



**FLATSTONE**  
CAPITAL MARKETS INC.

## **PUBLIC DOCUMENT**

September 29, 2022

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**US Securities Exchange Commission**  
100 F Street, NE  
Washington, DC 20549  
United States of America

### **Re: Draft Strategic Plan 2022-2026**

To whom it may concern:

FlatStone Capital Markets Inc. (FCA or FlatStone) is pleased to present our commentary to the Draft Strategic Plan 2022-2026.

FlatStone is in the process of completing the regulatory application process with the Canadian Securities Administrators (CSA) to operate a Canadian security token marketplace "TridentX". In anticipation of the licensing, our team of team subject matter experts continues to work with leading companies, governments, and investors promoting the digital transformation of the capital markets.

TridentX, is a next-generation platform for primary issuance and secondary trading of financial instruments developed on Enterprise purpose built (EPB) Decentralized ledger technology (DLT) already operating leading global capital markets including the SIX Digital Exchange in Switzerland.

FlatStone believes that by implementing the best industry standards and practices we can foster a more democratic financial system and inclusive capital markets during the formation stages of the new digital economic era.

### **Rebuilding Economy**

FlatStone will support the economic recovery of the Americas and Europe, by developing a regulatory compliant digital infrastructure bridge for cryptocurrency investors to invest in real assets, innovative ventures, and technologies from digital entrepreneurs. Our marketplace addresses a number of the mega-trends two of which are key to economic recovery post-covid because of their impact on every other sector and industry: Digital transformation and energy transition.

Over the last few years, government regulators have tuned into the chorus of investors voicing concerns on unregulated cryptocurrencies. At the core, the many challenges facing investors and industry are the lack of standards to qualify the sustainable investment and the opaque investment certification process from non-governmental bodies for new asset classes i.e. ESG.



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As a securities regulated platform, FlatStone is committed to promoting market integrity and fostering transparency via enterprise blockchain technologies. Our team of subject matter experts has completed extensive research and has put forward commentaries to the leading investment associations including the CFA, and regulatory bodies like the European Securities Market Authority (ESMA).

Flatstone as a signatory to the CFA<sup>1</sup> Institute Asset Manager Code™ (the Code), has contributed to consultation papers on the subject of ESG standards. Including the Consultation Paper on the Development of the CFA Institute ESG Disclosure<sup>2</sup>, and ESMA DLT Pilot<sup>3</sup> which has served as the basis for this commentary.

With the advent of new regulations for cryptocurrencies and emission reporting standards, it is key for the western world and industry to partner facilitating the digital transformation of the economy by developing new certifications and standards.

On behalf of FlatStone, I would like to thank you for considering our commentary, and we look forward to future collaboration opportunities, thank you.

Sincerely,

Eduardo Rodriguez Jr.  
CEO & President  
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Cc: FlatStone Group

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<sup>1</sup> CFA Institute Asset Manager Code outlines the ethical and professional responsibilities of organizations that manage assets on behalf of clients.

<sup>2</sup> <https://www.cfainstitute.org/en/ethics-standards/codes/esg-standards/comment-letters>

<sup>3</sup> <https://www.esma.europa.eu/press-news/consultations/call-evidence-dlt-pilot-regime>



## Background

FlatStone Capital Markets Inc. (FCM) DBA TridentX is a Canadian-regulated financial technology platform (Dealer + Marketplace) enabling the primary issuance and secondary trading of native digital assets known as security tokens, as well as tokenization of financial instruments.

TridentX will operate the first true institutional-level digital asset capital markets by virtue of the Enterprise purpose-built (EPB) Decentralized ledger technology (DLT) a state-of-the-art technological platform. Similar integrations of the EPB-DLT from our core technology partners have been selected by the likes of HKEX, Goldman Sachs, NASDAQ and Six Digital Exchange. Our seasoned team of Capital Market professionals from the North and south American, are uniquely qualified to operate an alternative funding platform for the post-pandemic economic recovery.

