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Crypto Task Force
U.S. Securities and Exchange Commission (SEC or Commission)
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Washington, D.C. 20549
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Chris Yin
Co-Founder and CEO
Plume Network Inc. (Plume)

Subject: Comments on the SEC Crypto Task Force’s “There Must Be Some Way Out of Here” Request for Input Questions

Dear Commissioner Peirce and Members of the Crypto Task Force,

Plume appreciates the Commission’s Crypto Task Force providing the opportunity for Plume and other members of the public to provide input on the Commission’s approach to crypto and blockchain policy. We commend the Commission’s careful and transparent approach to enacting new policy in this area.

Below, we provide (I) background on Plume and (II) our policy views generally and then with regards to specific questions from the “There Must Be Some Way Out of Here” Request for Input (RFI).¹

We have four primary recommendations:

(1) Permissionless or open, public blockchains, inclusive of decentralized finance (DeFi), are best positioned to enable the Commission to meet its and the Administration’s policy goals relating to capital and digital asset markets;

(2) Safe harbor exemptive relief should extend to the Securities and Exchange Act of 1934, as well as the Securities Act of 1933 and incorporate specific considerations related to DeFi including credible neutrality;

¹ SEC Commissioner Hester Peirce, There Must Be Some Way Out of Here, Feb. 21, 2025, <https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125>.

(3) The Commission should implement a regulatory sandbox for securities tokenization on open blockchains that can be used to calibrate a regulatory framework applicable to tokenized securities issued onchain across primary and secondary markets; and

(4) An open blockchain sandbox will enable the Commission, in cooperation with participants and the public, to develop a new regulatory architecture that leverages the capability of open blockchains and complementary technologies to achieve the same or better policy outcomes as regulations developed for legacy technologies, e.g., those relating to the National Clearance & Settlement System and Alternative Trading Systems (ATS).

Please see our comments below for additional detail.

I. Background on Plume, the Plume Network, and Plume Products

Plume is an American-founded company with a vast majority of our 50+ employees also being Americans with a headquarters in New York City. Our goal is to build a bridge between traditional finance (TradFi) and DeFi. We aim to accomplish this through the development of a comprehensive, modular ecosystem for tokenizing and managing “real world assets” (RWAs). At the core of the Plume ecosystem is the Plume Network, a public, EVM-compatible blockchain designed specifically to scale the adoption and integration of real-world assets (RWAs) into the digital economy. In addition to the Plume Network, we also have developed a suite of tools to scale the adoption and integration of RWAs into the digital economy:

- Arc²: An open source tokenization platform that lets anyone bring assets onchain that handles the end-to-end process of tokenization, from entity setup to custody and cap table management, making tokenization accessible to businesses and individuals. Arc also includes third-party solutions that deliver advanced best practices in privacy and regulatory compliance. Arc also includes third-party Institutional-grade asset management and custody third-party service provider integrations. Arc simplifies the tokenization workflow by connecting issuers to pre-integrated service providers (e.g., oracles, custodians) and automating compliance, custody, and smart contract deployment. This reduces operational and regulatory complexity, making it easier for asset issuers to deploy projects efficiently.
- Nest³: A DeFi yield aggregation protocol that enables users to swap stablecoins (like USDT or USDC) for vault tokens that represent a basket of institutional-grade yields from tokenized RWAs such as treasuries, bonds, real estate, private credit, ETFs, and more. Nest vaults can be configured by registered investment companies or offshore asset managers to obtain different risk and reward profiles tailored to users’

² <https://plumenetwork.xyz/arc>

³ <https://nest.credit/>

preference. Nest vaults provide access to yields from established asset managers like Apollo Global Management, Blackstone, Carlyle, Pimco, and UBS. Nest Treasuries vault offers stable returns from AAA-rated assets, managed by partners like M⁰, Mountain, and Anemoy. High yield vault targets growth through blue-chip crypto assets or higher-risk RWAs.

- Nexus⁴: An onchain data highway that normalizes and integrates real-world, off-chain data feeds (e.g., price, ownership) into the blockchain. Nexus uses partnerships (like OpenLayer's OpenOracle) to provide verifiable, exotic data for RWA applications. Nexus provides verified data for creating financial products like prediction markets and asset funds, increasing transparency and enabling innovative use cases such as yield generation and risk management.
- Passport⁵: An open source non-custodial wallet software tailored for RWAfi, allowing users to hold, trade, and manage all crypto assets, including tokenized assets securely. Passport enables seamless interaction with DeFi protocols without additional smart contract layers, enhancing user experience and accessibility. It allows users to stake, trade, or manage tokenized assets directly, fostering broader participation.
- SkyLink⁶: A cross-chain interoperability solution for distributing RWA yields. Skylink supports 18 (and counting) networks (e.g., Solana, Injective, Zircuit) via LayerZero, enabling YieldTokens to be minted, burned, and streamed across chains. SkyLink enhances interoperability and liquidity by allowing tokenized assets to generate yield across different blockchain ecosystems, broadening their reach and utility.
- Developer software development kit (SDK)⁷: A toolkit for developers to build RWA-focused blockchain applications. The SDK includes APIs and documentation for integrating tokenized assets into DeFi protocols or custom projects. The SDK empowers developers to build on Plume's ecosystem, fostering a vibrant community of interconnected projects and driving innovation in RWA-focused DeFi applications.

By bridging the worlds of TradFi and DeFi, we aim to realize the capital formation benefits of tokenization in the form of enhanced liquidity, accessibility, and efficiency.⁸ These benefits are

⁴ <https://plumenetwork.xyz/nexus>

⁵ <https://plumenetwork.xyz/passport>

⁶ <https://plumenetwork.xyz/blog/skylink>

⁷ <https://github.com/plumenetwork>

⁸ See e.g., How tokenization is transforming global finance and investment, Dec. 10, 2024, <https://www.weforum.org/stories/2024/12/tokenization-blockchain-assets-finance/> ("shortened settlement cycles [...] improve liquidity, enhance market efficiency and lower systemic risk... by using distributed ledger technology for collateral management, financial institutions can free up substantial capital estimated at more than \$100 billion annually. [...] Today there are \$255 trillion in marketable securities that are in demand for use as collateral, but only \$28.6 trillion are actively being used. Unlocking even a small percentage would have a transformative impact on how trades are finalized, reducing risk, freeing liquidity and opening new ways for investors to earn returns.") (citations omitted).

particularly prominent as it relates to “alternative assets,” i.e. assets other than publicly-traded equities and fixed income⁹ where tokenization can help add value that can be measured in the hundreds of billions of dollars per year.¹⁰ Plume is helping issuers and their service providers tokenize alternative assets—such as real estate, commodities, solar farms, and even mineral rights. There are over 180 projects building on the Plume Network, \$4.5 billion in committed assets ready for tokenization (as of April 2025), and 18 million unique wallet addresses.¹¹

Among the 180+ projects building on the Plume Network are institutional asset managers like Apollo Global Management (who has also directed a strategic investment¹² into Plume), Goldfinch (whose platform provides Plume Network participants access to private credit funds directed by Apollo, Ares, Golub, and KKR),¹³ Superstate,¹⁴ UBS,¹⁵ and Whinfell¹⁶ as well as other

See also Leveraging tokenisation for payments and financial transactions, Apr. 10, 2025, <https://www.bis.org/publ/othp92.htm> (“In the [tokenization] use cases examined [by the Consultative Group on Innovation and the Digital Economy established at the Bank of International Settlements Representative Office for the Americas], all parties involved in a transaction may benefit from tokenisation. For end users, transactions could be instantaneous, programmable and less costly. Users may also manage their digital assets directly, with transparency and immutability. For banks and loan agents, tokenisation allows them to offer innovative financial products that could increase demand for their services. With a modern and user-friendly financial ecosystem, customer convenience and satisfaction may improve. Operational efficiency could also increase if tokenisation streamlines processes and reduces transaction costs through atomic settlement and smart contracts. Participants may also benefit from improved risk management through secure collateral handling and greater confidence in the system’s enforcement capabilities, as well as better regulatory compliance.”).

