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VIA ELECTRONIC SUBMISSION
Crypto Task Force
U.S. Securities and Exchange Commission ("SEC" or "Commission")
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RE: Toward a Framework for Tokenized Sovereign Bonds

Dear Commissioner Peirce and Members of the Crypto Task Force:

On February 21, 2025, SEC Commissioner Hester M. Peirce published "There Must Be Some Way Out of Here" (the "Comment Request"), a call to the crypto industry to submit comments to the SEC Crypto Task Force concerning forty-eight pressing questions related to cryptocurrency and the securities laws.

Then, on May 8, 2025, Commissioner Peirce published "A Creative and Cooperative Balancing Act," noting that the Commission is considering an "exemptive order that would allow firms to use [distributed ledger technology (DLT)] to issue, trade, and settle securities."

In light of these publications, Etherfuse Mx, S.A. de C.V. ("Etherfuse") submits the following letter with its counsel Brogan Law PLLC ("Brogan Law") to provide comments to certain of the questions posed by Commissioner Peirce and to matters relating to the tokenization of foreign sovereign bonds.

Etherfuse and Brogan Law appreciate the opportunity to provide input on matters of cryptocurrency and blockchain policy. It is a credit to the Commission that it has taken up the challenge of engaging directly with industry so wholeheartedly.

I. Background on Etherfuse

Etherfuse is a Mexican real-world asset ("RWA") issuer. It has two main products, Stablebonds and Sovereign Coins.

A. Stablebonds

Stablebonds are tokenized bonds, designed to provide on-chain access to certain foreign sovereign bonds. Much as a stablecoin represents one unit of currency, but is backed by a pool of

collateral, Etherfuse Stablebonds represent a single bond, and are backed by bonds securely maintained in audited, transparent collateral reserves.

Some Stablebonds represent a single sovereign bond series, like Mexican Federal Treasury Certificates or CETES bonds ("Certificados de la Tesorería de la Federación") and Brazilian Tesouro bonds. Other Stablebonds track pools of bonds from a single or multiple sovereign issuers, including collections of UK and EU sovereign debt.

B. Sovereign Coins

Sovereign Coins are structurally similar to traditional payment stablecoins, denominated in certain national currencies other than United States Dollars. For example, Etherfuse Real MXN ("MXNe") is a stablecoin backed by Mexican Pesos, with a stable value equivalent to one Mexican Peso. Sovereign Coins do not pay yield.

C. Regulatory Status

Etherfuse is able to offer Stablebonds and Sovereign Coins legally in Mexico through a resolution from the Mexican financial authority ("CNBV") confirming that its Tokens do not require authorization, registration, or concession.[1]

In 2024, Etherfuse subsidiary Etherfuse Liquid Mx, S.A.P.I. de C.V. ("Etherfuse Liquid") requested authorization from the National Banking and Securities Commission ("CNBV") of Mexico to participate in certain on-chain activities. Principally, this entailed the issuance and placement/trading of blockchain digital assets ("tokens") bearing right to payments from Etherfuse in exchange for payment by members of the general public. Etherfuse argued that such tokens should not require private approval by CNBV under the Securities Market Law ("SML").

On April 16, 2024, the CNBV issued Resolution P090/2024, through which, among other things, it granted no-action relief to Etherfuse Liquid.[2] As a result of this resolution, Etherfuse is legally entitled to engage customers and sell Stablebonds in Mexico.

Despite this legal status in Mexico, Etherfuse prohibits U.S. Persons from accessing Stablebonds. U.S. Persons are forbidden from purchasing or holding Stablebonds by the Etherfuse terms of service,[3] and Etherfuse geofences U.S. IP Addresses from accessing the Stablebond purchasing

[1] Comisión Nacional Bancaria y de Valores, *Statement of Fact Oficio No. P090/2024* (April 16, 2024), https://stablebonds.s3.us-west-2.amazonaws.com/CNBV_Statement_of_Fact.pdf (last visited May 21, 2025).
[2] *Id.*
[3] Terms & Conditions, Etherfuse (2025), https://app.etherfuse.com/legal/terms-and-conditions (last visited May 20, 2025).

portal. To further ensure compliance with this strict limitation, Etherfuse implements KYC checks to verify that all purchasers are not U.S. Persons.

