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Comments on s7-02-22: Supplemental Information and Reopening of Comment Period for Amendments to Exchange Act Rule 3b-16 Regarding the Definition of Exchange

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on behalf of Flowdesk

Introductory remarks

The current state of instability and uncertainty in the digital asset space, traditional financial sector, and the global tech industry highlights the need for significant changes in financial regulations in DeFi. Therefore, Flowdesk welcomes all efforts to increase legal certainty and redistribute rights and duties in a fair and transparent manner.

In general, the company perceives the proposed rule "to amend Rule 3b-16 under Securities Exchange Act of 1934 ('Exchange Act')" to be aligned with its founding values and mission to transform the crypto-financial industry by bringing more transparency and control to token issuers over their financial needs. The U.S. Securities and Exchange Commission's proposal is a comprehensive, considerate, and meticulous piece of work representing an important step towards achieving these goals.

Flowdesk expresses its support and willingness to collaborate on the proposal, while also providing its own insights and suggestions in line with its vision to refine certain aspects of the proposal. In particular, we wish to express our

support for the reasonable alternative no. 1: "Delay Subjecting New Rule 3b-16(a) Systems That Exclusively Trade Crypto Asset Securities to the Proposed Rules"

as we believe that it, in line with Flowdesk's guiding principles on the legal regulation of blockchain technology:

- *proportionality,*
- *fair competition,*
- *incrementality,*
- *transparency and accountability,* as well as
- *democracy, the rule of law, and due process,*

can achieve the desired goals. Nevertheless, we believe it is essential to introduce some qualifications.

To this end, after this introductory section, we provide responses to select queries set out in 88 FR 29448. To further illustrate our arguments, our submission concludes with the outline of our company's guiding principles on blockchain regulation as listed above complemented with a brief outlook.

Responses to the Committee's Queries in *88 FR 29448*

1. Should a New Rule 3b-16(a) System that trades crypto asset securities have the choice of registering as a national securities exchange or complying with the conditions of Regulation ATS? Why or why not?

Flowdesk believes that there needs to be a uniformity of requirements to create clarity for market participants and better protect them from excessive risks and even straight-out crimes in the digital asset space.

Nevertheless, we would prefer keeping registration optional as we see difficulties with regulating – and even more, enforcing – the rule in the borderless cyberspace. Perhaps even more importantly, optionality would also reduce dissatisfaction with regulation that is prevalent among retail users, too, who often decry legal restrictions to participate in digital asset trading.

As we generally argue for a *delay in subjecting new Rule 3b-16(a) systems that exclusively trade crypto asset securities to the proposed rules*, we also see a middle ground in establishing a regime in which obligations progressively increase over time, too.

3. Do organizations, associations, or groups of persons that meet the criteria of New Rule 3b-16(a) Systems and trade crypto asset securities quote a security in an asset other than in U.S. dollars, such as a non-security crypto asset, and provide for the purchase or sale of that asset on the system or off-system? How do investors and trading systems use pairs trading involving non-security crypto assets and crypto asset securities? Are there significant differences between investors' use of pairs trading on centralized trading systems versus trading systems that commenters describe as "DeFi"? Please explain. For example, approximately how much trading volume for crypto asset securities is executed using trading pairs on various types of platforms discussed above? What percentage of trading in crypto asset securities, in terms of volume executed, is in exchange for U.S. dollars? Please provide any data, literature, or other information that you consider relevant to the Commission's analysis.

We see that much of decentralized – or, perhaps more accurately, disintermediated – finance is not directly related to the U.S. dollar.

DeFi is usually used by technologically more savvy users for several reasons, such as to participate in the operation of blockchain network infrastructure; diversify their asset portfolios; initiate or receive direct payments, acquisitions, mobilize assets (e.g. staking); store value; and even, to a certain extent, carry out on- and off-ramping. This latter function can be an important one for everyday users living in economic deprivation, especially under oppressive political economic regimes; and also for crypto entrepreneurs financing their own projects. Since DeFi trading systems (DEXs) are usually more difficult to use than centralized exchanges (CEXs) and they offer lower levels of liquidity, more specialized users and entities use them for hedging purposes. Exact figures or trends, however, are difficult to come by as crypto asset security classification still needs more clarity.

