PETITION FOR RULEMAKING

Continuous Control Framework for Digital Assets

(Enforcement Before and After Transfer)

Ref: S7-2026-09

TO: Secretarys-Office@sec.gov

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FROM: Amy Pearson, Patent Attorney, TrustLogic

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RE: Petition for Rulemaking — Persistent-Enforcement Digital Asset Systems

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I. OPENING REQUEST AND PETITIONER DISCLOSURE

Amy Pearson, a patent attorney and founder of TrustLogic, respectfully petitions the U.S. Securities and Exchange Commission (the "Commission") to **initiate rulemaking** to establish a recognized regulatory category for "**Persistent-Enforcement Digital Asset Systems**" — defined as systems in which conditions governing asset use are (1) enforced automatically at the asset level, (2) structurally independent of any intermediary or platform, and (3) persistent across transfers throughout the lifecycle of the asset.

The Petitioner respectfully requests that the Commission:

- Initiate rulemaking to define the criteria for Persistent-Enforcement Digital Asset Systems under the Commission's general rulemaking authority;
- Issue interpretive guidance clarifying how such systems are evaluated under the Howey test, existing investor protection rules, and Regulation S-P; and
- Recognize systems meeting these criteria as a structurally distinct category that reduces or eliminates the risks associated with intermediary-dependent enforcement and ongoing managerial reliance.

Petitioner Disclosure: The Petitioner holds pending patent claims (Docket No. Define-2-Trustee-1) on one implementation of the technology described herein. The framework proposed in this petition is expressly ***technology-neutral and implementation-agnostic*** — it is intended to define functional regulatory criteria applicable to any qualifying system, not to favor any particular implementation. The Petitioner submits this petition to advance the Commission's stated goals of investor protection, regulatory clarity, and the safe development of automated financial systems, and not to secure any proprietary commercial advantage.

The Petitioner's background in patent law and intellectual property, combined with hands-on development of trust-architecture systems for digital asset enforcement, provides direct practical experience with the regulatory gap identified herein. This petition is informed by that experience and by the Commission's own prior statements on digital asset regulation, investor protection, and automated financial systems, which are cited throughout.

II. THE REGULATORY GAP: VERIFICATION IS NOT ENFORCEMENT

The Commission has long recognized the importance of enforceable conditions in financial instruments. In its foundational securities law framework, the Commission requires that disclosed terms reflect actual system behavior — that what is represented to investors is, in practice, what governs. For traditional financial instruments, this expectation is met through a combination of legal obligation, intermediary accountability, and regulatory oversight.

Current digital asset systems present a structural gap that undermines this expectation. Today's systems are effective at verifying ownership and recording transfers. They are not, however, reliably able to ensure that conditions attached to an asset at issuance continue to govern how that asset is used after transfer — particularly when assets move across platforms or systems.

This gap has been observed in practice across digital asset markets. Specifically:

- Creator royalty provisions embedded in NFT smart contracts have proven dependent on platform-level compliance. When marketplaces modify or remove enforcement mechanisms, the associated royalty conditions are no longer upheld, despite being part of the original asset design.
- Purpose-restricted funds can be redirected after transfer, because the digital system records the transfer but does not constrain subsequent use.
- Financial instruments can be transferred without their original conditions being enforced, particularly when transferred across systems or platforms that were not party to the original agreement.
- Digital licenses can be bypassed or replicated after transfer, with enforcement relying on voluntary platform compliance rather than structural obligation.

The root cause is a fundamental distinction between two different functions that current systems conflate: the verification of ownership, and the enforcement of conditions. Current systems are built to do the former reliably. They are not built to do the latter persistently.

This limitation is most acute in three areas the Commission has identified as priorities:

- Real-World Asset (RWA) tokenization, where conditions governing financial instruments must persist across transfers and platforms;

- Automated and AI-driven financial systems, where transactions occur without human oversight and conditions must be enforced structurally; and
- Digital licensing and rights management, where conditions governing use must remain enforceable after ownership changes.

