July 31, 2025

VIA WEBSITE SUBMISSION

Commissioner Hester M. Peirce & Crypto Task Force
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Written Input to the SEC's Crypto Task Force — Promoting the Use of Liquid Staking Tokens in Exchange-Traded Products

Dear Commissioner Peirce and Members of the Crypto Task Force:

Jito Labs, Inc. and the Jito Foundation (together, "Jito"), and the additional signatories hereto, respectfully submit this letter to the U.S. Securities and Exchange Commission ("SEC" or the "Commission") to advocate for the use of liquid staking tokens ("LSTs") as a mechanism for staking within exchange traded products ("ETPs" and, with staking, "Staked ETPs").[1] Most immediately, we advocate for the use of LSTs within the Solana ("SOL") ETPs at issue in the eight S-1s filed on or around June 13, 2025, and the additional application filed June 25, 2025 (collectively, the "Solana ETP Applications").[2]

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[1] This letter focuses on ETPs that are registered on Form S-1 and the related self-regulatory organization rulemaking process undertaken by listing exchanges. Many of the issues relevant to S-1 filers will also be applicable to exchange-traded funds that register offerings as investment companies on Form N-1A. To date, one registered investment company offers partial staking, including through LSTs. *See* Rex-Osprey(TM) SOL + Staking ETF, available at https://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=S000091612.

[2]   *See*   Fidelity   Solana   Fund,   SR-CboeBZX-2025-048,   available   at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-103393.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=0002063380; 21Shares Core Solana ETF, SR-CboeBZX-2025-011, available at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-103062.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=0002028834; Franklin Solana ETF, SR-CboeBZX-2025-039 available at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-103279.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=2057388; Grayscale Solana Trust, SR-NYSEARCA-2025-06, available at https://www.sec.gov/files/rules/sro/nysearca/2025/34-103030.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=1896677; Bitwise Solana ETF, SR-CboeBZX-2025-012, available at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-103063.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=2045872; Canary Solana ETF, SR-CboeBZX-2025-013, available at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-103065.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=2041869; VanEck Solana ETF, SR-CboeBZX-2025-014, available at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-103064.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=2028541; CoinShares Solana ETF, registration statement available at https://www.sec.gov/edgar/browse/?CIK=2073298.

LSTs are a capital efficient, operationally resilient and risk adjusted mechanism for including staking in ETP offerings. For these reasons and those discussed more fully below, LSTs provide compelling advantages for ETP structures and ultimately benefit cryptoasset ETP investors. (*See* Section II.A.)

Though it does not directly address LSTs, the Commission's guidance on proof-of-stake networks ("Staking Guidance")[3] supports the inclusion of staking in ETPs and the conclusion that LSTs are an appropriate proxy for direct staking. (*See* Section II.B.)

Accordingly, we urge the Commission to recognize LSTs as a viable staking mechanism for Staked ETPs as it considers approving not only the Solana ETP Applications, but also all new cryptoasset ETPs going forward.

I.   Background

In this section, we provide a brief overview of the history of requests for staking in ETPs, as well as a discussion on both the import of staking to cryptoasset ecosystems and the functioning of LSTs — topics with which the Commission is familiar, and which have been addressed by many others in submissions to the Crypto Task Force (the "Task Force").

A. Staking in ETPs

From 2013 — the year of the first crypto ETP filing — through February 2024, none of the filers for cryptoasset ETPs included a request to stake the underlying cryptoassets, most likely due to the early and sole focus on a Bitcoin ETP (which does not — and cannot — include staking), but also due to challenges associated with obtaining regulatory approval to launch these new, innovative products, and the questions around taxation and operational capabilities for certain redemption features.

Starting in early 2024, however, issuers like 21Shares,[4] Fidelity[5] and Grayscale[6] included requests to stake ether ("ETH") in their spot Ethereum ETP applications, hoping to enable investors to earn additional returns from the fees and/or yield created by staking ETH, while contributing to the security of the underlying network, which is discussed further below. On May 23, 2024, the SEC approved the 19b-4 filings for eight spot Ethereum ETPs[7] with specific conditions, including a requirement that the

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[3] U.S. Securities & Exchange Commission - Division of Corporation Finance, "Statement on Certain Protocol Staking Activities" (May 29, 2025), available at https://www.sec.gov/newsroom/speeches-statements/statement-certain-protocol-staking-activities-052925.