## ESMA Call for Evidence

On January 4th, 2022, the European Securities and Markets Authority (ESMA), the EU's securities markets regulator, published a call for evidence on distributed ledger technology<sup>i</sup> (DLT). The call for evidence sought input from stakeholders on the use of DLT for trading and settlement and on the need for amending the regulatory technical standards (RTS) on regulatory reporting and transparency requirements<sup>ii</sup>.

FlatStone Capital Markets Inc. submitted the response to ESMA<sup>iii</sup> on March 4th, 2022, As a result of our thorough response, FlatStone has been invited by ESMA to discuss integrating our model into the DLT Pilot. On June 2<sup>nd</sup>, 2022, the European Parliament and the Office of the Council released the Regulation 2022/858 enacted on May 30<sup>th</sup> 2022<sup>iv</sup>.

Today we are pleased to share specific aspects of the feedback presented to ESMA as way to respond to the US SEC Strategic Plan 2022-2026 request for comments. If you want to follow up on these answers, please contact us.

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## FlatStone Commentary to the SEC Strategic Plan 2022-2026

### 1. General comments:

FlatStone Capital Markets Inc. DBA TridentX (FlatStone or TridentX) welcomes the opportunity to provide feedback to the US SEC Draft FY22-26 Strategic Plan for Public Comment.

FlatStone's aims "To build a bridge between legacy and decentralized finance to fund entrepreneurs and innovators creating the future digital economy", FlatStone's response focus on aspects relevant to the development of regulated DLT Capital Markets bridging to unregulated Cryptoassets, in line with the three primary goals of the US SEC Draft FY22-26:

- Protecting working families against fraud, manipulation, and misconduct.
- Developing and implementing a robust regulatory framework that keeps pace with evolving markets, business models, and technologies; and
- Supporting a skilled workforce that is diverse, equitable, inclusive, and is fully equipped to advance agency objectives

FlatStone sees the need for comprehensive amendments to the regulatory framework where the main obstacle to developing a robust regulatory framework that can keep up with evolving markets, business models, and technologies are related to the legacy models and status quo. The second challenge for regulating new technologies are the gaps in the knowledge on the impact of the different types of market infrastructure architecture namely the Public Blockchains, Private blockchain and Enterprise Purpose Built (EPB) Decentralized ledger technology (DLT)

These and other general misconceptions concerning taxonomy and infrastructure have an impact on the misalignment of the regulation and the requirements for transparency for digital crypto assets. Our response should be read with these comments in mind:

- I. "Adoption of Digital Currencies" – FlatStone believes digital currencies adoption will happen as a result from the demographic shift and the massive expansion of the central bank balance sheets M3. Clearly, the cost of minting (printing) physical currency M1 exceeds the utility when demand for currency exceeds the supply M2 required for post-pandemic recovery programs.<sup>y</sup>



While we support the impending issuance of Central Bank Digital Currencies (CBDCs) regulated by the Bank of International Settlements (BIS) we caution US and EU regulators against banning the public blockchain cryptocurrencies, which should be regulated by the US SEC as financial contracts, and/or instruments with full legal status and legislation.

- II. **“Bulking of Non-Equities”**- FlatStone believes that it is counterproductive to not differentiate Debt capital markets (DCM) from other non-equity such as commodities derivatives within regulation the regulation.

A similar problem situation presents with the widespread use of ISINs for the identification of both Equity capital markets (ECM) and multiple contracts for derivatives. The prime example is the meaning of liquidity/risk in derivatives, which differs significantly from equity and/or debt, and it is similar to most unregulated Cryptoassets as there is neither a finite pool of liquidity nor a single ‘issuer’ of financial instruments in derivatives and Cryptoassets.

- III. **“DLT Cost Compression”** - The EPB DLT facilitates dynamic Levelized cost compression (LCC) reflected on lower OPEX requirements of virtualized or digital operations. The LCC paves the road for an accelerated digital transformation across industries. The adoption of digital Robotic process automation (RPA), and self-execution of predetermined workflows for complex operations and transactions (via Smart-Contracts).
- IV. **“Education and Training”** - It is our position that US regulators (ESA's) and House of Representatives (Senate) legislators like their global counterparts lack the financial and technical competence across a comprehensive Body-Of-Knowledge (BOK) to properly regulate areas of increasing technical complexity.

