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Electronic Submission
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U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-0213.

Subject: Follow-up on May 12 Roundtable: "Tokenization – Moving Assets Onchain: Where TradFi and DeFi Meet"

Attn: Chairman Atkins, Commissioner Uyeda, Commissioner Crenshaw, Commissioner Peirce c/o Crypto Task Force

Dear Members of the Crypto-Taskforce,

As founder and sole member of ØMM LLC and CKRD LLC, I respectfully submit this proposal for implementing a regulatory sandbox for blockchain networks. This proposal builds on my pending no-action letter request dated April 9, 2025, with adaptations for sandbox implementation as detailed below, and advances the conversion framework from my no-action request's footnote 3, page 7, adapted for systemic risk mitigation without bailouts, while preserving options for voluntary conversions under the no-action framework or SEC-led alternatives. This proposal outlines a process for converting existing Ponzi-token networks (e.g., Bitcoin, Solana, Polkadot, and Ethereum's layer-1, with extensions to dependent layers as noted) to compliant designs, potentially suitable for operation within the sandbox discussed at the SEC's May 12, 2025 Roundtable on "Tokenization – Moving Assets Onchain: Where TradFi and DeFi Meet."

The proposed conversion process mentioned in my no-action request letter envisions a commercial arrangement with ØMM LLC or CKRD LLC. However, winding down such Ponzi-schemes does not require involvement of ØMM LLC or CKRD LLC.

Specifically, here I focus instead on SEC-directed mechanisms to achieve compliance while addressing restitution and investor protection. This framework aligns with the sandbox's goal of fostering innovation under regulatory oversight, per the Roundtable's emphasis on controlled environments for testing compliant blockchain structures.

A. Scope Limitation

For brevity, this proposal focuses solely on the layer-1 token and network of Ethereum as an illustrative example.

B. Proposed Conversion Process

The SEC would appoint a receiver/trustee ("RT") to halt the Ponzi scheme for the purpose of winding it down as it would any Ponzi scheme – doing so in a manner that maximizes the restitution available to victims. It does so by creating a compliant fork of the blockchain, overseeing the conversion (to maximize restitution) and ensuring alignment with securities laws, including the Securities Act of 1933 and Securities Exchange Act of 1934. The process proceeds, at a high level of abstraction, as follows:

1. **RT Establishment and Corporate Formation:** The RT creates a for-profit corporation ("Operator") within U.S. jurisdiction, with the RT as sole shareholder. The Operator controls a set of validators/miners, transitioning its fork of the network to a permissioned configuration to eliminate decentralized vulnerabilities (for example the shutdown and breakdown vulnerabilities[1]). This RT-led approach enables orderly wind-down consistent with SEC Ponzi scheme interventions, maximizing restitution while preserving value. The process applies primarily to layer-1; dependent layers require analogous but separate treatment.

2. **Smart Contract Deployment:** The RT develops and deploys Treasury, Developer, and Operator contracts/accounts on the forked blockchain. These operate as outlined in my no-action request letter:
   - Treasury Contract: Sets a fixed Forked-Token-Price (e.g., gwei per gas for Ethereum-like networks) and manages issuance/redemption.
   - Developer Contracts: Handle validator-specific operations on the permissioned network.
   - Operator Contract: Manages network fees and compliance.

3. **Fee Structure and Restitution Mechanism:** The Operator sets a Network Take-Rate. Eighty percent (80%) of take-rate proceeds (in stablecoin) is garnished to a restitution reserve; the remaining 20% accrues to the Operator (equity holders).

4. **Restitution Value Calculations via Smart Contracts:** The RT deploys contracts to compute:
   - Riskless rate: Maximum Treasury yield per block interval.
   - Market-rate: Riskless rate plus eight percent (8%).
   - Token-Cost: USD purchase price (using Fed exchange rate) or Forked-Token-Price for airdrops/rewards.

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[1]See https://github.com/subversive-stack

- Expected Value: Token-Cost compounded continuously at market-rate per block.

- Restitution Value: Maximum of zero and Expected Value minus any token sale proceeds.

Accounts with zero restitution value are added to a Disgorgement List until excess proceeds are transferred to the restitution reserve.

5. **Eligibility and Fork Date:** At an Eligibility Date/Block ("Fork Date"), compute total restitution as the sum of all restitution values.

6. **Equity Conversion via Rights Issue:** For each original token (e.g., ETH), create renounceable/tradeable rights ("ETHR") for SEC-compliant Ordinary-Equity ("ETHE"). Eligible accounts (SEC-compliant KYC passed, not on Disgorgement List) convert rights to equity tokens at a fixed price, paid in stablecoin secured on the forked network. The U.S. Digital Asset Stockpile receives one (non-voting) Preferred-Equity share per Ordinary-Equity share, issued for no consideration. Preferred shares receive a dividend two-percent above the Ordinary dividend yield. This rights allocation prioritizes restitution-eligible holders, distinguishing from traditional rescues by preserving potential value for victims rather than complete equity wipeout.

