jokers from Thieves***

### ***Rug Pullers vs SEC Crypto Policies 3.0: Nolo Contendere by Regulatory Design***

#### **Introduction: There ARE Ways Out of Here**

These comments in response to the SEC Crypto Task Force’s Request for Information will not focus on, but may also touch on, wider matters beyond the scope of the SEC Task Force and touch on issues addressed in pending legislative bill drafts in Congress, and in recent Presidential Executive Orders. We do hope this fresh impetus from regulatory agencies, the executive branch and Congress results in clearer regulatory distinctions for the SEC, CFTC, and other relevant Federal, State, and public-private bodies such as FINRA.

We address here several topics raised by Commissioner Pierce’s ‘There Must Be Some Way Out of Here,’ comments of Feb. 25, 2025.<sup>i</sup> The next line in Nobel prize-winning poet Bob Dylan’s (and rock star) ‘All Along the Watch Tower’ song after ‘There must be some way out of here’ is “Said the Joker to the Thief.”<sup>ii</sup> It is indeed a distinct challenge for the SEC, and other US regulatory bodies charged with protecting investors, to distinguish jokers – for example, most Meme coin creators – from thieves; for example, rug pullers.<sup>iii</sup> But it can be done, as we explain below and are happy to demonstrate to the Commission should there be interest.

#### **Designing Regulation for BOTH Innovation and Investor Protection**

Admittedly, some crypto thieves may appear indistinguishable from penny stock ‘pump and dump’ scammers of the ‘Wolf of Wall Street’ variety.<sup>iv</sup> While thinly traded markets have always carried a risk of manipulation by insiders and others, the growth of crypto asset trading has exacerbated this investor threat, while increasing the challenge for regulatory bodies accustomed to slower-moving markets than the digital asset space.

In these comments, we will share the views, and some of the creations imagined by Syracuse University School of Information Studies IST 408/608 Blockchain Management students, to illustrate our points. The class this semester happens to include a Whitman School of Management Finance PhD student, who is co-creator of ‘Rug Pull Shield’

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discussed below to illustrate some of our points. The qualifications and contributions of Syracuse University's School of Information Studies include both offering innovative courses such as Blockchain Management, first offered in 2016, where students themselves create new innovations for them to get to the point of a 'Demo or Die Sharktank' smart contract-powered (in-class) functional proof of concept. We also engage in research for the USDA 'Advancing Markets for Producers' program on utilizing blockchain to increase trust and transparency, through improved traceability with verification and validation of forestry industry supply chains and markets.<sup>v</sup> These builds upon research prior work we have engaged in for some time.<sup>vi</sup>

Our primary recommendation is for the SEC Crypto Task Force not to prematurely limit itself to considering alternative traditional enforcement mechanisms, but instead to consider this moment as a time ripe for AI-powered automation and efficiency gains in the SEC's market oversight mechanisms. Of course, such systems to be trusted must undergo rigorous training (of the models) and evaluation (by SEC staff and others); but these levels of specifics are assumed and will not be addressed further in this note.

We do assume and can demonstrate that it is possible to improve investor protection by technical mechanism and regulatory design. The development of such technical mechanisms may be left to the private sector, including clever students. Oversight may be by partnerships such as FINRA's public authority and private membership. We suggest creative students and their universities are natural allies and should be encouraged to engage in supporting continuing U.S. innovation and leadership across digital asset markets and policy innovation. Just as other agencies host hackathons, it is now the SEC's turn to think and act outside the box of prior regulatory constructions. Feb.2025 announced Cyber and Emerging Technologies Unit (CETU) led by Laura D'Allaird, intended to focus on combatting cyber-related misconduct and to protect retail investors from bad actors in the emerging technologies space, could also be the host of such positive and creative hackathons.<sup>vii</sup>

### **Digital Asset Investor Protection Automation**

A key issue for the SEC Crypto Task Force to consider is whether to protect investors, if the SEC requires explicit new statutory authority to authorize and regulate automation of technical mechanisms, for example, around rug pulls.

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In Syracuse University's IST 408/608 Blockchain Management, Spring 2025 class, a student team developed a project highlighting and combining several new digital asset investor protection mechanisms. Their AI- and blockchain-incorporating proof of concept (aka a class project) they termed 'Rug Pull Shield.' Smart contracts, business models, and design showing how both coin creators and investors can be protected from market manipulation attempts, is something that we can demo to the SEC later this spring or summer if desired. The main point here is if students can dream up a novel solution in a few months, it is possible to do far better in automatically distinguishing jokers from thieves to protect investors in digital asset markets. One way or another.