These knowledge gaps would require immediate remedial actions for regulators and legislators to draft legislation that both protects investors, without curving innovation while fostering competition. Offering an adequate curriculum to acquire the right skills sets must be a priority and being properly trained to get certified must become a requirement.

- V. **“Resilient Infrastructure”** - The recent events in the Texas with the Colonial Pipeline highlight the fragility of the infrastructure and need for robust EPB- DLT. This underlines the need for deployment of EPB DLT T1 infrastructure network(s) capable of self-monitoring and processing structured data from both on-chain and off-chain sensors from fixed Internet of Things (IoT) and mobile devices.

Such Encrypted structured data (ESD) processed would be capable of providing regulated access to analytical framework encrypted data transparency information enforcing privacy and compliance to privacy, over a regulated, robust and scalable network capable of increasing market liquidity and protecting data.



- VI. **“Non-equity instruments segmentation”** - Concerning the structure of crypto and relative to proposed EU transparency requirements, i.e. equity vs non-equity instruments, we underline that debt capital markets (DCM) are different from the other such as derivatives markets, in terms of objectives, market structure and the aforementioned notion of liquidity/ risk profile.

Furthermore, the differentiation between exchange-traded derivatives (ETDs), OTC derivatives, and other contracts is not granular enough. We submit that within the ‘non-equity’ bucket, in the case of SEC like ESMA we underlined they should recognize the structural differences between fixed income DCM and other non-equity capital markets.

FlatStone methodology addresses this by creating three broad categories or (buckets) Equity Capital Markets (ECM), Debt Capital Markets (DCM), and Extensible capital markets (XCM) which includes ETDs, OTC, and other structured and non-structured instruments such as commodities, emission units, notes, and complex exotic financial instruments.

- VII. **“Enhanced Liquidity Privacy & Transparency”** - As outlined by ESMA concerning transparency across the lifecycle (Pre and Post Trade) of the DLT capital markets processes can deliver both enhanced liquidity and remain in compliance with GDPR legislation.

The EPB-DLT model is uniquely positioned to address ESMA call for simplifying the regime MIFID2/MIFIR while providing both meaningful transparency and useful information to end-users on the dynamics of derivatives and other capital markets in compliance with GDPR and Canadian PIPEDA.

- VIII. **“Trusted Gateway Infrastructure vs Public Infrastructure”**. Regulation lags behind the industry and the Regulation on Markets in Crypto-assets Regulation (MICA) would require a different framework to categorize, identify, and delineate what areas constitute risk versus the ones which constitute opportunities for the Digital Operational Resilience Act (DORA).

As such we propose to delineate a clear differentiation between three broad segments of the infrastructure supporting the Decentralized Ledger Technologies. First the public blockchain infrastructure, the private permissioned blockchain infrastructure, the Enterprise purpose-built (EPB) Decentralized ledger-technology (DLT) or Trusted Gateway infrastructure. The second is the private version of the Public Blockchain (PPB), and the third is the Decentralized Autonomous Organizations (DAO) which has accumulated the bulk of the digital assets.