4. Which, if any, activities performed on so-called "DeFi" trading systems meet the criteria of Rule 3b-16(a), as proposed to be amended? For example, does the use of AMMs alone bring together multiple buyers and sellers of securities through the use of non-firm trading interest? Please explain. Please identify any relevant data, literature, or other information that could assist the Commission in analyzing this issue.

Operating an order book might be a key criterion for determining this question. AMMs illustrate the need for differentiation well: markets – in this case, even liquidity pools and protocols – can and do exist without market makers. (Market makers – who fall under broker-dealer regulations – are there to facilitate trading, improve market efficiency, but they are not essential for exchanges to take place.) This is why we believe that DeFi markets, DEXs, protocols, and liquidity pools merit a distinct category in the Regulation ATS.

6. Would an organization, association, or group of persons that is a New Rule 3b-16(a) System and uses DLT to trade crypto asset securities likely elect to register as a national securities exchange or comply with the conditions of Regulation ATS? Please explain.

Yes, these options would certainly serve as a positive signal of trustworthiness for (potential) clients, partners, and investors. They would benefit from increased transparency and legal assurances. Moreover, it would make it easier for the New Rule 3b-16(a) Systems to conduct business with financial and public institutions that would give them an advantage over their non-registered or non-Regulation ATS compliant counterparts.

7. What are common characteristics of New Rule 3b-16(a) Systems for crypto asset securities that use DLT? Further, what are common characteristics of New Rule 3b-16(a) Systems for crypto asset securities described as "DeFi" trading systems? Are there any characteristics that heighten the need for investor protection and market integrity under the exchange regulatory framework?

At this stage, we see no major differences between New Rule 3b-16(a) Systems for crypto asset securities that use DLT and DeFi trading systems.

The characteristics that heighten the need for investor protection and market integrity emanate from the commonalities among digital assets such as limited liquidity, no direct link between token performance and company financials, borderless trading, and blockchain transparency.

In DeFi, additional considerations include token allocation analysis and the risk of "rug pull" scenarios.

To address these risks, regulations should ensure transparency and prevent fraudulent practices.

8. What are the various governance structures (e.g., the role of governance token issuers or holders or of DAOs) of trading systems that use DLT and how can such structures administer regulatory programs or respond to regulatory oversight regarding activities on the system? What activities do governance token issuers or holders or DAOs undertake regarding the governance and operation of trading systems that use DLT? Is there any concentration in voting and if so, how does that arise? Are voting rights of governance tokens or DAOs capable of being assigned or delegated and, if so, how is that done? How are changes to trading systems that use DLT affected and how are changes proposed to holders of voting rights under governance tokens or DAOs? Under what circumstances should governance or other token issuers or holders or DAOs be responsible for an exchange's regulatory compliance?

Governance structures of trading systems that use DLT vary depending on the project's founding team, with options such as all token holders voting based on token holdings or authorizing specific individuals or wallets for participation. Hybrid approaches and subDAOs specializing in certain decisions are also possible. Voting rights of governance tokens or DAOs can be assigned or delegated within the chosen structure. Changes to DLT trading systems are proposed to voting rights holders through community discussions or governance proposals. Governance or token issuers, holders, or DAOs should be responsible for regulatory compliance if they have control over key decision-making processes or serve as significant governance entities within the system.

9. As noted in the above requests for comment in this section, the Commission seeks additional data and other information about the use of DLT as it relates to New Rule 3b-16(a) Systems. Please provide any such data, literature, or other information about the topics noted above or any other issue that would be relevant to the Commission's analysis of the Proposed Rules.

We recommend the discussion paper on proposed DeFi regulation in the European Union issued by the French Prudential Supervision and Resolution Authority (Autorité de Côntrole Prudentiel et de Résolution, ACPR), a division of the central bank

of France. Having taken part in the consultation process following its publication, we can attest that it is a carefully researched and considered, highly detailed work on DeFi regulation.