⁹ Chartered Alternative Investment Analyst (CAIA), Anson, Black, Kazemi, Alternative Investments, CAIA Level 1, 4th Ed., What Is an Alternative Investment?, at 3, available at https://caia.org/sites/default/files/caia_level_i_4th_edition_chapter_1_new.pdf.

¹⁰ “Tokenization can streamline, automate, and simplify most stages of alternative investments, benefiting individuals and institutions alike. It could also improve liquidity and collateralization, automate capital calls, and enable portfolio customization. Unlocking these benefits represents potentially \$400 billion in additional annual revenue for the alternatives industry.”

¹¹ <https://plumenetwork.xyz/>

¹² Plume Announces Investment from Apollo Funds to Advance Real World Asset Finance Onchain, Apr. 8, 2025, <https://plumenetwork.xyz/blog/apollo>.

¹³ Plume and Goldfinch Partner to Expand Onchain Access to Private Credit Funds from Apollo, Ares, Golub, KKR, and More, Mar. 20, 2025, <https://plumenetwork.xyz/blog/goldfinch>.

¹⁴ Plume Network to Become the First Superstate Multichain Partner to Accelerate Institutional Adoption of RWAfi, Feb. 11, 2025, <https://plumenetwork.xyz/blog/superstate>.

¹⁵ Plume Partners with DigiFT to Expand Regulated Digital Asset Offerings, Dec. 17, 2024, <https://finance.yahoo.com/news/plume-partners-digift-expand-regulated-010000633.html> (“A cornerstone of this partnership is providing access to uMINT, UBS Asset Management’s first tokenized money market fund, on Plume. Built on Ethereum distributed ledger technology and issued under UBS Tokenize[.]”).

¹⁶ Whinfell to offer up to \$5B of bespoke asset capacity onto Plume, starting with Carlyle, Pimco and Simplify ETFs in Nest’s flagship staking vault, Jan. 22, 2025, <https://www.prnewswire.com/news-releases/whinfell-to-offer-up-to-5b-of-bespoke-asset-capacity-onto-plume-starting-with-carlyle-pimco-and-simplify-etfs-in-nests-flagship-staking-vault-302357706.html>.

well-known names like Fireblocks,¹⁷ Mercado Bitcoin,¹⁸ Ondo Finance¹⁹ and Paypal²⁰ with many more institutional partnerships in our pipeline. This list of institutional partners is growing alongside other partners leveraging Plume to bring new RWAs onchain, including:

1. Harvest Flow,²¹ in partnership with Plume Network and Apas Port, is an onchain lending platform providing affordable loans to TukTuk drivers in Cambodia, launching with a \$20 million loan pool. Harvest Flow targets micro-entrepreneurs in emerging economies, offering low-cost financing to sustain and grow their businesses, addressing barriers like limited credit access.
2. Allegiance Oil & Gas,²² with assets under management exceeding \$1 billion, is launching Mineral Vault on Plume Network – the first tokenization platform for U.S. mineral interests. Mineral Vault’s innovative solution leverages blockchain technology to overcome administrative frictions in trading mineral interests by tokenizing title guarantees for tokenized assets. This protection against pre-existing title defects provides investors with a high degree of confidence in the security of their investments. In addition, this project simplifies the burdensome administrative processes historically associated with mineral interest transfers. By establishing a Special Purpose Vehicle (SPV) to manage the underlying assets, only the ownership interest is exchanged via tokens.
3. Erable²³ tokenizes revenue-sharing opportunities in renewable energy projects (e.g., solar farms) and sustainable infrastructure, allowing investors to earn yield. Erable enables small-scale renewable energy entrepreneurs to access global investors, offering competitive funding compared to traditional high-cost loans.
4. ParqStreet²⁴ uses Plume’s platform to tokenize luxury real estate, enabling fractional ownership and yield generation from traditionally illiquid properties. Tokenization provides real estate entrepreneurs (e.g., boutique developers) a new capital-raising

¹⁷ Plume Network Leverages Fireblocks to Unlock Institutional Access to DeFi and Real World Asset (RWA) Yield, Jan. 30, 2025, <https://plumenetwork.xyz/blog/fireblocks>.

¹⁸ Plume Network Partners with Mercado Bitcoin to Tokenize \$40 Million in Real World Assets, Opening Up Global Access to Brazilian Assets, Feb. 12, 2025, <https://plumenetwork.xyz/blog/mercado-bitcoin> (“With 4 million clients over 11 years of operation, MB | Mercado Bitcoin is the leading digital asset investment platform in Latin America.”).

¹⁹ Plume Network Taps Ondo Finance to Broaden RWAfi Ecosystem with Tokenized US Treasuries, Dec. 30, 2024, <https://plumenetwork.xyz/blog/ondo>.

²⁰ Plume To Launch New PayFi Vault Powered by PayPal USD March 4, 2025, <https://plumenetwork.xyz/blog/paypal>.

²¹ See <https://plumenetwork.xyz/blog/apas-port-harvest-flow>.

²² See <https://plumenetwork.xyz/blog/allegiance-oil-gas-1b-fund-unveils-first-ever-tokenized-mineral-vault-on-plume-network>

²³ See <https://www.erable.com/about-us/concept>

²⁴ See <https://plumenetwork.xyz/blog/case-study-parq-street>

avenue, reducing dependence on costly traditional financing. Fractionalization connects developers to global liquidity, providing competitive capital for scaling or new projects.

II. Plume's policy views

Plume is an example of an American crypto company that has focused its attention offshore due to regulatory uncertainty inside the United States. While Plume has helped develop the most complete and diverse tokenization ecosystem among RWA networks globally, we have regrettably geoblocked American users from entry points we offer into our platform in order to manage regulatory risk.

1. The Commission should embrace open, permissionless blockchain technology

Plume shares with this Administration the goal of making the US the “best place in the world for capital to arrive” (quoting Treasury Secretary Scott Bessent).²⁵ In a similar vein, Secretary Bessent has also expressed the Administration’s view that “Digital assets are here to stay, we are going to make the United States the digital asset hub of the world.”²⁶ Similarly, President Trump has expressed his view directly, indicating that his Administration “will make sure the U.S. is the Crypto Capital of the World.”²⁷ Echoing the stated goals of the Trump Administration, SEC Chairman Paul Atkins has expressed his view that he “expects huge benefits from this market innovation for efficiency, cost reduction, transparency, and risk mitigation.”²⁸

Plume’s shares Chairman Atkins’ view of the potential of blockchain technology to achieve “huge benefits” as it relates to “efficiency, cost reduction, transparency, and risk mitigation” that can help the Administration achieve its stated goals for capital and crypto markets. We welcome the opportunity to work with the Chairman, commissioners, and SEC staff to achieve these goals.

We believe the best path to achieve these goals for U.S. capital markets and digital assets innovation is to embrace open, permissionless blockchains. Developing a workable framework to enable U.S. issuers to access a world of onchain investors is the best way to encourage capital inflows into the U.S. The best way for the US to remain the center of global capital flows and digital asset technology more broadly is to embrace open, permissionless blockchains:

²⁵ See Watch CNBC's full interview with Treasury Secretary Scott Bessent, Apr. 28, 2025, at 4:15, <https://www.youtube.com/watch?v=i8Lay5BbdVw&t=7s> (“What this Administration is committed to is keeping the US the best place in the world for capital to arrive.”).

²⁶ Cointelegraph, Mar. 17, 2025, <https://x.com/Cointelegraph/status/1901559129556033892>.

²⁷ Trump announces strategic crypto reserve including bitcoin, Solana, XRP and more, Mar. 2, 2025, <https://www.cnbc.com/2025/03/02/trump-announces-strategic-crypto-reserve-including-bitcoin-solana-xrp-and-more.html>.

²⁸ Remarks at the Crypto Task Force Roundtable, Apr. 25, 2025, <https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-crypto-task-force-roundtable-042525>.