For the avoidance of doubt, this comment letter is submitted solely in response to the Commission's request for public input and is not intended to—and does not—constitute an offer of any securities. Etherfuse Stablebonds are not and have not been offered or sold in the United States or to any "U.S. Person" (as defined in Regulation S), and no such future offering is currently contemplated. This communication is not intended to condition the market in the United States or to solicit investment from any U.S. Person.

II. Advantages of Foreign Sovereign Bonds

We submit that expanding access to foreign sovereign bonds would further the SEC's mandate of "protect[ing] investors; maintain[ing] fair, orderly, and efficient markets; and facilitate[ing] capital formation."[4]

Bonds are often overlooked in discussions of capital markets. While retail investment portfolios generally allocate between stocks (equity type securities) and bonds (debt type securities), academic literature tends to favor stocks, which have historically outperformed bonds.[5] Yet sovereign foreign bonds offer distinct advantages, including (i) high yields and (ii) intra-asset class diversification.

Generally, foreign sovereign bonds can offer higher rates of return than United States Treasury bonds. For example, Mexican 28-day CETES currently yield 8.15% on an annualized basis[6], compared to 4.23% for similar U.S. Treasury products.[7] Despite this, the risk of default on these instruments remains low. CETES are rated BBB- or better by rating agencies like Fitch and S&P, making them investment grade.[8] Since their launch in 1978, CETES have been highly resilient,

[4] About the U.S. Securities & Exchange Commission, U.S. Securities & Exchange Commission, Jan. 23, 2025, https://www.sec.gov/about (last visited May 20, 2025).
[5] Aswath Damodaran, Historical Returns on Stocks, Bonds and Bills: U.S. S&P 500, NYU Stern School of Business, https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html?utm (last visited May 20, 2025).
[6] Banco de México, Table CF107: Average 28-Day Yields on CETES (Treasury Certificates of the Federation) (SIE Internet), https://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadro&idCuadro=CF107&sector=22&locale=es (last visited May 21, 2025).
[7] Federal Reserve Bank of St. Louis, DTB4WK: 4-Week Treasury Bill Secondary Market Rate (FRED), https://fred.stlouisfed.org/series/DTB4WK (last visited May 21, 2025).
[8] *See* Mexico, Fitch Ratings, https://www.fitchratings.com/entity/mexico-80442216 (last visited May 20, 2025); S&P Global Ratings, *Research Update: Mexico 'BBB' Foreign-Currency and 'BBB+' Local-Currency Sovereign Credit Ratings Affirmed; Outlook Stable* (Dec. 15, 2024), https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/13360129.

meeting scheduled payments even during the Mexican Debt Crisis of 1982 and "Tequila" Crisis of 1994-95.[9]

Indeed, investment grade debt defaults are rare and generally confined to extreme circumstances.[10] Fitch's *Sovereigns 2024 Transition and Default Study* notes that "There have been no investment-grade defaults in the Sovereigns portfolio historically."[11]

And while certain foreign sovereign bonds may still have inferior long-term returns when compared to baskets of blue-chip stocks, in the short run, they are advantageous for risk-averse investors who may need liquidity on short notice. This is because, at given rates of return, historical data suggests that the variance in dollar-adjusted yield may be tighter for foreign sovereign bonds than it is for stocks.[12]

Table I Dollar-Adjusted Annual Mean Rates of Return on Bonds and Stocks in Various Countries, 1960–1980

	Bonds		Stocks	
	Mean	*St. Dev.*	*Mean*	*St. Dev.*
Belgium	8.11%	9.66%	10.14%	14.19%
Denmark	6.99	13.14	11.37	24.83
France	5.99	12.62	8.13	21.96
Germany	10.64	9.45	10.10	20.34
Italy	3.39	13.73	5.60	27.89
Holland	7.90	8.28	10.68	18.24
Spain	5.17	11.52	10.35	20.33
Sweden	6.41	6.06	9.70	17.09
Switzerland	9.11	12.68	12.50	23.48
United Kingdom	6.81	15.30	14.67	34.40
Japan	11.19	12.21	19.03	32.20
Canada	3.52	6.44	12.10	17.89
U.S.	4.31	5.53	10.23	18.12

Source: Ibbotson, Carr and Robinson, "International Equity and Bond Returns," *Financial Analysts Journal*, July/August 1982.