The Commission's own enforcement record reflects this gap. Cases involving platform-dependent royalty enforcement, purpose-restricted fund misuse, and automated system failures all share a common structural cause: conditions that were disclosed at issuance were not enforceable in practice after transfer. This petition proposes a framework to address that structural cause directly.

III. PROPOSED FRAMEWORK: SEPARATION OF CONTROL AND OWNERSHIP

The Commission should recognize a framework based on a principle that is already well-established in U.S. law:

Control over how an asset is used should be structurally separate from ownership of the asset's economic value.

This is not a new legal concept. It is the foundational principle of trust law, which has governed the separation of control and beneficial ownership in American jurisprudence for centuries. A trustee holds and manages assets subject to defined obligations; a beneficiary holds the economic interest. The proposed framework applies this existing legal structure to digital systems — it does not ask the Commission to create new legal categories.

In practice, this separation is implemented through a dual-layer structure distinguishing between:

- A control layer (analogous to a trustee), which governs how the asset may be used and enforces predefined conditions. This layer remains persistent and does not transfer with ownership.
- A rights layer (analogous to a beneficiary interest), which represents the transferable economic value or utility associated with the asset. This layer may transfer, be reissued, or be represented across different systems.

As a concrete illustration: a compliant system might implement the control layer as a trustee-held token representing custodial control of the asset, while the rights layer is represented by a beneficiary token evidencing the holder's economic interest. The trustee token remains non-transferable by the beneficiary, preventing circumvention, while the beneficiary token may transfer or be reissued — always subject to the

conditions encoded in the underlying trust structure. Any attempted action by the rights layer is validated against the control layer's conditions before execution is permitted.

Under this approach, a compliant system exhibits five characteristics:

- **Control persists across ownership changes**: The rules governing the asset continue to apply even when ownership changes hands.
- **Ownership can transfer without removing control**: Economic rights may transfer freely without weakening enforcement.
- **Enforcement is anchored to the asset**: The asset evaluates conditions prior to execution and prevents non-compliant actions.
- **Enforcement is continuous**: Rules are applied both at the point of transfer and throughout the asset's lifecycle.
- **Oversight is preserved**: Regulators can verify how rules are enforced, even where certain details remain private.

This structure does not require systems to remain closed. The control layer enforces conditions independently of any platform, enabling both open transferability and persistent enforcement — the combination that current systems cannot achieve.

IV. REGULATORY ALIGNMENT

The proposed framework directly addresses concerns the Commission has identified across multiple areas of its regulatory agenda. Each is addressed in turn below.

A. Reliance on Managerial Efforts (Howey Analysis)

The Supreme Court's Howey test asks, in part, whether investors rely on the efforts of others for their expected returns. In existing digital asset systems, enforcement of asset conditions frequently depends on ongoing decisions by platform operators, marketplace administrators, or other intermediaries. When those actors change their policies — as has occurred with creator royalty enforcement on major NFT platforms — the conditions governing the asset change accordingly. This is precisely the kind of managerial reliance that Howey treats as relevant to securities classification.

Under the proposed framework, enforcement does not depend on ongoing human decision-making. The asset itself evaluates whether predefined conditions are satisfied before permitting any transfer or use. This shifts the basis of enforcement from human actors to embedded, automatically executed rules — reducing or eliminating the "efforts of others" element entirely.

This distinction provides a clear structural basis for the Commission to differentiate between: (1) systems that require active human management and thus implicate

Howey; and (2) systems where outcomes are determined by pre-defined, self-executing conditions and thus do not.

B. Intermediary and Platform Dependence

A recurring failure mode in digital asset markets is the loss of enforcement when assets move across platforms. ERC-721C — the current standard for transfer-controlled NFTs — requires marketplace compliance to enforce royalties. When marketplaces do not comply, or when assets are wrapped in new smart contracts to circumvent transfer restrictions, enforcement fails. This is not a hypothetical risk; it has occurred at scale in NFT markets.

Under the proposed framework, control over the asset remains anchored within a persistent control structure that is independent of the platform on which a transfer occurs. The underlying asset remains governed by its conditions regardless of where economic rights are transferred or displayed. Representations of economic rights that exist outside this structure do not carry enforceable rights unless they remain linked to the governing control layer.