1. **The most “efficient” markets are those with more liquidity²⁹ and open blockchains are the optimal market structure to attract liquidity.³⁰** In contrast to fragmented liquidity trapped within myriad permissioned blockchains, open blockchains provide a unique capability to draw on global liquidity, attracting capital from anyone in the world with an internet connection to invest in U.S. securities. Similarly, open blockchains may also attract more liquidity than the gated U.S. securities markets that generally require the use of an intermediary.
2. **Moreover, open blockchains often support interoperable protocols (e.g., ERC-20 tokens), enabling seamless asset trading and liquidity pooling.** Permissioned blockchains, tailored for specific consortia, lack this universal compatibility, fragmenting liquidity. Open blockchains’ public ledgers ensure transparent transaction histories, fostering trust among participants. This encourages broader participation and liquidity inflow compared to permissioned systems, where opacity or centralized control can deter participation from members not included in the consortia for cost or strategic reasons.
3. **Open blockchains would not only enhance the “demand” for U.S. securities, but would facilitate the “supply” of new services that would enhance market efficiency and capital formation.** For innovators the accessibility of open blockchains and the composability of smart contract-based protocols lowers the barriers to entry. New market structure innovations like automated market maker (AMM) trading protocols, prevalent in DeFi, have been enabled by open permissionless blockchains. AMM protocols have shown promise in reducing transaction costs and therefore enhancing liquidity for traditional assets like foreign exchange, bonds, major commodities, and

²⁹ See e.g., Chordia, Tarun and Roll, Richard W. and Subrahmanyam, Avanidhar, Liquidity and Market Efficiency (March 26, 2007). Available at SSRN: <https://ssrn.com/abstract=794264> or <http://dx.doi.org/10.2139/ssrn.794264> (The authors find that short-horizon return predictability from order flows, an inverse indicator of market efficiency, diminishes in more liquid markets. They argue that higher liquidity reduces price pressures caused by order imbalances, allowing prices to align more closely with fundamental values, thus enhancing market efficiency. Additionally, the paper suggests that liquidity facilitates arbitrage activity, which reduces transaction costs by narrowing bid-ask spreads and improving price discovery.). Amihud, Y., & Mendelson, H., Asset pricing and the bid-ask spread. Journal of Financial Economics (Dec. 6, 1986), <https://www.sciencedirect.com/science/article/pii/0304405X86900656> (The authors demonstrate that higher liquidity, measured by lower bid-ask spreads, reduces transaction costs for investors, making it easier to trade assets without significant price impacts. This lower cost environment enhances market efficiency by allowing prices to reflect all available information more accurately. The paper’s liquidity-adjusted capital asset pricing model shows that securities with higher liquidity command lower expected returns, implying greater efficiency due to reduced frictions.).

³⁰ Catalini, Christian and Gans, Joshua S., Some Simple Economics of the Blockchain (April 20, 2019). Rotman School of Management Working Paper No. 2874598, MIT Sloan Research Paper No. 5191-16, Available at SSRN: <https://ssrn.com/abstract=2874598> or <http://dx.doi.org/10.2139/ssrn.2874598> (finding that permissionless blockchains reduce transaction costs and increase market access by eliminating intermediaries, thus enhancing liquidity for tokenized assets.).

equities.³¹ In contrast, innovation in traditional securities markets generally requires economic and, most importantly, strategic alignment with incumbent intermediaries.

These features of open blockchains make them superior to permissioned blockchains or traditional U.S. securities market structures at attracting market liquidity and efficiency and capital formation, representing two of the three policy directives Congress has given the Commission.³² With respect to the third, investor protection directive, both open blockchain and complementary artificial intelligence technologies can enhance investor protection.

- 1. By reducing reliance on centralized intermediaries, open blockchain market structure mitigates risks of systemic failures or mismanagement by brokers or custodians.³³** This outcome could be enhanced by SEC encouragement of cybersecurity best practices for service providers that provide investors tools to engage in self-custody and DeFi trading.
- 2. In contrast to traditional financial markets that operate across a complex supply chain of black box proprietary databases where public transaction data has to be extracted and reported into a separate reporting database (e.g., the Consolidated Audit Trail), imposing costs on all participants, creating reconciliation breaks, and data integrity risk, open blockchains record all transactions publicly in real-time.** This means investors and data providers have lower barriers to access public data and the data is more accurate. This means the cost of acquiring market data is lower (and often trivial) than similar market data from securities markets. The broad availability of market data also encourages competition among data providers, enhancing the data available for market participants, enhancing their understanding of the markets and therefore encouraging investor protection.

³¹ Foley, Sean and O'Neill, Peter and Putnins, Talis J., A Better Market Design? Applying 'Automated Market Makers' to Traditional Financial Markets (December 15, 2023). Available at SSRN: <https://ssrn.com/abstract=4459924> or <http://dx.doi.org/10.2139/ssrn.4459924>. See also Malinova, Katya and Park, Andreas, Learning from DeFi: Would Automated Market Makers Improve Equity Trading? (April 21, 2024). Available at SSRN: <https://ssrn.com/abstract=4531670> or <http://dx.doi.org/10.2139/ssrn.4531670> (Using U.S. equity trading data, the authors estimate that well-designed AMMs could save billions annually by reducing trading costs. AMMs achieve this through improved risk-sharing and liquidity provision by long-term asset holders, who supply capital that would otherwise remain idle. Unlike traditional market makers, AMMs allow these holders to earn fees for intraday risk, enhancing capital formation by mobilizing underutilized assets. The paper also discusses how AMMs can lower transaction costs by tightening bid-ask spreads and automating liquidity provision.).

³² See e.g., Securities Act of 1933, 15 U.S.C. § 77b (1933), available at <https://www.law.cornell.edu/uscode/text/15/77b> ("Whenever pursuant to this subchapter the Commission is engaged in rulemaking and is required to consider or determine whether an action is necessary or appropriate in the public interest, the Commission shall also consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation.").

³³ See e.g., examples of Bear Stearns, Bernie Madoff, and Lehman Brothers (2008), as well as MF Global (2011).

3. **In contrast to SEC disclosures for public companies which are generally required on a quarterly or yearly basis, onchain securities issuers could provide a wide range of information, particularly quantitative data, in real-time.** “By reducing the prevalence of outdated information, and by generating more information about underlying infrastructure, investors benefit from more eyes falling on their investment[.]”³⁴
4. **AI language learning models (LLMs) can translate complex and lengthy qualitative disclosures required for various types of securities for the appropriate level of consumption for lay investors,** e.g., under SEC Regulation S-K, or quantitative disclosures under Regulation S-X, or prospectuses required under other securities laws. Such LLMs can enhance the efficacy of federal securities laws given that these disclosure rules are designed to level the playing field by requiring issuers to provide all investors with reliable, timely, and material information about investments, enhancing the protections of U.S. securities laws. The cost of tailored, LLM-enhanced disclosures can be further lowered through the wide use of new onchain SEC disclosure requirements that could leverage the transparency and real-time nature of open blockchains.
5. **Open blockchains are a superior market structure for protecting investors against illicit activity as compared to closed, permissioned blockchains and traditional securities market structures.** This is due in large part because of the wide availability of real-time data which provides unprecedented ability to monitor illicit activity without delay. Many government investigations of illicit activity in traditional markets move slowly because of the need to pierce through a complex chain of financial and corporate records. Often, by the time the bad actor is identified, they have vanished along with their ill-gotten gains. In the case of onchain illicit activity, the illicit proceeds can be traced in real-time. Illicit onchain activity is a small fraction (0.14% in 2024³⁵) of total crypto volume and lower than the estimated 2–5% of fiat transactions linked to illicit activity.³⁶ Moreover, seizure rates, an indication of the effectiveness of law enforcement in different contexts, are much higher in an onchain environment (approximately 27%

³⁴ Brummer, Christopher J., A Developer Theory of Disclosure (February 14, 2025). Available at SSRN: <https://ssrn.com/abstract=5137972> or <http://dx.doi.org/10.2139/ssrn.5137972>.

