

To: U.S. Securities and Exchange Commission (SEC) Crypto Assets Task Force

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Date: September 7, 2025

Subject: Technical Proposal for the Regulation and Banning of Non-Compliant Meme-Based Crypto Assets (Memecoins)

Executive Summary

This proposal outlines a framework for banning non-compliant memecoins to protect investors, maintain market integrity, and foster sustainable innovation within the U.S. digital asset ecosystem. As of September 2025, the crypto market is dangerously oversaturated, with estimates ranging from over 10,000 active tokens to upwards of 15-20 million created in total. Analysis suggests a failure rate exceeding 90% for new tokens, leading to catastrophic investor losses and eroding public trust. Non-compliant memecoins—defined as tokens lacking verifiable utility, transparent governance, and adherence to Anti-Money Laundering/Know Your Customer (AML/KYC) standards—are a primary vector for fraud, manipulation, and market contagion.

While recent legislation like the **Clarity for Payment Stablecoins Act (Clarity Act)** and the **Guiding and Establishing National Innovation for US Stablecoins Act (GENIUS Act)** of 2025 provides robust frameworks for stablecoins, a significant regulatory gap remains for purely speculative, high-risk assets. This proposal recommends extending similar principles of accountability and transparency to memecoins. By mandating auditable proof of utility, locked liquidity, and AML/KYC compliance through privacy-preserving technologies like zero-knowledge proofs (zk-proofs), the SEC can effectively eliminate a class of assets that poses systemic risks. This action aligns with the investor protection mandates of the Securities Act of 1933 and the Securities Exchange Act of 1934 and harmonizes U.S. policy with global standards set by the IMF, FATF, and IOSCO, thereby preventing regulatory arbitrage.

1. Market Analysis: The Proliferation and Peril of Memecoins

The digital asset market is characterized by an unprecedented proliferation of tokens, the vast majority of which possess no underlying value, utility, or sound economic model. Data indicates over 12,383 cryptocurrencies have failed between 2013 and 2025, a number that vastly undercounts the thousands of memecoins that are launched and abandoned weekly in "rug pull" schemes. These schemes have resulted in billions of dollars in investor losses.

While an SEC Division of Corporation Finance staff statement in February 2025 clarified that memecoins are generally not considered securities under the *Howey* test due to their lack of an investment contract structure, their capacity to inflict widespread financial harm is undeniable. They function as instruments for market manipulation and fraud, creating negative externalities that impact legitimate blockchain projects. The current regulatory ambiguity allows these assets to thrive on U.S.-based exchanges, directly exposing

American investors to unacceptable levels of risk.

2. Regulatory Foundation: Extending Existing Frameworks

The 2025 legislative updates provide a clear foundation for regulating memecoins. The **GENIUS Act of 2025** establishes strict requirements for stablecoin issuers concerning reserves, third-party audits, and AML compliance (Congress.gov, S.394, "GENIUS Act of 2025"). The **Clarity Act of 2025** mandates disclosures and provides an exemption for certain decentralized finance (DeFi) activities, demonstrating a nuanced approach to regulation (House Rules Committee, H.R. 3633, "CLARITY Act of 2025").

We propose adapting these principles to create a compliance framework for all tokens seeking to list on U.S. exchanges. A token would be classified as a "Non-Compliant Memecoin" and banned if it fails to meet these minimum standards.

Table 1: Minimum Compliance Requirements for Market Access

Requirement	Standard	Verification Method
Proof of Utility	Demonstrable use case beyond speculation.	On-chain metrics: Total Value Locked (TVL) > \$1M; verifiable daily active users (DAU); integration with at least one functioning dApp.
Liquidity Lock	At least 90% of the initial liquidity pool must be locked for a minimum of one year.	Publicly auditable smart contract with immutable timelocks (e.g., on Etherscan).
Third-Party Audit	Comprehensive smart contract audit from a reputable cybersecurity firm.	Publicly available audit report identifying and mitigating critical vulnerabilities.
AML/KYC Compliance	Integration with a compliant identity verification solution.	Use of on-chain identity protocols or zk-proofs to verify user status without compromising privacy, adhering to FATF "Travel Rule" principles.