Taking into account such work conducted in Europe could also aid efforts to harmonize legal frameworks between the US and the EU. Such consideration would contribute to innovation and common prosperity strengthening the transatlantic alliance in the face of unprecedented global political economic challenges.

22. Form ATS-N is designed to provide market participants with information to, among other things, help them make informed decisions about whether to participate on an NMS Stock ATS (and, as proposed, on a Government Securities ATS). Proposed Part I, Item 8 of Form ATS-N would require an NMS Stock ATS or Government Securities ATS to disclose information about the NMS stocks and government securities that it makes available for trading, which would include any NMS stocks or government securities that are crypto asset securities. Should the Commission adopt an amendment to proposed Item 3(c) of Form ATS or proposed Part I, Item 8 of Form ATS-N to require ATSs and NMS Stock ATSs and Government Securities ATSs to specifically identify the securities that are crypto asset securities? Why or why not? Should the Commission make any other changes to Form ATS and Form ATS-N in light of the Proposing Release and the information provided in this Reopening Release?

We agree with the proposal for this amendment to specifically identify crypto asset securities.

Flowdesk believes that this disclosure is necessary to provide market participants with information about the unique characteristics and risks associated with these securities. Crypto asset securities differ from traditional securities and have specific advantages and risks that should be highlighted for informed decision-making. The identification of crypto asset securities in Form ATS and Form ATS-N would enhance transparency and help market participants assess the nature and implications of trading these assets. Considering the Proposing Release and the information provided, additional changes to the forms may be necessary to ensure comprehensive disclosure and alignment with the evolving regulatory landscape for crypto asset securities.

23. Form ATS-R, which is filed on a quarterly basis and deemed confidential when filed, is designed to enable the Commission to more effectively track the growth and development of ATSs, as well as to more effectively comply with its statutory obligations with respect to ATSs, and improve investor protection. Among other things, Form ATS-R requires ATSs to list all securities that were traded on the ATS at any time during the period covered by the report and to report total unit and dollar volume of transactions for certain categories of securities. Should Form ATS-R be amended to require ATSs to indicate whether any of the types of securities traded on the ATS are crypto asset securities? For example, should Form ATS-R include a checkbox for each type of security listed on Form ATS-R for the ATS to indicate whether any of the securities transacted are crypto asset securities? Why or why not? Should Form ATS-R be amended to require an ATS to report the total unit and dollar volume of transactions in crypto asset securities for each category of securities? Why or why not? Should the Commission make any other changes to Form ATS-R in light of the Proposing Release and the information provided in this Reopening Release?

We agree with the proposal for this amendment to indicate whether ATSs trade crypto asset securities, enhancing transparency.

Flowdesk believes that a clarification in case of each type of security is necessary, especially for retail investors. To this end, the clear classification of assets and their specific risks should be disclosed. We believe that the SEC could help this effort by providing clear guidelines and procedures.

Hence the Commission should consider all necessary changes to align with evolving market dynamics and regulatory requirements for crypto asset securities.

30. Should the Commission adopt a compliance date to delay implementation for New Rule 3b-16(a) Systems? Why or why not? Should the Commission adopt the same compliance date for all New Rule 3b-16(a) Systems or different compliance dates depending on certain factors, such as the type of securities the system trades? Please explain. For example, should the Commission adopt separate compliance dates to implement the proposed amendments to Exchange Act Rule 3b-16 for trading systems that trade one or more of the following: NMS stock, OTC equity securities, corporate bonds, municipal securities, government securities, foreign sovereign debt, asset-backed securities, restricted securities, or options? Please explain.

Yes, we believe that the Commission should adopt a compliance date to allow for a smooth implementation for New Rule 3b-16(a) Systems.

Given the unique nature and relative novelty of crypto-asset securities, a longer compliance period of at least two years is recommended to accommodate the complexities and nuances associated with this new asset class.