³⁵ 2025 Crypto Crime Trends: Illicit Volumes Portend Record Year as onchain Crime Becomes Increasingly Diverse and Professionalized, Jan. 15, 2025, <https://www.chainalysis.com/blog/2025-crypto-crime-report-introduction/>

³⁶ Financial Crime: trends and challenges in the digital era, 2023, <https://www.managementsolutions.com/en/microsites/whitepapers/financial-crime>.

according to Chainalysis³⁷) much higher than similar measures from real-world illicit activity.³⁸

Jurisdiction(s) that embrace open blockchains as a market structure to enhance the efficiency and reach of their national capital markets will be the most competitive. For the U.S., our capital markets remain dominant and embracing open blockchains will ensure their continued dominance for a generation.

2. Responses to specific questions from the RFI

10. Should the Commission consider a version of Rule 195, my proposed token safe harbor? Is the iteration on my proposed safe harbor known as “Safe Harbor X,” or some other iteration, a better approach?

We agree with the approach taken by Commissioner Peirce’s safe harbor proposals. Specifically, the safe harbor frameworks encourage the development of decentralized networks while providing token purchasers disclosures “tailored to the needs of the purchasers and preserving the application of the anti-fraud provisions of the federal securities laws to Token distributions.”³⁹

We would recommend that Commissioner Peirce’s safe harbor framework provide not just an exemption from the application of the Securities Act of 1933 (Securities Act), but also the Securities and Exchange Act of 1934 (Exchange Act). Many decentralized networks provide a clearance and settlement or trading function that could arguably be seen as providing a similar function as Exchange Act registrants. Just as a network can “mature into a functional or decentralized network that is not dependent upon a single person or group to carry out the essential managerial or entrepreneurial efforts”⁴⁰ that would obviate the need for the application of disclosure requirements under the Securities Act, such a decentralized network would also obviate the need to directly regulate the autonomous code that performs clearance and settlement or trading function.

³⁷ Crypto and Regulators Are Speaking the Same Language When It Comes to Financial Transparency, June 14, 2024,

<https://www.coindesk.com/opinion/2023/04/26/crypto-and-regulators-are-speaking-the-same-language-when-it-comes-to-financial-transparency>.

³⁸ “The seizure of criminally acquired assets is extremely low worldwide. It is estimated that law enforcement manages to take just a fragment of criminal assets out of criminals’ hands; below 2% of the estimated yearly proceeds of organised crime, Europol holds largest-ever operation to increase seizures of criminal assets worldwide.”

<https://www.europol.europa.eu/media-press/newsroom/news/europol-holds-largest-ever-operation-to-increase-seizures-of-criminal-assets-worldwide>.

³⁹ SEC Commissioner Hester Peirce, Token Safe Harbor Proposal 2.0, Apr. 13, 2021,

<https://www.sec.gov/newsroom/speeches-statements/peirce-statement-token-safe-harbor-proposal-2.0>.

⁴⁰ Id.

For the purpose of a safe harbor exemption from both the Securities Act and Exchange Act, we would recommend that the Commission adopt the disclosure framework suggested by the Division of Corporation Finance (CorpFin).⁴¹ Specifically, the primary risk of decentralized protocols performing a clearance and settlement or trading function relates to cybersecurity and the most effective means by which to address cybersecurity for DeFi protocols is code audits. The CorpFin framework (in contrast to Commissioner Peirce’s safe harbor frameworks) focuses on “technical specifications” including:

*Whether the security or subject crypto asset and the smart contract(s) and/or code on which it is/are based, if applicable, have been subjected to a third-party security audit (i.e., an independent assessment to identify vulnerabilities and ensure compliance with industry standards), and if, so who conducted the audit and the results of the audit.*⁴²

We would encourage the Commission to expand on these code audit requirements in any forthcoming safe harbor framework, including through the articulation of best practices relating to code audits. Robust code audit conditions would achieve the same outcomes for DeFi protocols as Regulation SCI requirements achieve for certain Exchange Act registrants, i.e. ensuring that these market infrastructures are “reasonably designed to ensure that their systems have levels of capacity, integrity, resiliency, availability, and security adequate to maintain their operational capability and promote the maintenance of fair and orderly markets[.]”⁴³

Accountability related to DeFi protocol code audits required under a safe harbor exemption could be reinforced through a requirement that Commission registrants participating in DeFi networks ensure that any protocol they utilize has been subject to Commission-set code audit standards.

We note that Plume subjects all of the DeFi protocols it has developed to internal and external code audits, as well as robust testing, and “bug bounties” to encourage the identification of flaws in the code.

11. Should the safe harbor be available retroactively for projects that comply with the disclosure requirements?

Due to a lack of regulatory clarity and a mixed case law record, we would encourage the Commission to provide for retroactive safe harbor relief.

14. How should the decentralization of a deployed protocol best be evaluated? How should permissioned aspects of crypto-adjacent software or participant roles, such as

⁴¹ Division of Corporation Finance, Offerings and Registrations of Securities in the Crypto Asset Markets, Apr. 10, 2025, <https://www.sec.gov/newsroom/speeches-statements/cf-crypto-securities-041025>

⁴² Id.

⁴³ Regulation Systems Compliance and Integrity, 79 FR 72253 (Dec. 5, 2014), Release No. 34-73639; File No. S7-01-13,

<https://www.federalregister.gov/documents/2014/12/05/2014-27767/regulation-systems-compliance-and-integrity>.

validators, relayers, and sequencers, be considered? Are there tech-neutral thresholds that can be agreed upon for determining thresholds for decentralization?

The goal of decentralization, of open blockchains in general, is to eliminate or reduce reliance on centralized intermediaries. Toward this goal, **we recommend that the Commission should adopt a clear but flexible framework for evaluating decentralization.** Below we provide some specific suggestions as the Commission considers future policymaking in this direction.

Evaluating the decentralization of a deployed protocol requires a principled framework that accounts for technical, economic, and governance dimensions of decentralization all of which drive toward the DeFi principle of credible neutrality, i.e. ensuring the protocol operates impartially, without favoring specific users or outcomes.⁴⁴

1. Technical decentralization

The key question here is does the protocol operate without single points of failure or control, maintaining neutrality in its infrastructure? Evaluation criteria here may include the vulnerability to tampering the outcome of the protocol, the control and distribution of nodes, accessibility of source code, and access restrictions. **An important factor in technical decentralization is also governance minimization, i.e. limiting the ability for centralized or even decentralized governance (e.g., through decentralized autonomous organizations (DAOs)) to alter the core functionality of a DeFi protocol.**⁴⁵ Governance minimization would be present in a protocol that limits human governance to non-core smart contracts related to a protocol, for example, e.g., smart contracts that relate to the levels of fees for liquidity providers in an AMM protocol but not the core trading protocol smart contracts.

2. Economic decentralization

The key question here is are economic incentives structured to avoid concentrated control and ensure neutral participation? Considerations for economic decentralization should look at the alignment of incentives, i.e., do rewards incentivize participation in the network without favoring specific actors, for example the developers? Fees should be transparent, automatically distributed, and participation-based. Economic decentralization should also consider whether concentrated distribution of tokens results in risks of self-dealing, e.g.,

⁴⁴ Vitalik Buterin, *Credible Neutrality As A Guiding Principle*, Jan. 3, 2020, <https://nakamoto.com/credible-neutrality/> (“Essentially, a mechanism is credibly neutral if just by looking at the mechanism’s design, it is easy to see that the mechanism does not discriminate for or against any specific people.”).