[4]   21Shares   Core   Ethereum   ETF,   SR-CboeBZX-2025-025   available   at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-103109.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=0001992508.

[5] Fidelity Ethereum Fund, SR-CboeBZX-2025-038, available at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-103256.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=0002000046.

[6]   Grayscale   Ethereum   Trust   ETF,   SR-NYSEARCA-2025-13,   available   at https://www.sec.gov/files/rules/sro/nysearca/2025/34-103137.pdf and registration statement available at https://www.sec.gov/edgar/browse/?CIK=1725210.

[7] Securities Exchange Act Release No. 100224 (May 23, 2024), 89 FR 46937 (May 30, 2024) (SRNYSEARCA-2023-70; SR-NYSEARCA-2024-31; SR- NASDAQ-2023-045; SR-CboeBZX-2023-069; SR-CboeBZX-2023-070; SR-CboeBZX-2023- 087; SR-CboeBZX-2023-095; SR-CboeBZX-2024-018) (Order Granting Accelerated Approval of

filing state that the ETP would not participate in staking; *e.g.*, BlackRock's filing stated that the trust "will [not], directly or indirectly, engage in [any] action where any portion of the Trust's ETH becomes subject to the Ethereum proof-of-stake validation or is used to earn additional ETH or generate income or other earnings."[8]

In early 2025, ETP issuers once again began including in applications a request to stake assets. On February 14, 2025, NYSE Arca filed the first major staking request on behalf of Grayscale, proposing, "[t]he Sponsor may, from time to time, stake a portion of the Trust's ETH on behalf of the Trust through one or more trusted staking providers" for both the Grayscale Ethereum Trust ETF and Grayscale Ethereum Mini Trust ETF.[9] That same month, BlackRock filed its own request for staking in ETPs, describing it as "a step change upward."[10]

On March 10, 2025, the CBOE filed for a proposed rule change to permit staking for the Franklin Ethereum ETF,[11] which was followed by a proposal to amend the Fidelity Ethereum Fund.[12] On March 20, 2025, NYSE Arca filed a proposal to amend the Bitwise Ethereum ETF to permit staking as well.[13] An additional Ethereum staking request came from 21Shares during this period.[14] Starting

Proposed Rule Changes, as Modified by Amendments Thereto, to List and Trade Shares of Ether-Based Exchange-Traded Products), available at https://www.sec.gov/files/rules/sro/nysearca/2024/34-100224.pdf.

[8] Nasdaq, Inc., Form 19b-4 Proposed Rule Change To List and Trade Shares of iShares Ether Trust at NASDAQ, Item 7, at 9 (filed May 22, 2024) (emphasis added) ("[T]he Trust . . . will [not], directly or indirectly, engage in [any] action where any portion of the Trust's ETH becomes subject to the Ethereum proof-of-stake validation or is used to earn additional ETH or generate income or other earnings."), available at https://listingcenter.nasdaq.com/assets/rulebook/nasdaq/filings/SR-NASDAQ-2023-045_Amendment_2.pdf.

[9] *E.g.*, NYSE Arca, Inc., Form 19b-4 Proposed Rule Change to Amend the Grayscale Ethereum Trust ETF & Mini Trust ETF, Item I(a), "Staking," at 4 (filed Feb. 14, 2025) (providing that "The Sponsor may, from time to time, stake a portion of the Trust's ether on behalf of the Trust through one or more trusted staking providers"), available at https://www.nyse.com/publicdocs/nyse/markets/nyse-arca/rule-filings/filings/2025/SR-NYSEARCA-2025-13_upld.pdf.

[10] Sohrab Khawas, BlackRock Pushes SEC to Approve Ethereum ETF Staking and Tokenization, *Coinpedia*, May 10, 2025 (quoting Robert Mitchnick describing staking as a "step change upward"), available at https://coinpedia.org/news/blackrock-pushes-sec-to-approve-ethereum-etf-staking-and-tokenization/. On July 16, 2025, Nasdaq, Inc. filed to permit staking in their iShares Ethereum ETF, although such application has not yet been noticed by the Commission. *See* https://listingcenter.nasdaq.com/assets/rulebook/nasdaq/filings/SR-NASDAQ-2025-053.pdf.

[11] Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Amend the Rule Governing the Listing and Trading of Shares of the Franklin Ethereum ETF to Permit Staking, Release No. 34-102632 (March 12, 2025), available at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-102632.pdf.