Figure 1: Levy & Lerman Bond & Stock Rates of Return and Variance (1988)[13]

Historical data also shows that "global funds provide higher returns and comparable risk-adjusted returns to domestic bond funds [and] global bond funds provide incremental gain for investors whose portfolios are concentrated on domestic bond funds."[14] And academic research

[9] *See* Juan Flores Zendejas, *When It Rains, It Pours: Mexico's Bank Nationalisation and the Debt Crisis of 1982*, 42 Rev. Historia Económica (J. Iberian & Latin Am. Econ. Hist.) 33 (Mar. 2024), https://doi.org/10.1017/S0212610923000174; Maxwell A. Cameron & Vinod K. Aggarwal, *Mexican Meltdown: States, Markets and Post-NAFTA Financial Turmoil*, 17 Third World Q. 975 (1996), available at https://library.fes.de/libalt/journals/swetsfulltext/11220654.pdf

[10] *See* Julianne Ams, Reza Baqir, Anna Gelpern & Christoph Trebesch, Chapter 7: Sovereign Default, in *Sovereign Debt: A Guide for Economists and Practitioners* 145–67 (Int'l Monetary Fund 2019).

[11] Fitch Ratings, *Sovereigns 2024 Transition & Default Study* (Mar. 27, 2025), https://www.fitchratings.com/research/sovereigns/sovereigns-2024-transition-default-study-27-03-2025.

[12] Haim Levy & Zvi Lerman, The Benefits of International Diversification in Bonds, 44 Fin. Anal. J. 56 (Sept.–Oct. 1988), https://www.researchgate.net/publication/238337864_The_Benefits_of_International_Diversification_in_Bonds.

[13] *Id.*

[14] Sirapat Polwitoon, Diversification Benefits and Persistence of U.S.-Based Global Bond Funds, paper presented at the European Financial Management Association Annual Meeting (June 29–July 2, 2005), https://efmaefm.org/0efmameetings/efma%20annual%20meetings/2005-Milan/papers/202-polwitoon_paper.pdf.

suggests that bond portfolios constructed with diversified international bonds outperform both the risk-free rate and domestic benchmark portfolios.[15] In other words, diversified fund structures improve market efficiency by increasing and stabilizing yields. This is in the direct interest of U.S. market participants.

In addition to the investment value of these foreign sovereign bonds, they are also valuable tools for industry. Many businesses incur costs denominated in currencies other than USD in the ordinary course of operations. This exposes them to foreign exchange ("FX") risk. If the value of the Mexican Peso increases relative to USD, then these companies' obligations will increase. Traditionally, entities in this circumstance "hedged" by purchasing foreign currency. If their liabilities increased, accompanying increases in the value of their assets would stabilize their financial position. This approach can be improved, however, by holding short-dated bonds or bond-indexing instruments denominated in such foreign currency. Foreign sovereign bonds have the same advantage as traditional FX hedging positions, but with added yield to shield holders from inflation and improve overall financial performance. This, in turn, further improves market efficiency by making it easier and less expensive to take necessary hedging positions, freeing up marginal capital for productive applications.

III. Problem of Access

Despite these benefits, it is currently difficult to structure compliant offerings of tokenized foreign sovereign bonds in the United States. This unavailability, in turn, limits the benefits enjoyed by U.S. market participants.

Foreign sovereign bonds are difficult to access in the United States for a few reasons. First, in general, while U.S. Treasury bonds are readily available, foreign governments must publicly register each bond issue to sell it in the United States. Most do not do so, effectively shutting off U.S. investors from their benefits. While it is possible for sovereigns to participate in "shelf offerings" that permit ongoing distribution, this approach is still difficult and time consuming, and so is rarely used.[16]

This means that in U.S. retail markets, access to foreign sovereign bonds is generally only possible through exchange traded funds ("ETFs"), which generally charge fees of roughly .3%.[17] While useful, such ETF offerings are limited. In most cases, they only trade during market hours

[15] Roberto A. De Santis & Lucio Sarno, Assessing the Benefits of International Portfolio Diversification in Bonds and Stocks, ECB Working Paper Series No. 883 (Mar. 2008), https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp883.pdf.
[16] Arnold & Porter, Market Trends 2017/18: Sovereign Bonds (May 2018), https://www.arnoldporter.com/~/media/files/perspectives/publications/2018/05/market-trends-201718-sovereign-bonds.pdf.
[17] *See, e.g.* Bloomberg L.P., *CETETRC:MM* (Bloomberg), https://www.bloomberg.com/quote/CETETRC:MM (last visited May 21, 2025).

between 9:00 AM and 4:00 PM ET Monday through Friday (and not on holidays). This makes them imperfect vehicles for hedging.