⁴⁵ “Governance minimization means reducing the power and reliance on governance wherever possible.” Fred Ehrsam, Nov. 28. 2020, <https://www.fehrsam.xyz/blog/governance-minimization> (“Governance minimization allows stakeholders to depend on a protocol. This creates a virtuous cycle of adoption, enabling scale that would otherwise be unachievable. Look no further than successful traditional internet protocols like HTTP and SMTP to see this power today. Their governance minimization has allowed them to become standards everyone depends on, generating levels of use far exceeding what any company could achieve.”).

through abuse of the governance process to favor insiders. This can also be addressed through governance decentralization (see immediately below).

3. Governance decentralization

The key question here is can the protocol evolve without centralized decision-making, maintaining neutrality in its governance processes? The goal with governance decentralization is a direct reflection of the minimized governance principle described above, i.e. protocol rules should be hardcoded to the extent possible and upgrades limited to the maximum extent possible. Immutable smart contracts, as seen in some DeFi protocols, reduce governance centralization.

When governance is necessary or desirable, it should be onchain, transparent, and inclusive, involving a broad set of stakeholders (e.g., token holders, validators) via mechanisms like DAOs. For example, with respect to Plume's Nest DeFi protocol, our goal is to limit administrative authority to the maximum extent possible with core smart contracts relating to the vault creation functionality being immutable while enabling users to create their own vaults and providing limited centralized control only for narrow purposes, especially compliance, e.g., empowering users to introduce whitelist (allowing only permitted wallet addresses to interact with the protocol) or blacklists (blocking prohibited wallet addresses to interact with the protocol).

- *Tech-neutral thresholds*

We would encourage the Commission to carefully develop objective, tech-neutral thresholds after a close examination of DeFi protocols. These thresholds should be carefully developed since indicia of decentralization may not be uniformly applicable. For example, developers and early investors may control a large percentage of a particular DeFi network token but if their control over core features of a protocol is limited due to governance minimization, then decentralization may still be present. Nonetheless, certain features of DeFi protocols can be identified as tech-neutral features of decentralization, e.g., resilience to shutdowns (no person can shut off the core function of the protocol, permissionless access, transparency and neutrality (critical operations (e.g., transaction processing, governance) must be publicly verifiable onchain, with no hidden mechanisms favoring specific users).

- *Implementation considerations*

A safe harbor framework for DeFi protocols is an excellent fit given that these protocols evolve over time. Early-stage protocols may rely on centralized control (e.g., multi-sig wallets to control core aspects of the protocol in order to amend it in case of identifying cybersecurity vulnerabilities, centralized node or sequencer controls, etc.) as they scale. Roles like validators, relayers, and sequencers should not disqualify a protocol from being decentralized if they are designed to minimize control, align with neutral incentives, and support governance minimization. For example, a protocol with a centralized sequencer but a roadmap to decentralization should be judged on its trajectory and protections against bias. **A safe harbor framework can encourage the evolution of DeFi protocols from aspiring DeFi to actual DeFi**

status and we would recommend the Commission adopt policies to encourage decentralization through a safe harbor framework.

18. The crypto markets are inherently transparent because they use open-source data, from public blockchains to open application programming interfaces (“APIs”). Are there programmatic/technological ways that crypto market participants, intermediaries, potential self-regulatory organizations, or regulators can monitor crypto markets using open-source data? How would this take into consideration nested accounts on centralized exchanges, given that this activity may not appear in public ledgers? Is open-source data sufficient for the market to monitor trading and therefore what non-public information might warrant mandatory disclosure? What sort of open-source tools can be used for enhanced transparency, such as proof of reserves, or proof of holdings? What are the limitations of such tools and such data?

See our comments below regarding the Consolidated Audit Trail below.

22. Public, permissionless blockchains are being used to tokenize permissioned assets. To the extent the custody rules for broker-dealers, investment advisers, and investment companies are implicated, how should the Commission differentiate between native crypto assets of permissionless blockchains and tokenized permissioned assets? Does either type of crypto asset present greater risks of theft or loss?

As described below in our discussion of onchain anti-money laundering compliance, risk of theft and loss could be limited through embedding within permissionless tokenized securities functionality that enables for the freezing of such assets. These and other compliance innovations can mitigate the risk of theft or loss, as would robust cybersecurity best practices for self-custody and DeFi protocols, both of which could be encouraged through Commission exemptions or rulemaking.

40. Tokenization enables dematerialized securities to be mobilized (i.e., not held in and confined to a single centralized ledger). Are there any provisions under the federal securities laws that prevent these securities from being used in new blockchain-based transactions and applications, and, if so, what steps should the Commission consider taking to facilitate this innovation while mitigating any related risks? Are there amendments or new rules that the Commission should consider to ensure a merit- and technology-neutral approach to tokenization? Does the type of blockchain used (i.e., permissioned versus permissionless) bear on this risk assessment?

Most Americans that trade stocks don’t think about the complex and overlapping securities laws that must be followed by a host of intermediaries to enable such trading. Behind the flashy interface of a brokerage firm’s app is a complicated regulatory scheme that has changed over time in response to evolving technology and historical incidents demonstrating the limitations of prior regulatory frameworks. The Paperwork Crisis emerged in the 1960s due to complications from manually transferring certificated securities. Congress responded by ordering the SEC to establish today’s National Clearance & Settlement System. Our current system relies heavily on the Depository Trust Company (DTC) to custody immobilized and

dematerialized securities and record changes of ownership electronically through a book-entry system, and the National Securities Clearing Corporation (NSCC) providing clearing, settlement, risk management, central counterparty services and a guarantee of completion for certain transactions for virtually all broker-to-broker trades.

Just as dematerialization of securities represented a solution to the burdensome manual process for transferring certificated securities in the 1970s, tokenization represents a solution to the outdated processes and centralization risk present in today's National Clearance & Settlement System. Specifically, blockchain technology can provide secure records of ownership and automated processes with respect to the transfer and clearing of trades.

The regulatory sandbox for open blockchains we (see further below) and other commenters have recommended would enable the Commission to carefully examine the appropriateness of current regulatory frameworks against the capabilities of new technology. Tokenization should serve as a catalyst for revisiting its rules relating to the National Clearance & Settlement System.

- *Rule 17Ad-22 – Standards for Clearing Agencies*

Rule 17Ad-22 of the Exchange Act requires registered clearing agencies to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk management practices on an ongoing basis. The rulebook, however, does not contemplate technological capabilities made possible by blockchain technology. For example, the rule doesn't consider that tokenized securities can be settled and cleared instantaneously and that margin requirements can be automated through smart contracts. These technological advancements significantly mitigate the need for risk management practices imposed on traditional clearing agencies.

The Commission should consider whether to use its exemptive authority under Section 17A(b)(1) and 36(a) of the Exchange Act to exempt tokenized securities activities that would otherwise require registration as a clearing agency from registration. At a minimum, blockchain network participants, such as node operators, should be exempt from any registration obligations for performing activities relating to the relevant blockchain's consensus mechanism. Additionally, the SEC should engage with current registered clearing agencies that are innovating with blockchain technology to determine whether exemptive relief from, or amendments to Rule 17Ad-22 are appropriate. Such relief should extend to Layer 1 blockchains, i.e. the base protocol layer subject to a consensus mechanism such as proof of stake or proof of work, as well as Layer 2 solutions built on top of a Layer 1 for the purpose of scalability and efficiency. Layer 2s rely on Layer 1 for transactional security and final settlement.

Tokenized securities provide an opportunity for increased competition in the clearance and settlement industry, which should be welcomed by the SEC to reduce risks inherent by the

reliance of our markets on a handful of Systemically Important Financial Markets Utilities to perform these functions.

- *Rules 17Ad-1 – 17Ad-20 – Transfer Agent Regulations*

Transfer agents are another example of intermediaries that operate within the current National Clearance and Settlement System. As a general matter, transfer agents maintain accurate ownership records on behalf of issuers, facilitate the issuance or cancellation of securities, and distribute dividends and implement other corporate actions. Rules 17Ad-1 through 17Ad-20 of the Exchange Act impose stringent obligations on transfer agents to facilitate the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds.