[12] Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Amend the Rule Governing the Listing and Trading of Shares of the Fidelity Ethereum Fund to Permit Staking, release No. 34-102643 (March 12, 2025), available at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-102643.pdf.

[13] NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, to Amend the Bitwise Ethereum ETF to Permit Staking of the Ether Held by the Trust, Release No. 34-102754 (April 1, 2025), available at https://www.sec.gov/files/rules/sro/nysearca/2025/34-102754.pdf.

[14] Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Amend the 21Shares Core Ethereum ETF, Shares of Which Have Been Approved by the Commission to List and Trade on the Exchange Pursuant to BZX Rule 14.11(e)(4), Release No. 34-102450 (February 19, 2025), available at https://www.sec.gov/files/rules/sro/cboebzx/2025/34-102450.pdf; *see also*, 21Shares Core Ethereum ETF, Annual Report for the fiscal year ended December 31, 2024, available at https://www.sec.gov/Archives/edgar/data/1992508/000101376225002795/ea0234460-10k_21shares.htm ("Upon

on April 29, 2025, approaching the 45-day deadline for the proposed rule changes, the SEC extended the time period for the Franklin, Fidelity and Bitwise applications.[15] On June 16, 2025 the SEC opened a comment period on staking, which extended to July 25, 2025.[16]

On June 13, 2025, seven major financial institutions submitted amended S-1 filings for Solana ETPs with specific requests to include staking, including Fidelity, 21Shares, Franklin Templeton, Grayscale, Bitwise, Canary Capital and VanEck. On June 16, 2025, CoinShares became the eighth issuer to file for a Solana ETP, followed by Invesco Galaxy on June 25, 2025. All of the Solana ETP Applications incorporated language stating that the vehicles would be Staked ETPs, if permitted. VanEck's Solana ETP Application explicitly referred to staking via LSTs:

> "The Sponsor may instead seek to utilize alternative means to engage in Staking Activities, subject to its determination that the Trust may do so without undue legal, regulatory or tax risk, including the use or holding of liquid staking tokens ('LSTs'), though no such determination has been made as of the date of this registration statement."[17]

With the requests for staking in both the Solana ETP Applications and the ETH ETP applications pending, the requests for staking in ETPs are ripe for the Commission's approval, as is the allowance for LSTs as an appropriate mechanism for staking.

B.   Staking

The requests for staking in ETPs tracks the import of staking in proof-of-stake blockchain ("PoS") networks.

As the Staking Guidance recognizes, "staking" refers generally to the technical process by which a validator in a PoS network like Ethereum, or a delegated proof-of-stake ("dPoS")[18] blockchain network like Solana, temporarily commits a quantity of the network's native cryptocurrency or token (for example, ETH in the Ethereum network or SOL in the Solana network) in order to participate in the process of validating transactions on the network. The amount of cryptocurrency that must be staked

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receiving regulatory approval to do so, the Sponsor may, from time to time, stake a portion of the Trust's ether on behalf of the Trust through one or more trusted staking providers.").

[15]   https://www.federalregister.gov/documents/2025/05/05/2025-07698/self-regulatory-organizations-cboe-bzx-exchange-inc-notice-of-designation-of-a-longer-period-for; https://www.federalregister.gov/documents/2025/05/05/2025-07696/self-regulatory-organizations-cboe-bzx-exchange-inc-notice-of-designation-of-a-longer-period-for; https://www.federalregister.gov/documents/2025/05/27/2025-09402/self-regulatory-organizations-nyse-arca-inc-notice-of-designation-of-a-longer-period-for-commission

[16] *See, e.g.*, https://www.federalregister.gov/documents/2025/06/20/2025-11287/self-regulatory-organizations-cboe-bzx-exchange-inc-order-instituting-proceedings-to-determine.

[17] VanEck Solana ETF, https://www.sec.gov/Archives/edgar/data/2028541/000202854125000002/vanecksolanaetfs-1a1.htm.

[18] As used in this letter, "PoS" will refer to both PoS and dPoS blockchain networks except where the context indicates otherwise.

varies by network (certain networks require larger staking minimums), and the amount of time that staked cryptocurrency must be committed for staking varies by network.