Blockchain products solve this problem by facilitating 24/7 access and instant settlement, but current options to offer tokenized foreign sovereign bonds in the United States are regulatorily complex and legally uncertain.

The core legal problems of tokenizing securities has been aptly described in other publications before the Commission, including but not limited to comment letters submitted by the Solana Policy Institute *et al.* titled "*Project Open,"*[18] by the firm Plume,[19] and by the firm Robinhood.[20] Indeed, these issues were reflected in comments made by Commissioner Peirce entitled "Getting Smart – Tokenization and the Creation of Networks for Smart Assets: Opening Remarks for Tokenization Roundtable*."*[21]

> *Tokenization cannot reach its full potential without legal clarity. Issuers and transfer agents continue to be unsure about whether a crypto network can be the master securityholder file or a component thereof for purposes of the Exchange Act's transfer agent rules, even where the relevant state law expressly contemplates the use of a crypto network in connection with the maintenance of the securities ownership record. Further, the Commission's Special Purpose Broker-Dealer statement,*[22] *which defines "crypto asset security" to encompass any security that relies on cryptographic protocols, has created confusion regarding a broker-dealer's ability to custody tokenized traditional securities, even when issuers and transfer agents retain control and can address erroneous or impermissible transactions.*

In the remainder of this comment letter, we identify several areas where additional regulatory clarity and targeted exemptive relief would facilitate both the health of the cryptocurrency

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[18] Solana Policy Institute et al., Project Open: Proposing the Open Platform for Equity Networks (Submission to the SEC Crypto Task Force, Apr. 28, 2025), https://www.sec.gov/files/ctf-written-project-open-wireframe-04282025.pdf.

[19] Plume, *Written Input on the Crypto Task Force Comment Request* (U.S. Sec. & Exch. Comm'n, May 5, 2025), https://www.sec.gov/files/ctf-written-input-plume-050525.pdf.

[20] Robinhood Markets, Inc., Comment Letter on Tokenization to SEC Crypto Task Force (U.S. Sec. & Exch. Comm'n, Apr. 25, 2025), https://www.sec.gov/files/ctf-written-robinhood-tokenization-letter-04252025.pdf.

[21] Hester M. Peirce, Getting Smart – Tokenization and the Creation of Networks for Smart Assets: Opening Remarks for Tokenization Roundtable (Speech at the SEC Crypto Task Force Fourth Roundtable, Washington D.C., May 12, 2025), https://www.sec.gov/newsroom/speeches-statements/peirce-remarks-crypto-roundtable-tokenization-051225.

[22] Note that recent guidance has clarified and liberalized certain treatment of broker-dealers, limiting some of these concerns. However, the core need for legal clarity remains. U.S. Securities & Exchange Commission, Division of Trading and Markets, *Frequently Asked Questions Relating to Crypto Asset Activities and Distributed Ledger Technology* (May 15, 2025), https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions/frequently-asked-questions-relating-crypto-asset-activities-distributed-ledger-technology

industry generally and the availability of tokenized foreign bonds specifically in the United States.

IV. Recommendations

A. Etherfuse Endorses a "Regulatory Sandbox"

The Comment Request posed the following question with respect to regulatory sandboxes:

> *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?*

Discussions of a U.S. regulatory sandbox in cryptocurrency date back at least to Commissioner Peirce's May 29, 2024 *Comment on Digital Securities Sandbox Joint Bank of England and Financial Conduct Authority Consultation Paper*.[23] Proponents see the model as an opportunity to create a limited space for experimentation outside of the strictures of the securities laws. This could "generate real-world insights about whether distributed ledger technology could streamline the issuance, trading, and settlement of securities without undermining investor protection, market integrity, or financial stability."[24]

We believe that such a cross-border sandbox, or even a domestic pilot of liberalized securities laws like the one proposed by Solana Policy Institute *et al.* in "*Project Open,"* could present significant opportunity for capital markets globally.[25]

Currently, the problem in public capital markets is, colloquially, that "the rent is too damn high." It is simply too expensive for most entities to use public markets as a fundraising vehicle. The professional services firm PwC estimates that even the smallest IPOs cost between $1.4 and $19.6 million.[26] These numbers do not take into account the ongoing cost of compliance which, even in 2014, the SEC itself suggested averaged $1.5 million annually.[27]