The transfer agent regulations include obsolete and outdated requirements that don't reflect current operations and capabilities of modern transfer agents. Nor do the transfer agent regulations reflect the idea that transfer agent activities can be performed through blockchain technology without an intermediary. For example, the recordkeeping rules for transfer agents (Rules 17Ad-9, 17Ad-10, and 17Ad-11) require transfer agents to promptly and accurately post changes to the master securityholder file, which is the official list of individual securityholder accounts. The blockchain protocol provides a secure record of ownership that could be used as a master securityholder file for tokenized securities issuances. However, the SEC has required transfer agents working with tokenized securities to maintain its own book-entry records as the official record, which creates duplicative and unnecessary efforts. Blockchains provide secure records of ownership and are visible to participants and regulators alike. There is no reason that an offchain record is still needed as an official record with respect to tokenized securities.

The Commission should consider whether to use its exemptive authority under Section 17A(c)(1) and 36(a) of the Exchange Act to exempt tokenized securities activities that would otherwise require registration as a transfer agent from registration. Additionally, the SEC should engage with current registered transfer agents that are considering or utilizing blockchain technology to determine whether exemptive relief from or amendments to the transfer agent regulations are appropriate. Further, the SEC should reopen the 2015 Concept Release on Transfer Agent Regulations⁴⁶ with new questions geared towards understanding the extent to which blockchain technology can be used either by transfer agents or to eliminate the need for transfer agents in the context of tokenized securities transactions.

- *Proxy Process*

A well-functioning proxy system promotes efficient and accurate voting by shareholders. The current proxy process is inefficient and relies on a complex set of rules and intermediaries stemming from the dematerialized nature of share ownership in the U.S. under the National Clearance & Settlement System. A typical proxy solicitation involves not only the companies

⁴⁶ Concept Release, Transfer Agent Regulations, 80 FR 81947 (Dec. 31, 2015).

and their shareholders, but also broker-dealers, depositories, transfer agents, proxy solicitors, proxy service providers, proxy advisory firms, and vote tabulators.

The current proxy rules accommodate investors who own their shares in street name, meaning they hold their securities in book-entry form through a broker, which in turn deposits the securities with DTC. Any reform or innovations relating to the way securities are held and settled as discussed above will inherently have to consider changes to the way in which proxy materials are distributed and shareholder votes counted under the proxy rules. For example, Exchange Act Rule 14a-13 provides strict limits on how an issuer can gather information from brokers concerning the identity and contact information of the beneficial owners of the shares. The rule also limits the types of communications that the issuer can send to the beneficial owners. Blockchain technology enables issuers to have a direct channel for identification of and communication with their shareholders. Privacy-enhancing features could also be used to protect investors that are concerned that an issuer might misappropriate their information in a manner unrelated to proxy materials.

The SEC should consider whether exemptive relief from certain proxy rules, such as Rule 14a-13, would be appropriate in connection with any relief for clearing, custody, or transfer agent regulations relating to tokenized securities. Additionally, the SEC should reopen the 2010 Concept Release on the U.S. Proxy System to consider the extent to which tokenized securities can reduce inefficiencies and improve voting accuracy and reliability in the proxy system.

- *Lessons Learned from Tokenized Securities Offerings to Date*

Innovation with tokenized securities offerings to date has been largely concentrated in the private fund space, which are not available to retail investors. The opportunities for retail investors to participate in tokenized securities offerings have been limited to several registered and Regulation A offerings, with limited secondary trading available on ATs. This is unfortunate because blockchain technology holds significant promise to make it easier for U.S. and non-U.S. investors to invest in and gain access to U.S. capital markets.

The SEC should consider immediate steps that could boost innovation involving tokenized securities offerings during the time within which the agency considers serious potential changes to the way securities transactions are intermediated with tokenized NMS securities. For example, the Commission should consider preempting state securities regulation of secondary trading of non-NMS tokenized securities on ATs under Section 18 of the Securities Act of 1933. Additionally, the Commission should allow registered broker-dealers to utilize new models of custody for tokenized securities and consider multiple paths to compliance for Rule 15c3-1 of the Exchange Act.

- *Regulation ATS*

Just as electronic trading prompted creation of the Regulation ATS, the Commission should also consider revisiting rules or exercising exemptive powers relating to secondary trading of securities generally related to DeFi protocols on open blockchains “current

regulatory framework [...] did not envision many of these trading and business functions.⁴⁷ The current regulatory framework does not contemplate the use of DeFi protocols for multilateral trading and bilateral settlement of onchain transactions.

DeFi protocols, particularly those that are subject to the disclosure conditions described above and that are subject to due diligence by Commission registrants such as broker-dealers or registered investment companies, can achieve the same or better outcomes as those achieved under current rules applying to ATSS. For example:

1. Transparency

Because of the inherent transparency of open blockchains, many transparency or reporting rules could be satisfied through the use of widely available blockchain data. For example, under Rule 301(b)(2), ATSS must file quarterly reports detailing trading volumes and transaction types. Using the data recorded on a blockchain or the data availability layer of Layer 2 scaling solutions, the Commission or an endorsing registrant could produce such data in-real-time, obviating the need to report stale quarterly data. Similar solutions could be introduced to achieve the same outcomes as other transparency requirements such as FINRA Rule 6730 (TRACE) where reporting could happen in real-time for tokenized bonds vs. the current delays caused by, in part, manual processing of transaction reports.

2. Conduct

The lack of human-driven risk inherent in truly decentralized DeFi protocols limits conduct risks, including violations of rules requiring “commercial honor” under FINRA Rule 2010 or risk of manipulative, deceptive, or fraudulent practices prohibited under FINRA Rule 2020.

3. Operational risks

A robustly designed DeFi protocol also ensures that the protocol achieves the same goals as operational risk requirements applicable to ATS, e.g., SEC Rule 301(b)(6) and Regulation SCI relating to systems integrity or the Market Access Rule (Rule 15c3-5). Again, the same policy outcomes can be achieved and reinforced through safe harbor disclosure and registrant due diligence requirements.

- *Permissioned versus permissionless blockchains*

Above we described in some detail the benefits of permissionless or open blockchains. With respect to the challenges of issuing tokenized securities on open blockchains from a securities law perspective, these can be fully identified through a regulatory sandbox (which we encourage further below). To provide one specific example, because there are few technical frictions to launching a security on a permissionless blockchain, ensuring the legitimacy of a particular token will need some kind of onchain verification. The Commission could assist in encouraging the development of onchain verification through guidance that would ensure a

⁴⁷ Regulation of Exchanges and Alternative Trading Systems, 63 FR 70,844, at 70,845 (Dec. 22, 1998), <https://www.govinfo.gov/content/pkg/FR-1998-12-22/pdf/98-33299.pdf>.

particular token actually represents what it purports to be, e.g., related to a particular security offering by a particular Securities Act reporting company.

41. How do the programmability and composability properties of blockchain technology and blockchain-based technologies, such as smart contracts, affect the role of a transfer agent? Are there provisions in the transfer agent rules that prevent transfer agents from using blockchain technology for this purpose to the fullest extent possible? Is an offchain record still needed as an official or a complementary record in a tokenization arrangement? Are there any legal or regulatory impediments to using onchain identity solutions?

Please refer to the discussion of transfer agent regulations above in response to question 40.

Do other federal laws, or state corporate or commercial laws present challenges to firms seeking to issue tokenized securities or engage in activities involving tokenized securities?

In addition to federal securities law considerations, issuers seeking to tokenize their securities must navigate the complexities of state laws governing the transfer of securities in a tokenized context. Several states have amended their corporate and commercial laws to facilitate tokenized securities by allowing issuers to use any reasonable technology, including blockchains, to maintain their books and records for uncertificated securities. However, two primary concerns have hindered the direct issuance of securities on open blockchains:

1. Holder Identification Needs

Open blockchains typically do not associate identifying information with blockchain addresses. The lack of readily available account holder information has placed the burden on issuers to collect necessary information to comply with state law requirements, such as maintaining the names and addresses of equity holders, and for tax reporting and withholding purposes.