Operating a validator node on a PoS network requires technological expertise, dedicated computer hardware with a highly reliable Internet connection, as well as frequent attention to ensure that the network software is up to date, that all hardware is functioning correctly, and that signing keys (password equivalents) have not been compromised. That said, the actual validation activities, which are conducted by running open-source software, consist fundamentally of administrative or ministerial functions. Indeed, PoS network validators attest to the validity of a block of transactions such that transactions are settled to the network — with a block appended to the chain — once the requisite number of validators have attested. By staking, validators evidence their dedication to act appropriately within the network's rules, and thus, provide security to the network. If validators do not act according to these standards, they may — in certain networks — lose all or a portion of their staked cryptoassets in a process called "slashing."

In return for dedicating computational resources and committing tokens in a manner that permits the network to function accurately, securely and efficiently, the network rewards validators with a quantity of newly generated ("minted") native tokens. The network creates and distributes these rewards algorithmically and programmatically in an open and transparent manner. Reward amounts and mechanisms may vary by network as well as by the technical functions of the validator itself. The newly minted native tokens that validators receive typically increase the total outstanding supply of the native token.

Staking is therefore an essential part of maintaining the accurate operation and security of any PoS network. It ensures network participants have a vested interest in the proper performance of the network, enforced both through the receipt of rewards for proper participation and, in some cases, the specter of consequences for improper conduct.

In order to unstake assets, validators — or those that have delegated their underlying cryptoassets to a validator — must wait a certain period of time, referred to as an "unbonding" period, before being able to do so. This unbonding period is intended to ensure the ongoing security of the network and creates a queue for unstaking the native cryptocurrency or otherwise changing the composition or amount of a validator's "stake." Unbonding periods vary by network and can be a matter of hours, days or weeks.

C.   Liquid Staking

As noted above, operating a validator — and thus, natively staking — requires resources by way of technical expertise, time, hardware and, on certain networks, a large amount of cryptocurrency. To lower the barriers to entry for staking and to attract a wider array of participants in staking ecosystems, software developers created "stake pools." These pools are software programs that operate through on-chain smart contracts. Users supply native cryptocurrency to stake pool smart contracts — never relinquishing custody or control over those assets — and the stake pool software then delegates the native cryptocurrency to one or more validator nodes. Liquid staking allows a user to commit any amount of the relevant cryptocurrency to a stake pool, which is then delegated to one or more

validators. In this way, individual users are able to participate in the security of PoS networks; accordingly, in most cases, liquid staking allows for greater validator participation and decentralization of stake among numerous validators.

Distribution of stake is particularly important to dPoS systems like Solana. In these systems, users are meant to delegate additional native cryptocurrency to validators (in the case of Solana, SOL) in order to distribute stake and promote greater participation in, and decentralization of, the network. On Solana, stake pools, each of which is created through a generalized and publicly available software program, have the benefit of further decentralizing the network by distributing staked SOL across additional validators. SOL holders participating in stake pools benefit from the ability to delegate to many validators at once, rather than to one or only a few validators, limiting the risks of centralizing stake to any single validator.

There are currently hundreds of stake pools operating on the Solana network, and numerous stake pools operating on other blockchain networks (*e.g.*, Lido and Alluvial on Ethereum). Each stake pool uses its own criteria to select validators to which to delegate the staking power for the native cryptocurrency committed to a particular smart contract. Stake pool administration is typically controlled by an off-chain program, hosted on a centralized server and connected on-chain through a hot wallet[19] controlled by the team managing the stake pool. Concentrating all delegation discretion in a single hot wallet introduces centralization risks, such as the risk that the person with control of the hot wallet could act maliciously or the hot wallet could be exploited by malicious third parties. With respect to the stake pool developed by Jito Labs, these risks are addressed by a piece of software called StakeNet — a set of autonomous smart contracts that decentralizes administration of the stake pool and selection of validators so that they occur through on-chain autonomous algorithmic systems.

In return for supplying an amount of native cryptocurrency to a stake pool, the stake pool automatically emits a receipt token (the LST) to the supplier's wallet representing the supplier's SOL (*i.e.*, right to redeem their portion of the cryptocurrency held in the pool), as well as the holder's pro rata portion of any validator rewards earned. The LSTs emitted by the stake pool smart contracts are freely transferable and frequently trade in large volumes on secondary markets. As a result, a SOL holder who has contributed SOL to a stake pool can either redeem their LST for the underlying SOL from the stake pool or transfer their LST to a third party.[20] Given their transferability, LSTs have been listed on centralized exchanges, and have been used as collateral at centralized prime brokers or in DeFi applications, among other things. Thus, even though stakers supplying cryptocurrency to stake pools may be subject to the same unbonding periods as direct stakers on the network, LSTs create a liquid market for representations of staked cryptocurrency.