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[23] Hester M. Peirce, *Comment on Digital Securities Sandbox Joint Bank of England and Financial Conduct Authority Consultation Paper* (U.S. Sec. & Exch. Comm'n, Washington, D.C., May 29, 2024), https://www.sec.gov/newsroom/speeches-statements/peirce-boe-fca-comment-05302024 (internal quotations omitted).
[24] *Id.*
[25] Project Open, *supra* note 18.
[26] PricewaterhouseCoopers LLP, Considering an IPO? First, Understand the Costs, PwC, https://www.pwc.com/us/en/services/consulting/deals/library/cost-of-an-ipo.html (last visited May 20, 2025).
[27] Crowdfunding, Proposed Rule, Release No. 33-9470, 78 Fed. Reg. 66427 (Nov. 5, 2013), https://www.sec.gov/files/rules/proposed/2013/33-9470.pdf.

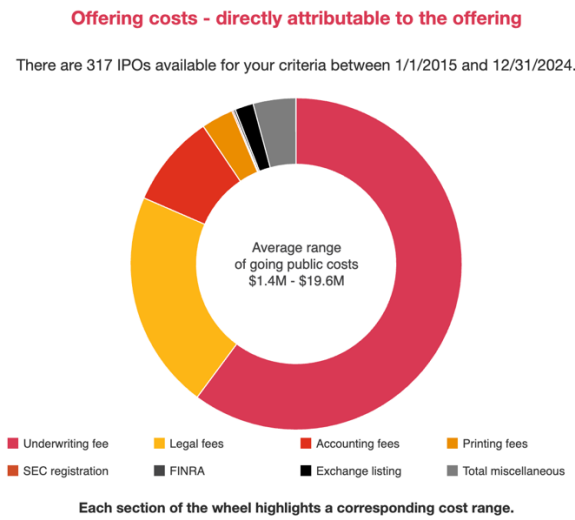

Figure 2: PwC Cost of an IPO (2025)[28]

For all but the largest companies, these costs are prohibitive. This is to say nothing of the various other challenges that public companies face, such as ongoing, expansive prospectus liability.[29]

There is little doubt that the rules governing public markets were implemented with the best intentions. Few would choose to return to the capital market structures that preceded the passage of the securities laws in the 1930s and '40s. But nearly a century of incremental legislation has produced a complex and costly framework that may no longer serve the SEC's core mission in all cases.

It is sometimes observed that the rise of cryptocurrency tokens in the United States was a response to this overly restrictive regulatory environment. However, as enforcement actions limited legitimate market participants from continuing to distribute cryptocurrency tokens, a surfeit of spam tokens like memecoins propagated through unregulated markets. The SEC has now explicitly stated that these tokens are generally outside of its jurisdictional remit.[30] This dynamic curtails blockchain's transformative potential while allowing lower-quality tokens to flourish, a mismatch that ultimately detracts from the ecosystem's integrity.

A regulatory sandbox would permit experimentation to identify a goldilocks approach to permit the issuance of security-type tokens through blockchain technology. Liberalization is possible because blockchain technology permits secure disintermediation of securities transactions,

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[28] *Id.*

[29] In one particularly gruesome example, UnitedHealthcare was recently subject to suit because it did not disclose the risk of its CEO's death in securities filings. *See* Patricia Battle, UnitedHealth Faces Startling Lawsuit Over CEO Death, TheStreet (May 9, 2025), https://www.thestreet.com/lifestyle/health/unitedhealth-faces-startling-lawsuit-over-ceo-death.

[30] Staff Statement on Meme Coins, Div. of Corp. Fin., U.S. Sec. & Exch. Comm'n (Feb. 27, 2025), https://www.sec.gov/newsroom/speeches-statements/staff-statement-meme-coins (last visited May 20, 2025).

removing the need for separate regulated clearinghouse, broker-dealer, and exchange functions. As the blockchain collapses these functions, a single entity can now handle all three at once.[31]

This new technical foundation for capital markets is an opportunity to reconsider, from first principles, the regulatory treatment of primary and secondary security sales in the United States. Liberalization has long been of interest. The Commission has repeatedly structured novel regimes like Regulation A ("Reg A") and Regulation Crowdfunding ("Reg CF") to attempt to improve capital market among small and midsize businesses. But any account of these programs must admit that they have largely failed to change the core dynamics of U.S. capital markets.