2. Record Control Requirements

Issuers may need to unilaterally modify their books and records to comply with legal obligations, such as court orders to record the transfer of securities. Implementing secure systems allowing for such changes on a public blockchain can be challenging.

To address these challenges, many companies have adopted a dual-recording model. In this approach, the issuer maintains an off-chain ledger as the true record of ownership, while an onchain, uncertificated token representation serves as a means to instruct the company or its transfer agent regarding security transfers. However, this model requires the issuer to register a transfer for the delivery of the security and the bundle of rights inherent in it to be effective, creating a "walled garden" and necessitating active issuer involvement in the secondary market for its tokenized securities. It should be noted however that there are technology solutions that can facilitate issuer management of secondary market transactions.

Alternatively, some issuers have explored treating tokens as security certificates. Under the Uniform Commercial Code (“UCC”), delivery of a certificated security occurs when a purchaser takes possession of the security certificate. This approach allows transfers to occur immediately, independently of the issuer’s registration of the transfer. The certificated model could enable more free and certain transferability in peer-to-peer secondary markets onchain. However, there remains uncertainty regarding the validity of a tokenized certificate, including whether a token can satisfy requirements to conspicuously note certain information, such as transfer restrictions. To date, only Wyoming has enacted legislation to specifically address blockchain-based certificates.⁴⁸

In lieu of state law updates, the SEC could potentially mitigate these delivery finality uncertainties by leveraging its authority under Sections 17A(b)(1) and 36(a) of the Exchange Act to provide exemptive relief from clearing agency registration requirements.

The UCC provides a regulatory pathway through Article 8, which allows clearing corporations to establish binding rules for their participants that take precedence over the UCC even where such rules affect third parties who have not consented. A “clearing corporation” under the UCC includes a person that has been exempted from registration as a clearing agency, so long as the SEC or another state or federal governmental authority retains regulatory oversight over such person’s rulemaking authority. Leveraging these provisions, the SEC could craft exemptive relief that would enable appropriately positioned blockchain companies to set transfer rules for securities on their public networks, thereby clarifying the application of state laws to these technologies.

Another concern is guidance from FinCEN regarding “convertible virtual currencies.” In 2019, FinCEN provided guidance on the “Application of FinCEN’s Regulations to Certain Business Models Involving Convertible Virtual Currencies.” The definition of “convertible virtual currencies” or “CVCs” is broad and does not clearly exclude equities or other securities if issued in a form that can substitute for currency. FinCEN’s guidance on sales of CVC suggests that a person who can issue and redeem CVC is a money transmitter acting in the role of an administrator. The vast majority of stock issuers do not intend to become money transmitters subject to the Bank Secrecy Act; however, to the extent “CVC” could be interpreted to include any fungible token of sufficient circulation, FinCEN’s guidance has created ambiguity that could impact the market for tokenized securities.

45. The Commission recently adopted rule amendments to shorten the standard settlement cycle for most broker-dealer transactions from “T+2” to “T+1,” subject to certain exceptions. Tokenization is often characterized as an innovation that facilitates instant or simultaneous settlement (“atomic settlement”) if all parts of a transaction are executed and settled on the same blockchain. What are the benefits of atomic settlement, and what are the risks? Should the Commission consider taking any actions that would encourage adoption of atomic settlement?

⁴⁸ See Wyoming HB0070 - Open blockchain tokens-exemptions, 2018, <https://www.wyoleg.gov/Legislation/2018/HB0070>.

What are the benefits of near-instantaneous settlement, as made possible by tokenization on a blockchain network?

Tokenization on blockchain enables customers to settle securities-related transactions within seconds of execution. The benefits associated with instant and simultaneous settlement on blockchain are wide-ranging and currently being realized by retail and institutional market participants alike. Specifically, atomic settlement can contribute to capital efficiencies, a reduction in “trapped” liquidity in cash and securities markets, and reduced transactional costs where intermediaries are eliminated. In addition, by pre-positioning assets and validating and settling on a blockchain, atomic settlement reduces settlement fails and ultimately counterparty and default risk – contributing to lower systemic risk across markets. Finally, the transparency afforded by blockchain technology allows the SEC and other regulators to more effectively and efficiently monitor the settlement process.

What are the risks of near-instantaneous settlement, as made possible by tokenization on a blockchain network?

Atomic settlement should be viewed as an alternative to T+1 settlements, rather than a complete replacement of the existing settlement structure and traditional settlement services for broker-dealer transactions. With this in mind, concerns regarding the impact of wide scale adoption on liquidity burdens are alleviated, as market participants unable to commit sufficient funds to execute and immediately settle transactions could continue to operate under traditional settlement structures. Other perceived risks or concerns have centered around mandating T+0 or instantaneous settlement within traditional settlement services, which would require technological changes, and new operating models and processes. Atomic settlement capabilities are currently operated by registered large-scale settlement service providers (e.g., Project Ion⁴⁹) and via tokenization on blockchain. The cost and burden associated with technological changes, new operating models and processes do not present a reason to stifle or restrict settlement innovation and adoption.

Should the Commission consider taking any actions that would encourage adoption of atomic settlement?

The significant risk reduction benefits of atomic settlement warrant the SEC’s consideration in expanding real-time settlement capabilities to additional market participants. Because current market structure requirements mandate the usage of multiple intermediaries in the settlement process (e.g., broker-dealers, clearing agencies, third-party custodians), the SEC should consider permitting transacting customers to elect or “opt in” to a non-intermediated atomic settlement structure. Under this approach, atomic settlement would be permitted but not required of all market participants, retaining current market structures while enabling existing and new adopters to realize instant or simultaneous settlement benefits. And, the decision to settle on an instantaneous or T+1 basis could be tailored to the specific market or product offering.

⁴⁹ DTCC’s Project Ion Platform now Live in Parallel Production Environment, Aug. 22, 2022, <https://www.dtcc.com/news/2022/july/27/project-ion>.

Further, the Commission should consider clarifying, either via guidance or an exemptive letter, that atomic settlement can occur within the current regulatory parameters of existing SEC Regulation ATS requirements.

Finally, the Commission also should clarify that the exception from the order protection rule under Rule 611 for trade-throughs that are not conducted under a “regular way” contract applies to atomically settled transactions.

47: Would the Sandbox help foster tokenization and blockchain innovation? What types of products and services across the fintech landscape would firms like to test in the Sandbox? What regulatory, technical, and operational barriers pose the biggest challenges to innovation in this space? Could the Sandbox mitigate those challenges?

The sandbox concept holds significant promise in fostering an innovative environment for tokenization to flourish in the United States. Participants in the sandbox would benefit from regulatory certainty that comes with operating in an environment free of “gotcha” enforcement actions. The SEC, in turn, would benefit from tangible experience observing how the securities laws can be optimally adjusted to permit for innovation while preserving important investor protections.

Specifically, the SEC should embrace competition and innovation among regulated intermediaries and technology service providers by implementing a sandbox for real-world asset tokenization projects built on open blockchains like Plume. We welcome efforts from partners like the Project Open proposal from Solana Policy Institute, Superstate Inc., Zagreus Services LLC (dba Orca Creative), and Lowenstein Sandler LLP that encourages the Commission to create a sandbox for open, public blockchains.⁵⁰ We would encourage action that might follow from reasoned statements from SEC Commissioners in support of a sandbox. Quoting then Acting Chairman Mark Uyeda (April 11, 2025):

*While the Commission works to develop a long-term solution to address these issues, a time-limited, conditional exemptive relief framework for registrants and non-registrants could allow for greater innovation with blockchain technology within the United States in the near term.*⁵¹

The SEC should permit issuers, in consultation with Plume and other technology service providers, regulated intermediaries, and their legal advisors, to launch issuances and secondary trading of the issued tokenized securities in a sandbox environment. Issuers and their partners should be able to experiment with providing broker-dealer, transfer agent, clearing agent, and other services with the benefits of blockchain technology, without worrying of violating potentially outdated rules that could be updated as the result of the Task Force’s

⁵⁰ Project Open, Apr. 30, 2025,

<https://www.sec.gov/files/ctf-written-project-open-wireframe-04282025.pdf>.