LSTs come in two forms: "reward-bearing" LSTs and "rebasing" LSTs. Reward-bearing LSTs maintain a constant quantity when held in a wallet over time. While the *quantity* of the reward-bearing

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[19] A "hot wallet" is a type of cryptocurrency wallet that is connected to the internet, making it easily accessible for transactions but also more vulnerable to cyber threats.

[20] Jito can provide more quantifiable information on the JitoSOL price::SOL price comparison to the Commission upon request.

LST remains the same, rewards accrue by virtue of the LST representing a continually increasing number of underlying tokens for which the LST can be redeemed (for example, one Solana network LST may be redeemed for one SOL today, but for 1.08 SOL in one year). Rebasing LSTs automatically programmatically adjust the number of LST units in suppliers' wallets to reflect rewards earned, thus maintaining a 1:1 redemption ratio to the underlying token (in other words, a wallet that holds one rebasing LST that is today redeemable for one SOL may hold 1.08 LSTs in one year, redeemable for 1.08 SOL).[21]

As the LST is a receipt token for the underlying asset (e.g., SOL for JitoSOL), the LST provides the holder (including a Staking ETP) with both the exposure to the underlying asset and the staking mechanism. To the extent that the LST is automated and decentralized (*e.g.*, JitoSOL), the experience of holding the LST is analogous to holding and natively staking the underlying asset with the benefit of abstracting away the operational and liquidity burdens of native staking.

> D.   Security Status of Staking Arrangements

On May 29, 2025, the Commission issued the Staking Guidance,[22] stating that the following arrangements did not constitute or otherwise involve securities transactions that required registration with the SEC: (i) staking native cryptocurrency as a validator ("Solo Staking"); (ii) self-custodial staking directly with a third party — *i.e.*, delegating stake to a third party validator ("Delegated Staking"); and (iii) certain staking-as-a-service arrangements ("Staking Services").

In the Staking Guidance, the SEC set out that:

- Solo Staking does not constitute a securities transaction because validator rewards are "not derived from any third party's managerial or entrepreneurial efforts upon which the PoS Network's success depends. Instead, the expected financial incentive from the protocol is derived solely from the administrative or ministerial act of Protocol Staking."

- Delegated Staking does not constitute or create a securities transaction because validators only provide "administrative or ministerial" efforts and thus, that the "expectation to receive rewards is not derived from any third party's managerial or entrepreneurial efforts" — *i.e.*, "Protocol Staking remains an administrative or ministerial activity, and the expected financial incentive is derived solely from such activity and not the success of the PoS Network or some other third party."[23]

- Neither custodial nor non-custodial Staking Services arrangements give rise to securities transactions because, as with Solo and Delegated Staking, "these activities are administrative or ministerial in nature and do not involve managerial or entrepreneurial efforts." Even providing what the Staking Guidance terms "Ancillary Services" — *e.g.*, early unbonding, slashing protection, alternate reward payment schedule — as part of the Staking Services does

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[21] As is relevant to the Solana ETP Applications, all Solana-based LSTs utilize the reward-bearing structure.
[22] *See* Staking Guidance *supra* n.3.
[23] *Id.*

not change the Commission's analysis because, according to the guidance, "the Service Provider does not act in a managerial or entrepreneurial way if it provides any or all of these services."

As discussed below, the SEC's Staking Guidance on Delegated Staking (as well as direct staking) paves the way for use of LSTs as a staking mechanism within the traditional grantor trust structure that has been used for cryptoasset ETPs.

II.   Discussion

A Staked ETP is a superior product for a variety of reasons — staking ETP-committed assets:

- mirrors the fundamental use for the native cryptoasset underlying the ETP and provides additional security to the cryptoasset ecosystem;

- allows greater staking participation in PoS networks, which, as described herein, helps promote the security of these networks;

- creates staking rewards, which ultimately is passed on to investors;[24]

- provides for additional product choice; and

- generates additional revenue for issuers which helps maintain the health of the ETP ecosystem.

The use of LSTs as a staking mechanism within these structures builds upon these benefits. We discuss these below *seriatim*, and why allowing LSTs in ETPs aligns with the Commission's Staking Guidance.