In a four-year period between 2015 and 2019, the total amount raised under Reg A was only $2.446 billion.[32] Compare that to the "$3.2 trillion of capital for businesses through debt and equity issuance activity in the United States" raised in 2020 *alone*.[33] Cryptocurrency markets can be different, but they require a true overhaul of the securities laws. Anything less risks producing an anemic regulated market while the unregulated segment continues to thrive elsewhere.

While the exact details of a public sandbox should be carefully considered, we believe that now is the right time to develop new experimental standards to identify policy to harness blockchain's cheap, secure infrastructure, and ready liquidity while still maintaining the integrity of the United States' capital markets.

Such an experiment should include opportunities to develop approaches to selling tokenized securities, including bonds. To do so, the Commission should consider a *same risk, same rule* approach, permitting tokenization firms to offer on-chain assets without additional registration, provided that the underlying assets themselves are publicly tradeable and the firm produces audited, publicly available reserve disclosures at a regular cadence.

Taken together, these approaches to capital markets should decrease costs and improve access to a wide variety of financial assets, potentially improving the efficiency of U.S. markets and facilitating new capital formation.

B. The Commission Should Consider Extending Exemptive Relief to Sovereign Foreign Bonds

[31] *See* Tuongvy Le & Austin Campbell, *Crypto and the Evolution of the Capital Markets*, SSRN Electron. J. (May 12, 2025), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5250986. ("Because blockchains combine near-instantaneous execution and settlement, both peer-to-peer and centralized crypto trading collapse functions like brokerage, exchange, custody, transfer, and settlement that are required to be separate in the traditional securities context")

[32] Staff of the U.S. Securities & Exchange Commission, Regulation A Lookback Study and Offering Limit Review Analysis (Mar. 4, 2020), https://www.sec.gov/files/regulationa-2020.pdf.

[33] Securities Industry and Financial Markets Association, U.S. Fact Book 2021 (Sept. 2020), https://www.sifma.org/wp-content/uploads/2020/09/US-Fact-Book-2021-SIFMA.pdf.

As the Commission evaluates frameworks for tokenized securities, it should also consider the current treatment of foreign sovereign debt. At present, only U.S. Treasury securities are exempt from registration, while bonds issued by other sovereigns must undergo a full registration process before they may trade publicly in the United States.

This is out of lockstep with international practices. For example, in 2021 the United Kingdom's Financial Conduct Authority ("FCA") amended its rules to permit "sovereigns, local and regional authorities and central banks of any country… to offer debt securities to the public or to list such securities on the main market of the London Stock Exchange."[34]

It is also unsupported on the merits. The bonds of foreign nations can be offered safely in the United States without SEC-registration because there are already robust, wide-ranging disclosures available for U.S. investors to rely on. These include, but are not limited to, compliance with the International Monetary Fund's ("IMF") Special Data Dissemination Standard,[35] IMF Article IV surveillance,[36] and credit ratings performed by credit rating agencies Moody's, Fitch, and S&P.[37] Together, these robust sources of public data provide sufficient information for U.S. investors to safely participate in these international capital markets.

We propose that the SEC provide exemptive relief under Section 28 of the Securities Act of 1933[38] (the "Securities Act") tailored to allow unregistered offering of certain sovereign bonds classified according to criteria to be determined by the Commission as "Qualifying Foreign Government Securities" ("QFGSs"). Such relief would, in effect, conditionally add such QFGSs to the list of "exempted securities" in Section 3(a) of the Securities Act.[39]

This exemption should extend broadly across the securities laws, relying on Section 36 of the Securities Exchange Act of 1934[40] (the "Exchange Act") to further, effectively, treat such QFGSs as if they were among the "government securities" listed in Section 3(a)(42).[41]