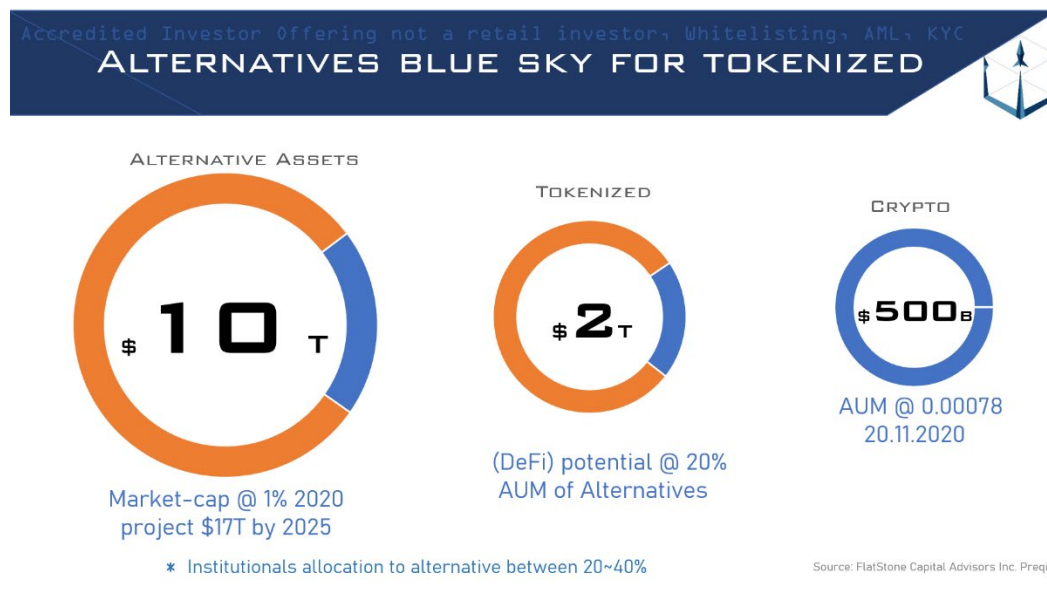


## DLT MI Limitations

FlatStone understands limitations are necessary within the parameters of new market regulation, imposing an aggregate market value capitalization at \$9B of transferable securities recorded at a DLT MI as it seems inappropriate. TridentX believes the market value is too low because of three main reasons:

1. **Total Market Capitalization** – As of 2020, the total reported market value of the global financial instruments exceeded, one quadrillion US dollars. Constituting three broad asset classes (buckets) represented by a) Real Estate with \$250 Trillion, b) Capital Markets with \$ 300 Trillion, and c) Derivatives with \$550 Trillion.
2. **Crypto Market Value** – Last year cryptocurrencies reached a valuation of over \$2 Trillion, while the market has retreated since then Value of Locked of crypto has (TVL) has averaged 175 B over the last twelve months and \$200B since the beginning of the year representing \$2 Trillion.

The increased demand and market maturity has awakened the interest of the Institutional Investors which consider crypto part of the Alternative Asset class accounting for 20 to 40% of the \$10 Trillion market, that is positioned to double by 2025. (Figure 1)



3. **SME Growth potential** – Since companies experience the highest growth during the startup stage, and SME's projects in technology support entrepreneurs and innovators requiring funding via regulated crowdfunding. Therefore, limiting the number of startups and projects that could be funded to a handful once some reach the Unicorns status (\$1B).

Therefore, we submit that SEC should never impose arbitrary constraints on market capitalization for public market infrastructure that plays a significant role in the market formation. This is particularly important for the public venture capital (PVX) financing the SMEs during the economic recovery phase and digital transformation of our economy.

One of the main goals for cryptocurrency regulation should be to provide a viable alternative to replace ICO/ITO unregulated crowdfunding which between 2013 ~ 2017 raised USD\$30B which grew into \$2 Trillion.

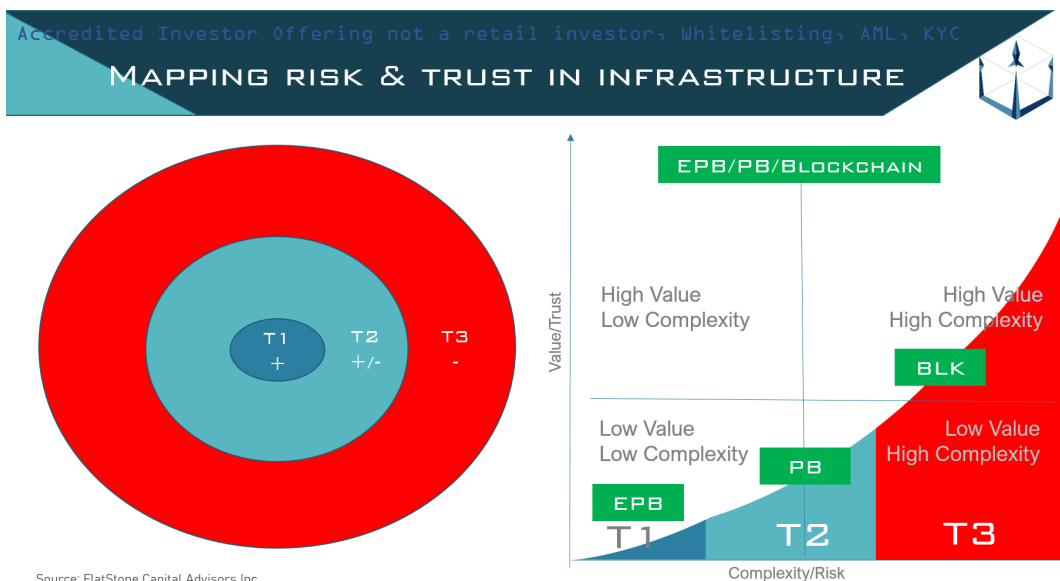
### Trusted Gateway Infrastructure (TGI)