7. **Rights Trading and Fund Application:** Rights are tradeable on decentralized limit-order exchanges until Fork Date. Rights-issue proceeds (in stablecoin) are directed to restitution reserve.

8. **Network Fork and Ongoing Operations:** The compliant network commences at Fork Date. Periodically (not exceeding 30 days), a smart contract will apply the restitution reserve to offset remaining restitution balances on FIFO basis.

9. **Compliance Enforcement:** Accounts transacting with Disgorgement List accounts are added to a Non-Compliant List. Both lists face SEC-specified restrictions (e.g., transfer freezes, enhanced monitoring).

C. Contextual Background and Proposal Alignment

The token and network design outlined in my pending no-action letter request dated April 9, 2025, was specifically developed to secure the issuance and use of CKRD LLC's novel stablecoin, as integral components of blockchain infrastructure for payments and financial intermediation applications, in compliance with the Securities Act of 1933 and Securities Exchange Act of 1934.

While optimal network operation requires integration with the ∅MM LLC Oracle and CKRD stablecoin to achieve precise parameter management and economic stability, a simplified implementation approximating key elements from the no-action request – such as fixed token pricing and permissioned validation – would nonetheless represent a material improvement over existing Ponzi-style tokens and networks. For instance, establishing a fixed token price eliminates the need for the

∅MM Oracle's dynamic calculations, and operating under a Receiver/Trustee (RT) managing all validators in a permissioned configuration obviates the Oracle's computation of required validator counts (decentralization levels), thereby reducing complexity while enhancing compliance.

The conversion process proposed herein reflects the framework contemplated in my no-action request, with targeted substitutions to facilitate regulatory oversight: the RT assumes the role of the network seeking to pivot, convert, or transition to a compliant design, while the U.S. Digital Asset Stockpile replaces ∅MM LLC as recipient of the Preferred-Equity shares, aligning with public policy objectives for digital asset reserves.

D. Voluntary Conversion Framework from No-Action Request

In the no-action request, the contemplated voluntary conversion process requires Ponzi-networks to first obtain a Memorandum of Understanding (MoU) from 0MM for a 1% fee based on market capitalization, outlining initial steps. Networks would then engage 0MM commercially to develop a detailed conversion plan for SEC review and potential approval, with additional fees for plan preparation and implementation assistance – ensuring 0MM's commercial interest in the resulting compliant network aligns with practical compliance under the Securities Act of 1933 (ğ 5) and Exchange Act of 1934 (ğ 12(g)). This structured engagement provides verifiable pathways to unwind unregistered securities offerings while preserving economic incentives for innovation.

E. Regulatory Alignment and Sandbox Suitability

This conversion unwinds the Ponzi-like tokens/networks by:

- Transitioning to permissioned operation, eliminating reliance on speculative token incentives, whether through voluntary 0MM's MoU-driven processes or SEC-directed forks.
- Implementing fixed pricing and fee structures to prevent speculation in consumer owned tokens.
- Establishing restitution mechanisms consistent with SEC enforcement priorities (e.g., restitution and disgorgement) while generating outcomes potentially more equitable than standard corporate restructurings under bankruptcy precedents.
- Creating traditional equity structures compliant with registration requirements under existing legislation and regulations.

The converted network is an ideal sandbox candidate: it operates under RT oversight, incorporates KYC and transfer controls, and generates auditable data for regulatory evaluation. This aligns with

Roundtable discussions on bridging TradFi and DeFi through controlled innovation spaces.

If adopted, this framework could apply to networks seeking conversion without my entities' involvement, promoting fair competition while advancing compliant blockchain development. This structure not only addresses Howey Test concerns by eliminating investment expectations tied to others' efforts but also supports stablecoin integration consistent with SEC guidance on digital assets.

F. Implementation Considerations and Regulatory Context

Should SEC or other U.S. government entities be precluded from such commercial arrangements (e.g., due to procurement constraints), this letter outlines an independent SEC-directed approach without 0MM/CKRD participation. Though suboptimal compared to full integration of 0MM Oracle and CKRD stablecoin technologies – lacking dynamic parameter management under proven economic models – it would provide consumer and investor protections vastly superior to current Ponzi schemes, advancing the "Framework for 'Investment Contract' Analysis of Digital Assets" by eliminating speculative incentives.