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[34] Dechert LLP, Post-Brexit UK FCA Rule Change Accelerates Access to International Capital Markets for Sovereigns and Local Authorities, OnPoint (Jan. 28, 2021), https://www.dechert.com/knowledge/onpoint/2021/1/post-brexit-uk-fca-rule-change-accelerates-access-to-internation.html.
[35] Special Data Dissemination Standard: Overview, Dissemination Standards Bulletin Board, Int'l Monetary Fund, https://dsbb.imf.org/sdds/overview (last visited May 20, 2025).
[36] International Monetary Fund, *Guidance Note for Surveillance Under Article IV Consultations*, IMF Policy Paper (June 23, 2022), https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/06/23/Guidance-Note-for-Surveillance-Under-Article-IV-Consultations-519916.
[37] *See, e.g.* Moody's Investors Service, *Sovereigns – Rating Methodology*, Moody's RMC Doc. No. 395819 (Nov. 2022), https://ratings.moodys.com/api/rmc-documents/395819 (last visited May 20, 2025).
[38] Securities Act of 1933 § 28, 15 U.S.C. § 77z-3 (current through Pub. L. No. 118-42)
[39] Securities Act of 1933 § 3, 15 U.S.C. § 77c (current through Pub. L. No. 118-42). Of course, the Commission cannot amend the Securities Act through rulemaking, but such exemptive relief *could* simulate statutory exemption.
[40] Securities Exchange Act of 1934 § 36, 15 U.S.C. § 78mm (current through Pub. L. No. 118-42)
[41] Securities Exchange Act of 1934 § 3, 15 U.S.C. § 78c (current through Pub. L. No. 118-42).

Such relief would harmonize the securities laws treatment of offer and sale of such QFGSs with their treatment, for the purpose of futures trading, under Rule 3a12-8 as "designated foreign government securities."[42]

The proposed regime need not be *laissez-faire*. The Commission could impose rating requirements and light-touch English-language disclosure as conditions to exemptive relief to guarantee investor protection. But even if only available to a limited subset of investment-grade sovereign bonds, it is still likely that this novel regime could provide protection more efficiently than is currently possible.

Relatively limited exemptive authority could dramatically improve U.S. investor access to foreign sovereign bonds. The effect of opening these markets would be notably beneficial as described in Section II above, by improving liquidity and capital formation, easing U.S. access to global bond markets, promoting cross-border parity, and improving market efficiency by facilitating diversification.

C. The Commission Should Consider Exemptive Relief Under the '40 Act for QFGSs

In addition to opening the securities laws to QFGSs, the Commission should consider taking certain additional exemptive action with respect to the applicability of the Investment Company Act of 1940 (the "'40 Act").

Currently, the Section 2(a)(16) definition of "Government Securities" is limited to securities issued by the United States.[43] The Commission should consider promulgating rulemaking under its Section 6(c) '40 Act exemptive authority[44] to extend this definition to include QFGSs, or such subset of QFGSs that the Commission deems appropriate.

The effect of this extension would be to render certain entities which might otherwise meet the definition of Investment Company under Section 3(a)(1) of the '40 Act[45] outside the scope of the law because Section 3(a)(2) provides that "Government securities" are not investment securities.

In turn, this would mean that firms tokenizing sovereign bonds would be able to operate funds within the United States without registering as investment companies or relying on the Section 3(c)(1) or 3(c)(7) exemptions popular with private funds.

[42] Exchange Act Rule 3a12-8, 17 C.F.R. § 240.3a12-8 (current through Pub. L. No. 118-42).
[43] Investment Company Act of 1940 § 2(a), 15 U.S.C. § 80a-2 (current through Pub. L. No. 118-42).
[44] Investment Company Act of 1940 § 6, 15 U.S.C. § 80a-6 (current through Pub. L. No. 118-42).
[45] Investment Company Act of 1940 § 3(a), 15 U.S.C. § 80a-3 (current through Pub. L. No. 118-42).

While some tokenization firms already operate in the United States, they are generally limited to tokenizing U.S. government securities, and, for the most part, do not market or sell the resulting tokenized securities to U.S. Persons. Firms like Etherfuse that tokenize foreign sovereign bonds generally must operate internationally. In light of this, allowing such activity onshore could spur new domestic cryptocurrency business, keep the United States competitive in global capital markets, and give U.S. investors access on par with their foreign peers.

As mentioned above, this QFGS relief would also harmonize treatment of foreign sovereign debt across the securities laws by aligning '40 Act treatment with Rule 3a12-8 under the Exchange Act.[46]

V. Conclusion

We believe that the exemptive relief proposed in this letter, if implemented through common-sense criteria, would meaningfully contribute to the sound operation of capital markets in the United States. The potential benefits of tokenization generally, of foreign sovereign bonds, and of tokenized foreign sovereign bonds specifically are well established and robust.

We are grateful for the opportunity to provide input to the Crypto Task Force as the Commission considers cryptocurrency policy. Should you require further information, please do not hesitate to contact us at dave@etherfuse.com and aaron@broganlaw.xyz.

Thank you for your time and consideration.

Respectfully submitted,

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[46] Rule 3a12-8, *supra* note 42.