Transparent Governance	Clearly defined and publicly accessible governance structure and tokenomics.	Published whitepaper and documentation detailing token allocation, vesting schedules for team members, and governance processes.
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3. Global Alignment: Harmonizing with International Standards

A U.S. ban on non-compliant memecoins would align with a growing international consensus on managing the risks of crypto assets.

- **IMF & FSB:** The IMF's April 2025 Global Financial Stability Report highlights increasing risks from volatile assets and market contagion, underscoring the need for proactive regulation.
- **FATF:** The updated FATF Recommendation 16 (the "Travel Rule") mandates the collection and transfer of originator and beneficiary information for virtual asset transfers, a standard that non-compliant memecoins are designed to evade (FATF, June 2025 Update).
- **BIS & IOSCO:** The Bank for International Settlements (BIS) is advocating for a "tokenised unified ledger" built on trust and stability, a vision fundamentally at odds with the chaotic memecoin market. Concurrently, IOSCO's 2025 work program prioritizes protecting retail investors from online fraud and misconduct, a core objective this proposal directly supports.
- **Accounting Standards:** FASB's ASU 2023-08 and international standards like IFRS IC Agenda Decision are bringing clarity to the accounting of legitimate digital assets, further distinguishing them from valueless tokens.
- **Regulatory Precedent:** The European Union's Markets in Crypto-Assets (MiCA) regulation, fully applicable as of December 2024, and the UK's forthcoming stablecoin and crypto-asset regime establish comprehensive frameworks. U.S. inaction creates a haven for fraudulent projects and invites regulatory arbitrage.

4. Implementation Plan: A Phased and Technology-Driven Approach

We propose a phased implementation to allow the market to adapt while swiftly removing the most harmful actors.

Table 2: Phased Implementation Timeline

Phase	Duration	Actions
Phase 1: Rule Publication & Grace Period	6 Months	SEC issues final rule defining non-compliant memecoins. Exchanges and token issuers are given a grace period to achieve compliance or delist assets.
Phase 2: Automated Enforcement	Months 7-12	Centralized exchanges must deploy automated systems (using oracles and APIs) to verify on-chain compliance metrics (e.g., liquidity locks, TVL). Non-compliant tokens are automatically flagged and delisted.
Phase 3: Full Ecosystem Compliance	Month 13+	Ongoing monitoring using AI-driven tools to detect market manipulation and fraudulent launches. Collaboration with the CFTC to address decentralized platforms.

Costs and Benefits: The primary cost is technological implementation for exchanges, which is minimal compared to the potential benefits. The crypto industry has seen a **48% increase in fraud**, driven by activities like document forgery (Sumsud, "Crypto Industry Report 2025"). By eliminating the lowest tier of the market where such scams are concentrated, we estimate a **40-60% reduction in crypto-related scams and fraud within the U.S.**, saving investors billions annually and increasing confidence in compliant digital assets.

Table 3: Risk Metrics & Mitigation

Risk	Associated Asset Class	Proposed Mitigation
Rug Pulls / Liquidity Drain	Non-Compliant Memecoins	Mandated smart contract-based liquidity locks.
Pump-and-Dump Schemes	Non-Compliant Memecoins	Proof of utility requirements disincentivize purely speculative assets.
Illicit Financing & Sanctions Evasion	Non-Compliant Memecoins	Mandatory AML/KYC compliance via privacy-preserving tech.
Market Contagion	All speculative assets, led by memecoins	Banning the most volatile and fraudulent asset class reduces systemic risk.

5. Conclusions and Recommendations

The proliferation of non-compliant memecoins represents a clear and present danger to American investors and the stability of the digital asset markets. They serve no legitimate economic purpose and function primarily as vehicles for fraud and speculation.

We strongly urge the SEC, in collaboration with the CFTC, to adopt the proposed framework. This proposal is not a call to stifle creativity but to establish an **essential minimum framework** that allows true innovation to thrive. By mandating basic standards for utility, security, and transparency, the Commission can draw a bright line between legitimate technological development and predatory schemes.

These foundational guardrails will protect consumers, cleanse the market of its most toxic elements, and ultimately create a regulatory environment where legitimate Distributed Ledger Technology (DLT) can attract capital and flourish on the merits of its value. The time for decisive action to secure the future of American digital asset innovation is now.