⁵¹ Acting SEC Chairman Mark Uyeda, Remarks at the Crypto Task Force Roundtable on Crypto Trading, Apr. 11, 2025,

<https://www.sec.gov/newsroom/speeches-statements/uyeda-remarks-ctf-roundtable-crypto-trading-041125>.

work. These experiences will help provide the SEC with specific data points about which rules continue to be needed, which should be modernized, and which rules are no longer necessary to achieve investor protection.

Among other tokenization products, Plume has developed Arc (described above), an open-source tokenization platform that lets anyone bring assets onchain and that handles the end-to-end process of tokenization. Arc also includes third-party solutions that deliver advanced best practices in privacy and regulatory compliance, as well as institutional-grade asset management and custody third-party service provider integrations. A team of infrastructure partners, a token issuer, and the Arc platform would be the ideal candidate to use a sandbox in connection with securities token issuance.

In addition, the Plume-developed Nest protocol provides an autonomous DeFi platform for registered investment companies to launch onchain open-end funds. We would propose that within the context of a regulatory sandbox Plume be enabled to work with registered investment companies that launch open-end funds utilizing Nest as the “back-end” to issue tokenized shares in these funds into an open blockchain environment.

As the Commission considers a sandbox, it should not focus exclusively on identifying legal and regulatory issues raised by activities occurring in the sandbox, but it should also work with the industry to identify and promote solutions using open blockchain technology that achieve the same or better outcomes than the present. To provide a few examples:

1. *Cost of public offerings*

In 2018, SEC Commissioner Rob Jackson observed that since at least the 1990s “middle-market entrepreneurs still have to pay 7% of what they’ve created to access our public markets” despite “markets hav[ing] been transformed by technology.”⁵² As described above, blockchain technologies like AMM protocols and the global distribution network of open blockchains, alongside the lower cost of tokenizing securities vs. traditional offering process and technologies can provide competition to underwriting incumbents that continue to charge a 7% fee six (6) years since Commissioner Jackson made his remarks.

The SEC should carefully measure these potential benefits and work to enable competition to traditional public offering pathways that utilize new technologies in order to ultimately lower the cost of initial public offerings in the U.S.

2. *Onchain AML compliance*

We encourage the involvement of the Department of Treasury and other financial regulators to explore specifically the capabilities of open blockchains and new AML technologies in the context of a sandbox. The achievement of anti-money laundering (AML) can be enhanced through onchain smart contracts. The Commission should explore the use of onchain infrastructure to achieve intended policy outcomes. The Commission, along with Treasury, and

⁵² SEC Commissioner Rob Jackson, The Middle-Market IPO Tax, Apr. 25, 2018, <https://www.sec.gov/newsroom/speeches-statements/jackson-middle-market-ipo-tax>.

other regulators should consider more effective alternatives to Bank Secrecy Act requirements that apply to many Commission registrants, such as Customer Identification Program requirements. One effective alternative that has been implemented in secondary markets for stablecoins and that we have developed for the Nest DeFi protocol is a combination of blacklisting (denial of access) to wallets flagged as “high risk” of illicit activity involvement and capabilities to freeze digital assets in “high risk” wallets in order to deter and disrupt onchain illicit activity. **The availability of real-time transaction-level data combined with new onchain AML technologies provide not just a “high” but *higher* “degree of usefulness in criminal, tax, or regulatory investigations or proceedings” intended to deter illicit activity than current technologies and regulatory requirements.**⁵³

In contrast to capabilities of open blockchains, the ability of U.S. AML enforcement agencies to monitor and “freeze” illicit fund flows in traditional financial networks is much more limited, particularly outside the U.S.

3. Transparency requirements

Open blockchains provide a tamper-resistant, publicly verifiable ledger of transactions. For example, tokenized securities on a blockchain could enable real-time tracking of trades, ownership, and settlement, reducing opacity in markets.

The Consolidated Audit Trail (CAT) provides a good example of where onchain infrastructure can enhance the achievement of Commission goals at a lower cost. Mandated under Rule 613 of Regulation NMS, CAT requires broker-dealers and exchanges to report detailed trade and order data to a centralized repository to enhance market surveillance and detect manipulative activities. CAT has resulted in cost overruns in the billions of dollars⁵⁴ and raises significant privacy concerns.⁵⁵ Moreover, like many other reporting requirements, CAT relies on manual reporting, it results in data inconsistencies and a need for manual data reconciliation which add to its limited effectiveness and cost burden. In contrast blockchain-based records need no reconciliation because they reflect actual real-time transactions and the pseudonymous nature of blockchains reduces privacy concerns while the legitimate need for counterparty attributions could be met through targeted requirements, such as a requirement for large traders in U.S. securities to hold encrypted non-fungible tokens that can be decrypted by the Commission staff upon a finding of probable cause under authority given to the Commission under Section 13(h) of the Exchange Act.

⁵³ Bank Secrecy Act, 12 U.S.C. § 1951, <https://www.govinfo.gov/content/pkg/USCODE-2020-title12/pdf/USCODE-2020-title12-chap21-sec1951.pdf>.

⁵⁴ SEC Commissioner Mark Uyeda, Statement on Consolidated Audit Trail Revised Funding Model, Sept. 6, 2023 <https://www.sec.gov/newsroom/speeches-statements/uyeda-statement-cat-funding-090623>.

⁵⁵ SEC Commissioner Hester Peirce, Statement of Hester M. Peirce in Response to Release No. 34-88890; File No. S7-13-19, May, 15, 2020, <https://www.sec.gov/newsroom/speeches-statements/peirce-statement-response-release-34-88890-051520>.

48. *Could a cross-border Sandbox address challenges that U.S. and non-U.S. firms face when attempting to innovate in multiple jurisdictions? If so, how should the Commission structure it to operate globally? Do sandboxes in other jurisdictions serve as a good model?*

A cross-border sandbox – relative to a domestic or single jurisdiction sandbox – would present additional near- and long-term benefits to regulated intermediaries, technology service providers and the SEC and other regulators. Operating a sandbox under a single regulatory umbrella will enable participating firms to more effectively allocate (and reduce) internal resources and ultimately enhance and expedite global market innovation. Further, cross-border regulatory sandboxes would help reduce both market and regulatory fragmentation, often the by-product of emerging or developing product offerings, services and technological developments, enabling the realization of a global capital market built on open blockchain rails.

An international approach would welcome regulated and monitored U.S. market entry, and serve to introduce workable foreign market standards and structures not currently viable in the U.S. Precedent exists for cross-border cooperation with foreign regulators as well. The Monetary Authority of Singapore’s Project Guardian involved collaboration with the Hong Kong Monetary Authority with respect to a specific project offering for a tokenized bond issuance and the project now also involves Japan’s Financial Services Authority.⁵⁶

However, regulatory sandboxes (domestic or cross-border) should not be viewed as a substitute to guidance and clarifications that can more directly allow all (i.e., not merely sandbox participants) technology service providers like Plume to continue to adopt blockchain technology for custody, clearing, and settlement services on a more time-efficient basis.

III. Conclusion

We are grateful for the opportunity to provide input as the Crypto Task Force and the Commission consider future policy as it relates to digital assets. Should you require further information, please do not hesitate to contact me at [REDACTED] or [REDACTED] or Plume’s General Counsel, Salman Banaei, at [REDACTED] or [REDACTED].

Thank you for your time and consideration.

Sincerely,



Chris Yin
Co-Founder and Chief Executive Officer

⁵⁶ Project Guardian, Nov. 4, 2024, <https://www.mas.gov.sg/schemes-and-initiatives/project-guardian>.

Plume

CC:

The Honorable Chairman Paul Atkins;
The Honorable Commissioner Caroline Crenshaw; and
The Honorable Commissioner Mark Uyeda