To be clear, given the SEC Crypto Task Force's broader mission, of course we are not asking for endorsement of a course or a class project, or a particular approach to automating digital asset investor protection. But we do wish to note that if we can do it to the point of a class project proof of concept in a one semester class project, it is definitely possible to distinguish jokers from thieves in digital asset markets after further research and development, evaluation and testing, and public comment.

That will require the SEC to have the authority to recognize, encourage entrepreneurs, and accept digital asset investor protection automation tools as part of a more dynamic marketplace that cannot wait on explicit individual SEC action on every imaginable new coin before its issuance. We do suggest that accepting something like the New York State delegation (to FINRA-member firms) of authority to follow and guide firms through acceptance of its new coins as meeting New York State's investor protection standards, is something that could work and should be adopted at the federal level as well.<sup>viii</sup> We recognize that it may require both SEC and CFTC cooperation as well as new legislation. That may be easier to obtain if it is possible to demonstrate to parties what that future might permit.

### **First Example: Rug Pull Shield**

Focusing now on the specifics of a hypothetical (but demonstrable) Rug Pull Shield, a clearly potentially helpful investor protection automation mechanism, 408/608 students agreed, including:

- risk scores for new and existing crypto projects

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- self-sovereign identity for to verify the developer
- trusted developers would have good scores; while developers involved in prior rug pulls would have low scores
- consumers could vote on trustworthiness
- A RugPullShield operator would hold coins in escrow at initial release until a stable risk score confirms the coin is safe.

There is another element to note where regulatory treatment could cripple this investor protection automation approach before it can leave the crib of our classroom; or could encourage some of our stellar students to become entrepreneurs. But for iSchool students to decline a steady job at a leading tech firm or consultancy for the elevated risks of life as a crypto/blockchain/digital asset entrepreneur, a clear consistent regulatory framework is needed.

We recognize this issue is beyond the scope of the SEC Crypto Task Force and requires new legislation, including, but not only Stablecoins as a first element of growing -stability- in the sector.

- Fortunately, the current SEC has already taken the first step, which is to clearly indicate it will be a partner for market innovation and not, as it regrettably has been perceived to previously be, a source of obstruction.
- The SEC Crypto Task Force supporting demonstrations of exploratory instances of prospective new tools could incent entrepreneurs and reassure investors that further help may be coming.

### **Second Example: Automating Shareholder Voting with Blockchain for Retail Shareholder Engagement**

The Crypto Task Force naturally is focusing on digital assets; but it should be observed that these same distributed ledger technologies may also have positive effects in traditional securities markets. For example, a student team addressed retail shareholder engagement in voting. Vovere is a decentralized blockchain powered platform that addresses the challenges of traditional shareholder voting systems by reducing the cost, time, and complexity of tabulating votes. Software like Vovere would simplify the current

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complexities of the US-Security Entitlement Model by directly connecting issuers and shareholders, increasing retail shareholder participation in AGMs and decrease over/empty voting scenarios.

- For the SEC Crypto Task Force’s consideration, Vovere is an example of the ways blockchain technology can enhance traditional securities markets, in Vovere’s case by automating proxy voting processes and incentivizing democratic participation in corporate governance.

### **Third Example: Lerna**

We just emphasized that digital assets may help improve the functioning of traditional securities markets. Now we go a step further, to emphasize that even the traditional asset market suffering most from a lack of trust – the used car market – could also benefit if the SEC, other regulators, and Congress were to bring further clarity to sector oversight. For example, IST 408 project Lerna aims to bring truth and trust to the used car market – eliminating hidden mysteries and replacing outdated systems with verified tamper-proof transparency. In an industry where misinformation could cost thousands of dollars and erode confidence, we believe blockchain is the right tool at the right time.

- For the SEC Crypto Task Force, the key point is blockchain technology can promote integrity, trust, and consumer protection. And not only in emerging digital ecosystems - ***even for used car dealers, but we can also distinguish jokers from thieves.***
- Assuming of course, investors and entrepreneurs are not discouraged by the muddy waters they have been forced to attempt to wade through to understand regulatory treatment of their businesses, and business models, even when (largely) outside of the cryptocurrency and DeFi spaces. Hopefully soon these changes, following SEC Crypto Task Force’s timely guidance and suggested actions.

### **Fourth Example: Forge Coin**

The wide scope of the ‘digital asset’ space must also be emphasized by the SEC Crypto Task Force actions, even as it attempts to draw regulatory and jurisdictional boundaries. This is important to ensure innovations do not fall into regulatory cracks of

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uncertainty which can slow their advancement as solutions in markets. These new markets may also extend beyond both traditional asset and securities markets, AND beyond tokenization of physical assets. For example, if Non-Fungible Tokens are considered as digital assets, what is the regulatory category for an NFT which is Digital Twin of an – asset? – which is a Coin? Or in this case, a ‘Challenge Coin.’<sup>ix</sup> Forge Coin aims to bridge the gap of tradition and technology by helping service members create both physical and NFT challenge coins. This will not only maintain the integrity of the time-honored tradition but also help revolutionize how these collectibles are created and stored for generations to come. Through Forge Coin, we will foster a community of veteran connection and legacy building. Forge Coin will provide service members with digital ownership and verification of the NFT challenge coins.