This eliminates the primary source of enforcement failure in current digital asset markets and addresses the Commission's concern that investor protections not be contingent on voluntary platform compliance.

C. Investor Protection and Misuse Prevention

The Commission has consistently emphasized that conditions disclosed to investors at issuance must be enforceable in practice, not merely represented in offering documents. The proposed framework directly addresses the gap between disclosure and enforceability.

Because the asset itself enforces its rules, conditions disclosed at issuance remain enforceable throughout the lifecycle of the asset. Funds can only be used in accordance with defined conditions. Contractual obligations persist regardless of ownership changes. Misuse is prevented at the point of execution — before harm occurs — rather than addressed reactively after the fact. This structural preventability is qualitatively different from the monitoring-and-enforcement model that current systems rely upon.

D. Disclosure Integrity

A recurring issue in digital asset markets — and one the Commission has addressed in multiple enforcement actions — is the divergence between conditions represented at issuance and conditions that are actually enforceable after transfer. Offering documents accurately describe terms that the system is structurally incapable of enforcing once assets move across platforms.

The proposed framework closes this gap. Conditions defined at issuance remain enforceable throughout the lifecycle of the asset. Disclosures more accurately reflect actual system behavior. The gap between legal terms and technical enforcement is reduced to zero. This strengthens disclosures as a basis for investor decision-making

and reduces the Commission's enforcement burden by preventing violations rather than remedying them.

E. Autonomous Systems and AI-Driven Transactions

The Commission has identified the rise of autonomous and AI-driven financial systems as a priority regulatory concern. As transactions increasingly occur without direct human oversight, the need for structural enforcement mechanisms — rather than human-mediated compliance — becomes acute.

The proposed framework is uniquely well-suited to this environment. Even where an autonomous system initiates a transaction, the asset itself verifies whether the action complies with predefined conditions before allowing execution. Autonomous systems cannot bypass restrictions. Asset misuse by AI agents is structurally prevented. System behavior remains constrained within defined parameters regardless of the initiating actor. This provides a mechanism for bounding non-deterministic AI behavior that no current digital asset standard achieves.

F. Governance Clarity and Control Risk

The proposed framework makes control explicit and structurally distinct from economic rights. Authority over asset behavior resides in the control layer, not in the holder of economic rights. This provides clarity on three questions the Commission has identified as relevant in evaluating digital asset governance: where authority over asset behavior resides; whether such authority is subject to ongoing human discretion; and how governance changes may affect asset behavior.

Because control may be defined through pre-established rules rather than ongoing discretionary decision-making, governance under this framework is rule-based rather than managerial — a distinction directly relevant to the Commission's Howey analysis and its evaluation of governance and control risks.

G. Privacy and Regulatory Visibility (Regulation S-P Alignment)

The proposed framework enables enforcement mechanisms to operate independently from sensitive underlying data. Asset-specific or personally identifiable information may remain private or stored off-chain, while enforcement logic and control structures remain visible and auditable. This supports compliance with Regulation S-P while preserving the ability of regulators to verify that conditions are being enforced.

This approach is also consistent with FinCEN's recent emphasis on systems that support traceability, monitoring, and compliance across financial activity. By enabling conditions to be enforced at the asset level while maintaining auditability of enforcement mechanisms, the framework supports AML/CFT objectives without requiring full public disclosure of sensitive transactional data.

V. PROPOSED REGULATORY APPROACH

The Petitioner respectfully requests that the Commission initiate rulemaking to establish a recognized regulatory category for Persistent-Enforcement Digital Asset Systems. The Commission should further issue interpretive guidance clarifying how such systems are evaluated under the Howey test and existing investor protection rules.

A Persistent-Enforcement Digital Asset System should be defined as a system in which:

- Conditions governing asset use are enforced automatically by the system, rather than relying on ongoing human or managerial efforts;
- Enforcement persists across transfers and is not dependent on any specific platform, marketplace, or intermediary;
- Control over asset behavior is structurally distinct from transferable economic rights; and
- Conditions disclosed at issuance remain enforceable in practice throughout the lifecycle of the asset.