Given our expertise on the Canadian and other regulatory frameworks, we propose a simple yet robust solution to addressing the perception of risk that regulators have about the public blockchain and decentralized finance (DeFi).

By creating a federated consortium model, TridentX can address the regulatory concerns of the government and private sector increasing data transparency by traceability and increasing the trusted legacy model without increasing the regulatory burden across the board for DLT market infrastructure.

Such a federated would-be hybrid network includes public, private, and licensed enterprise participants on the regulatory framework. The regulation would then provide for the regulation of a federated network of nodes running on enterprise infrastructure becoming the defacto trusted gateways bridging into the financial sector.

FlatStone's model would the three types of decentralized technology the trust would seat at the inner core where the EPB is surrounded by the Private Blockchains which then are surrounded by the Public Blockchains.







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The level of trust of the players diminishes as they move away from the core increasing the risk in a reverse function (negative correlation) where risk increases geometrically departing from the X/Y intersection. (Figure2)

Therefore, regulation could be achieved by classification and segmentation of the different levels of transparency vs trust in the ecosystem with the EPB's providing the highest trust at the core (T1) and some trust at (T2) Private Blockchain and zero trust at Public Blockchain (T3).

Where T1 privileges and responsibility are more in line with the Banking sector, as being part of the Capital Markets core members of the Trusted Digital Gateway Infrastructure (TDGI). T1 would have more privileges by serving as the first line of defense, and where the T2 and T3 operations would depend on becoming part of the ecosystem of one or multiple TDGI.

With TDGI operators would qualify as permanent members of the Digital Infrastructure Trust Committee (DITC) in charge of advising the US SEC (CSA & ESMA) on the regulatory technical standards (RTS) for regulators. However, members from T2 and T3 would be invited to represent their constituents, and advice on the implementation of the proposed regulation.



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## About TridentX

TridentX is considering registering in the US as a Broker dealer and ATS, where it might be apply for exemptions from FINRA while remaining in compliance with the conditions attached to those exemptions and compensatory measures requested by the relevant NCA.

FlatStone comments represent a cross-section of the concerns expressed by many of the subject matter experts and members (the stakeholders) of the digital asset ecosystem. These members coincide in that regulators' lack of understanding of DLT and other technologies results in a blanket approach (perceived) risk that will be detrimental to digital transformation.

It is our position that unless adjusted future regulation will discourage market adoption, investment, and corporate participation. The ideal model eliminates arbitrary barriers of entry making, replacing them to facilitate and promote the adoption by corporate issuers, institutional investors, and end-users.

FlatStone believes a simplified regulatory model could help DLT Capital markets to provide an alternative funding source for SMEs during the post-pandemic recovery.

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Links to media and referenced document

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<sup>i</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-launches-call-evidence-distributed-ledger-technology>

<sup>ii</sup> <https://www.esma.europa.eu/press-news/consultations/call-evidence-dlt-pilot-regime>

<sup>iii</sup> <https://www.esma.europa.eu/press-news/consultations/call-evidence-dlt-pilot-regime#TODO>

<sup>iv</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022R0858>

<sup>v</sup> <https://www.tradingview.com/chart/EUCBBS/u2l2HXor-The-ECB-balance-sheet-vs-the-FED/>

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