A.   Benefits of LSTs in Staked ETPs

LSTs as a mechanism for staking in ETPs provides additional advantages and efficiencies for issuers and thus, for investors.[25]

First, LSTs provide enhanced capital efficiency in Staked ETPs. LSTs, by design, are fully liquid and freely tradable, allowing ETP issuers to maintain efficient portfolio rebalancing and improve investor redemption capabilities. In other words, LSTs are not only directly redeemable for the underlying asset (*e.g.*, JitoSOL for SOL) but also can be traded on secondary markets — like centralized exchanges — either for the underlying asset or directly for fiat currency (*e.g.*, JitoSOL for US dollars). This immediate access to liquidity eliminates redemption uncertainty. Indeed, large redemptions can be

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[24] While this benefit is constructed from a positive perspective of creating staking rewards, one may also regard the act of not staking tokens as subjecting the tokenholder to network dilution. Crypto networks such as Ethereum and Solana fix a specific inflation rate for staking rewards, which rate is earned by validators with whom staked tokens are locked. This means that all unstaked tokens do not get the benefit of new staking inflation and are diluted when considering their representative share of the total network token supply. As a result, staking can be regarded as an act of both preserving value and contributing to network security.

[25] Most of these benefits will be shared by many LSTs on Solana and other networks, although the benefits may vary based on the characteristics of the network or LST design.

handled in myriad ways: unbonding LSTs through primary markets, selling LSTs in secondary markets, or delivering LSTs in-kind to authorized participants, if permitted by the Commission. This optionality eliminates concerns around redemption timelines — *i.e.*, because LSTs are so liquid and do not require an unbonding period (necessarily), investors can redeem without significant friction with issuers or authorized participants ("APs"). Accordingly, LSTs provide a basis to allow for 100% staking participation rates, bringing additional and/or maximum yield to investors.

Second, LSTs reduce operational complexity for issuers and APs, including by reducing the number of service providers needed. With direct staking, ETP issuers must choose validators and/or staking providers and monitor performance regularly; LSTs abstract away this nuanced decision-making: stake pools — on Solana and other PoS networks — delegate to a diversified validator set pursuant to pre-set criteria (in certain cases, the pre-set criteria is algorithmically operationalized; for JitoSOL, this is operationalized via a software program known as StakeNet).[26] And rather than engage in complicated monitoring, on-chain data provides real-time information about aggregation of staking rewards. In addition, LSTs typically employ continuous compounding mechanisms where rewards automatically accrue to the token's value, eliminating the complexity of claiming, managing and distributing separate reward payments that would be required with direct staking approaches. The same custodian can be used both for custodying underlying ETP assets as well as for the minting and redeeming of such assets for LSTs, as ETP-integrated custodians already have integrated creation/redemption functionality for major LSTs.[27] All of this would reduce costs for the ETP and allow for greater returns for investors.

Third, LSTs enhance ETP issuers' risk management capabilities. Stake pools distribute native cryptoassets across a number of independent validators, reducing concentration risk that may exist in direct staking or staking-as-a-service approaches (*i.e.*, underlying cryptoassets being staked with one or very few validators). Distributing stake across a broad validator set promotes decentralization, reducing the chance of a single point of failure (*i.e.*, one or only a few validators) that could impact the ETP's underlying cryptoasset holdings or yields. Certain liquid staking pools, like the Jito Stake Pool, employ autonomous delegation algorithms that optimize stake distribution based on performance metrics without human intervention. This reduces the risks of subjective judgment for delegation but also optimizes for yield passed along to investors by providing stake to validators that are operating efficiently and safely. LSTs also reduce risk via the redemption optionality discussed above — that LSTs can be redeemed in the primary or secondary markets or in-kind: this allows for cost efficient and time efficient redemptions.

Fourth, LSTs promote security of both the underlying network (*e.g.*, Solana for SOL LSTs) as well as for the ETP itself. As discussed above, on the network side greater decentralization of stake not only eliminates single points of failure but also ensures a larger number of parties are aligned with the sustainability and safety of the network — *i.e.*, no single validator or small set of validators can dominate a network's staking, preserving the integrity and security of the blockchain itself — which

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[26] The JitoSOL Securities Classification Report provides further discussion of JitoSOL, operation of the Jito Stake Pool and StakeNet. *See* JitoSOL Securities Classification Report (Mar. 18, 2025), *available at*: https://www.jito.network/JitoSOL_Securities_Classification_Report.pdf.
[27] *See, e.g.*, https://www.jito.network/blog/mint-redeem-of-jitosol-on-anchorage/.

directly benefits all stakeholders. LSTs promote validator decentralization by distributing stake widely, and pursuant to certain transparent criteria which typically reward positive and/or desired validator performance. The transparency of LSTs also facilitates greater security for ETP issuers, and within the ETP structures themselves. Developers of liquid staking protocols publish code audits, maintain open-source codebases, and provide real-time transparency into validator performance and reward distribution. This varies from traditional staking providers, on the other hand, which may operate as opaque businesses, with limited transparency into other matters of subjective decision-making.