Where these four characteristics are present, the Commission should:

- Recognize that such systems structurally reduce or eliminate reliance on managerial efforts for purposes of Howey analysis;
- Provide guidance that disclosures for such systems may be evaluated based on the structural characteristics of the enforcement mechanism, not solely on the representations made in offering documents; and
- Establish a framework for regulatory oversight of the control layer that preserves auditability without requiring public disclosure of sensitive underlying data.

This approach is consistent with the Commission’s prior practice of recognizing structural distinctions in financial systems — including the distinction between securities and commodities based on the nature of the underlying transaction — and applying those distinctions to emerging asset classes as technology evolves.

The Commission has authority to act under Section 19(c) of the Securities Exchange Act of 1934 and its general rulemaking authority to promulgate rules necessary and appropriate to carry out the purposes of the federal securities laws. The proposed category does not require legislation; it requires interpretive clarity that the Commission is well-positioned to provide.

VI. CONCLUSION

Current digital asset systems can verify ownership and transfer value. They cannot reliably enforce the conditions governing how assets are used. This gap between verification and enforcement is the structural cause of the investor protection failures,

disclosure integrity problems, and platform-dependent enforcement breakdowns that have characterized digital asset markets.

The proposed framework addresses this gap by applying a principle the Commission already recognizes in U.S. trust law: control over how an asset is used should be structurally separate from ownership of the asset's economic value. No new legal categories are required. The Commission need only recognize, as a regulatory matter, the distinction between systems that structurally enforce conditions and systems that depend on voluntary platform compliance.

Such a framework would improve investor protection by ensuring conditions are enforced rather than merely disclosed, clarify the application of the Howey test to structurally distinct digital asset systems, and provide a regulatory foundation for the safe development of automated and AI-driven financial systems.

The Petitioner respectfully requests that the Commission act on this petition and invites further engagement on the technical and legal details described herein. The Petitioner is available to provide additional information, participate in roundtables, or respond to requests for comment at the Commission's direction.

Respectfully submitted,

Amy Pearson
Patent Attorney

TrustLogic

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APPENDIX A — ILLUSTRATIVE EXAMPLE: PURPOSE-RESTRICTED FUNDS

This example illustrates how the proposed framework enables continuous enforcement of asset conditions before and after transfer. It is intended to make the core mechanism accessible to non-technical readers and to demonstrate its applicability across a range of asset types.

Scenario

A parent provides $1,000 to a student with the stated condition that the funds may only be used for rent and groceries. Under current systems, once the funds are transferred, there is no reliable mechanism to enforce these conditions. The recipient may use the funds for any purpose.

Outcome Under Existing Systems

- Funds transfer without restriction.
- Stated conditions are not enforced.
- Enforcement depends on trust, monitoring, or subsequent legal action.
- The outcome may diverge from the stated intent.

Outcome Under the Proposed Framework

- The asset evaluates whether a transaction meets predefined criteria before execution.
- Permitted transactions (rent, groceries) proceed.
- Non-compliant transactions are blocked before execution.
- Rules persist regardless of ownership changes or platform.

Regulatory Relevance

Each characteristic of this example maps directly to the framework described in Section IV above:

Characteristic	Description	Regulatory Relevance	See Section IV
No ongoing human oversight	Enforcement is automatic and structural	Managerial Efforts (Howey)	IV.A
No platform dependence	Conditions hold regardless of where the asset moves	Intermediary Dependence	IV.B
Misuse is prevented at execution	Non-compliant actions are blocked before completion	Investor Protection	IV.C
Conditions match disclosures	What is represented is what is enforced	Disclosure Integrity	IV.D
AI cannot bypass restrictions	Automated transactions are subject to the same rules	AI Risk	IV.E

Broader Applicability

The same underlying structure applies across asset types. While the example above involves simple monetary restrictions, the framework extends to real-world asset tokenization, insurance disbursements, financial instruments, digital licensing, and automated or AI-driven transactions. In each case, the asset itself enforces the conditions governing its use, while the specific conditions vary by context.