My primary focus remains developing the CKRD stablecoin and ØMM Oracle functionality as compliant infrastructure for payments and financial inter-mediation, per my no-action request. While allowing Ponzi-scheme networks to collapse aligns with DeFi/Web3's no-bailout ethos, their $3-4 trillion market size creates systemic risks regulators cannot ignore – hence the conversion framework footnoted in my request.

That letter provides existing networks a 14-day window to obtain a Memorandum of Understanding (MoU) outlining conversion steps. This represents a corporate bailout akin to rescues of mismanaged firms, with the MoU access fee being 1% of market capitalization; it is lower than typical M&A advisory fees (often in the order of 5% for such deals). I anticipate few networks will pursue this option, and fewer still will proceed past the MoU to develop a conversion plan to submit to the SEC, along the lines of the one outlined here.

Pending legislation may accommodate existing Ponzi-token networks, reducing incentives for voluntary conversion within 0MM and CKRD's development timelines for payments and financial intermediation infrastructure. While I anticipate minimal uptake of the MoU process, should the SEC prioritize urgent establishment of compliant forks to mitigate systemic risks (consistent with SEC guidance on digital asset market integrity), 0MM and CKRD are open to a commercial arrangement to assist in those efforts, subject to appropriate regulatory safeguards.

Notably, the permissionless nature of these networks allows independent forks. Anyone – including the SEC or its appointee – could fork these networks to a compliant design. Reputation effects

would likely compel institutions like Fidelity, BlackRock, Circle, etc., etc. to follow any SEC initiated forks. Furthermore, cryptocurrency forks are commonplace, with forkdrop.io tracking over 70 Bitcoin forks, 8 Ethereum forks, 4 Monero forks, and others as of this writing. Hence a SEC appointed Receiver/Trustee managed fork will not be a novel event, in terms of the fork existing.

i. Extension to Dependent Layers

Similarly, layer-2 solutions, rollups, and parachain tokens dependent on the base network would require separate MoUs and SEC-approved conversion plans to ensure comprehensive compliance.

G. Potential Benefits of Network Conversion

Beyond facilitating restitution for participants in networks exhibiting Ponzi-like characteristics, such as Bitcoin, Ethereum, Solana, etc., this conversion process offers several regulatory and operational advantages consistent with the SEC's investor protection mandate under the Securities Act of 1933 and Securities Exchange Act of 1934.

First, the issued Ordinary-Equity (e.g., ETHE) could initially trade exclusively on-chain and later off-chain, with all transfer records maintained solely on the blockchain. This eliminates the need for traditional clearing entities, reducing intermediary risks and enhancing transaction efficiency while preserving immutable audit trails for regulatory oversight.

Second, the Operator's revenues from the Network Take-Rate would be fully transparent on-chain, with all expenses similarly recorded and publicly visible. By prohibiting off-chain side-letters or arrangements, this structure aligns with disclosure principles and promotes accountability, deterring potential fraud.

Third, an on-chain smart contract could automate preparation of financial accounts in accordance with Generally Accepted Accounting Principles (GAAP). This would streamline compliance reporting, reduce manual errors, and facilitate real-time regulatory monitoring, advancing the transparency objectives of the Exchange Act.

These and other compliance features would create a controlled, compliant environment suitable for sandbox testing, potentially informing future rulemaking while mitigating systemic risks in digital asset markets.

H. Comparative Outcomes for Participants

Unlike traditional corporate rescues – where mismanaged or distressed firms often result in equity holders being wiped out and secured creditors receiving cents on the dollar – this Ponzi-scheme

conversion process yields potentially superior outcomes for affected participants. Specifically, only original token holders (e.g., ETH holders) owed restitution receive tradable rights (ETHR), which they or new KYC-vetted acquirers may convert to Ordinary-Equity (ETHE). Rights-issue proceeds directly fund restitution, while equity holders receive up to 20% of the Network Take-Rate until full restitution is achieved, balancing victim recovery with ongoing network viability.

This restitution-focused model, applicable to both voluntary and SEC-led conversions, exceeds outcomes in traditional Ponzi unwindings under SEC enforcement actions (e.g., consistent with disgorgement principles in SEC v. Kokesh, 581 U.S. 455 (2017)).

I. Conclusion

This framework not only mitigates systemic risks but also advances participant-favorable resolutions beyond typical corporate mismanagement rescues or bailouts. This advances compliant innovation, while addressing systemic risks through voluntary or regulatory-led forks, including for layer-2/rollup/parachain dependencies.

I am available to provide further information, including additional presentations or clarifications, to assist in your review of these matters. If for any reason you or your staff have questions, please contact the undersigned by email at mark@0mm.io or by phone at 855-736-3827, after 15:00 EST Monday-Thursday.

Sincerely,

Mark Van de Vyver, PhD (Dist),
Founder