With respect to the SOL Staked ETPs, we believe that JitoSOL, the LST associated with the Jito Stake Pool, confers these benefits, and others. Given the Jito Stake Pool's unique mechanism of delegating stake — *i.e.*, via autonomous software (the only one of its kind, as far as we are aware) — brings additional security and decentralization benefits and is integrated with a recognized ETP custodian (Anchorage), JitoSOL would be an ideal mechanism to stake in SOL Staked ETPs.

For all of these reasons, we believe that LSTs are a highly beneficial way to allow for staking in ETPs and urge the Commission to allow ETP issuers the flexibility to use LSTs as a staking mechanism.

B. The Commission's Staking Guidance Supports the Use of LSTs in ETPs

The SEC's Staking Guidance, even though it does not address LSTs directly, is illuminating on the question of LSTs. As set out in the guidance, Solo Staking, Delegated Staking and Staking Services relating to PoS networks — custodial and non-custodial — do not constitute securities transactions. The analysis centers around the fact that any expectation of profit linked to these arrangements does not arise from any person or entity's entrepreneurial or managerial efforts, thus eliminating any question that such arrangements constitute an investment contract and thus, a security.

The same analysis can apply to LSTs — and the stake pools related to them. Indeed, staking via a stake pool is akin to Delegated Staking and thus, does not constitute securities or securities transactions because, among other things, any expectation of profit relating to them "is not derived from any third party's managerial or entrepreneurial efforts". The JitoSOL Securities Classification Report (the "Report")[28] — an analysis under the U.S. federal securities laws relating to the JitoSOL LST and the Jito Stake Pool — reached the same conclusion: "JitoSOL and the Jito Stake Pool function as decentralized technological utilities" and "neither constitute securities or transactions therein under the U.S. federal securities laws"[29] because, among other things, "[a]ny expectation of profits is [] attributable to the autonomous functioning of the Solana network and Jito Stake Pool," not to any third party's entrepreneurial or managerial efforts.[30] To wit, the Report recognizes that all efforts relating to the Jito Stake Pool amount to ministerial and administrative technical efforts.[31]

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[28] *See* JitoSOL Securities Classification Report (Mar. 18, 2025), *supra* n.26.
[29] *Id.* at 1, 2.
[30] *Id.* at 12.
[31] *Id.* at 7-9.

Even if one were to argue stake pools are more akin to Staking Services (and they are not), the analysis would be the same, as the Staking Guidance concludes that these services do not create securities transactions.

Accordingly, LSTs can be used in ETPs in the same way that direct staking to a validator or a staking service can be used, without the need to change or amend the grantor trust structure that has traditionally been used for cryptoasset ETPs.

III. Conclusion

For the reasons discussed above, we respectfully urge the Commission to approve frameworks that support LST integration into traditional financial products. Such an approach would demonstrate the SEC's support of innovation and align with the Commission's mission of protecting consumers and facilitating capital formation.

We believe that LSTs are the best and most clearly viable path towards a *fully* staked ETP. Allowing partial staking reduces the achievable yield available to investors and creates additional operational requirements for issuers. If issuers are forced to limit staking to a set percentage of assets, large creations and redemptions would force rebalancing, thereby increasing the costs of operating the ETP and introducing potential tracking error. LSTs could be used to rebalance quickly in that scenario and could even be delivered or received in-kind by APs if the staking ratios are pre-defined under the grantor trust structure used for cryptoasset ETPs. Eventually, the market would demand access to regulated products that offer undiminished economic benefits of holding the underlying asset, which can be achieved by the incorporation or construction of LST ETPs.

We appreciate the opportunity to provide input on this important matter. We welcome the opportunity to discuss these points further with the Task Force and are available to provide any additional information that may be helpful to your review.

Respectfully submitted,

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