- For the SEC Crypto Task Force, the key point is that blockchain NFT technology can be used to, for example, modernize military and professional achievements, if confusion on regulatory oversight between the SEC and CFTC and other regulations do not impose costly overhead on public goods like collectibles for professional achievement.

### **Conclusions: The SEC Watch Tower is Needed More than Ever**

- The key step in strengthening the SEC’s digital asset watchtower role is beyond the SEC Crypto Task Force’s authority and must come from Congress.
- Now that it clearly knows which way the wind blows (;) the SEC needs new authority over digital assets, which must come from Congress.<sup>x</sup>
- Even while recognizing they are more varied than just traditional securities. And that the SEC should not intrude in commodity markets that are under the authority of the CFTC.
- Rather than opposing congressional action to delimit roles and boundaries between the SEC, CFTC, and other actors such as FINRA, as it has alleged to have done previously, the SEC should welcome and contribute to Congressional consideration of how to encourage both market innovation and investor protection.

In a sector inevitably prone to attracting both jokers and thieves, as well as many other actors, the SEC Crypto Task Force’s efforts are timely and critical, and are much

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appreciated by the next generation of blockchain management students and (possibly) future entrepreneurs.

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<sup>i</sup> Commissioner Hester Pierce, 'There Must Be Some Way Out of Here,' Feb. 21, 2025.

[https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125?utm\\_medium=email&utm\\_source=govdelivery](https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125?utm_medium=email&utm_source=govdelivery)

<sup>ii</sup> Bob Dylan, All Along the Watchtower, 1967, on the album John Wesley Harding.

<https://www.bobdylan.com/songs/all-along-watchtower/> ; <https://www.youtube.com/watch?v=bT7Hj-0a0VE>

<sup>iii</sup> A Rug Pull is defined by Coinbase as "A rug pull is a scenario in the [cryptocurrency](#) world where developers abandon a project after raising assets, leaving participants with worthless [tokens](#). Rug pulls can occur in various forms, including [liquidity](#) pulls, fake projects, pump and dump schemes, and team exits." See <https://www.coinbase.com/learn/tips-and-tutorials/what-is-a-rug-pull-and-how-to-avoid-it> Retrieved 4.25.2025 2:28pm.

<sup>iv</sup> See Jordan Belfort, *The Wolf of Wall Street*, August 26, 2008, ISBN-10: 0553384775 ISBN-13: 978-0553384772, and *The Wolf of Wall Street*, Paramount, 2013.

<sup>v</sup> See: Dynamic Sustainability Lab, <https://www.dynamicslab.org/>

<sup>vi</sup> See: McKnight, Lee Warren, Etwaru, Richie and Yu, Yihan, Commodifying Trust: Trusted Commerce Policy Intersecting Blockchain and Internet of Things (March 31, 2017). Available at SSRN: <https://ssrn.com/abstract=2944466> or <http://dx.doi.org/10.2139/ssrn.2944466> and P. K. Ghosh, R. Kato, D. T. Smith and L. W. McKnight, "Applications of Blockchain Methodologies for Microgrid Energy Transactions While Maintaining User Privacy and Data Security – A Review," *2022 IEEE 10th International Conference on Smart Energy Grid Engineering (SEGE)*, Oshawa, ON, Canada, 2022, pp. 1-6, doi: 10.1109/SEGE55279.2022.9889755.

<sup>vii</sup> See <https://www.sec.gov/newsroom/press-releases/2025-42> , retrieved April 25, 2025 2:51pm; and <https://www.sec.gov/about/divisions-offices/division-enforcement/cyber-crypto-assets-emerging-technology> Retrieve April 25, 2025, 2:55pm.

<sup>viii</sup> See [https://www.dfs.ny.gov/virtual\\_currency\\_businesses](https://www.dfs.ny.gov/virtual_currency_businesses) Retrieved 4.25.2025 3:05pm.

<sup>ix</sup> For a summary of Challenge Coin's history, purpose and impact, see:

<https://newsroom.woundedwarriorproject.org/Challenge-Coins-History-Purpose-and-Impact> Retrieved 4.25.2-25 3:55pm

<sup>x</sup> Blowin' In the Wind, Song by Bob Dylan, 1962. See also The Freewheelin' Bob Dylan, 1963. And see Timothee Chalamet, in *A Complete Unknown*, 2024.