Flowdesk believes that it is appropriate to have separate compliance dates for different types of securities traded on the systems. The focus should be first on traditional assets, then new, DLT-based ones. This approach would ensure an effective and phased implementation tailored to the specific characteristics of different securities, promoting clarity, regulatory compliance, and market stability.

31. As indicated above, crypto assets generally use DLT as a method to record ownership and transfers, and a crypto asset that is a security is not a separate type or category of security for purposes of federal securities laws based solely on the use of DLT. Should the Commission adopt a separate compliance date for New Rule 3b-16(a) Systems that trade crypto asset securities? Please explain. If the Commission adopts a different compliance date for New Rule 3b-16(a) Systems that trade crypto asset securities, for purposes of ascribing such compliance date, should "crypto asset securities" be defined to mean securities that are also issued and/or transferred using distributed ledger or blockchain technology, including, but not limited to, so-called "virtual currencies," "coins," and "tokens," to the extent they rely on cryptographic protocols? Please explain.

The definition should encompass securities issued and/or transferred using distributed ledger or blockchain technology, specifically those that rely on cryptographic protocols. As argued above, it is advisable to introduce a separate, delayed compliance date for New Rule 3b-16(a) systems. It is advisable to exclude other non-securities such as virtual currencies, coins, and tokens to maintain clarity and avoid confusion.

32. Should the Commission adopt a uniform compliance period for all categories of securities that is one year? Or would a shorter or longer time period than one year be sufficient or necessary? If commenters believe the Commission should adopt different compliance dates for trading systems that trade a category of security, what compliance date should the Commission adopt for such trading systems? Please explain.

A uniform compliance period of one year may not be sufficient considering the diverse categories of securities and the complexities involved in implementing the proposed rules. Flowdesk believes, as argued above, that it is appropriate to have separate compliance dates for different types of securities traded on the systems. The focus should fall first on traditional assets, then new, DLT-based ones. A longer time period, such as two years, would be more appropriate to allow trading systems to adapt and ensure widespread compliance.

We believe that this approach would also result in a higher rate of compliance, would ensure that most current industry players improve their operations and stay under U.S. jurisdiction.

33. Should the Commission adopt different compliance dates for New Rule 3b-16(a) Systems based on the types of participants that trade on the system? For example, should the Commission adopt a delayed compliance date for trading systems that have predominantly retail, institutional, or broker-dealer participants? Please explain. What compliance date should the Commission adopt for these types of trading systems? Please explain.

We believe that the Commission should consider adopting different compliance dates for New Rule 3b-16(a) Systems based on the types of market participants involved.

The specific compliance dates should be determined based on the needs and characteristics of each participant group to strike a balance between investor protection and market efficiency. Retail participants require greater protection than professionals or institutions, especially specialized ones. This is why trading systems predominantly used by institutional or broker-dealer participants may not require the same level of protection and could have earlier compliance dates.

34. Should the Commission adopt different compliance dates for New Rule 3b-16(a) Systems based on the different means by which participants enter trading interest into the system? For example, should the Commission adopt a delayed compliance date for trading systems that perform intermediary services, such as entering trading interest into the trading system on behalf of users or offering users services other than trading? Should the Commission adopt a delayed compliance date for trading systems that allow buyers and sellers to enter trading interest into the system directly without an intermediary? Please explain. What compliance date should the Commission adopt for these types of trading systems? Please explain.

No, the Commission should not adopt different compliance dates based on the means by which participants enter trading interest into the system. It is more appropriate to have a uniform compliance date for all trading systems to ensure consistency and clarity in regulatory requirements.

We believe it is important to note that intermediaries' compliance is dependent on the exchanges. Hence the specific compliance date for all types of trading systems should be determined based on the overall readiness of the industry, especially its key players.

35. Should the Commission adopt different compliance dates for New Rule 3b-16(a) Systems based on different trading protocols that bring together buyers and sellers to negotiate a trade? For example, should the Commission adopt different compliance dates for trading systems that provide RFQs, indications of interest, bids wanted in competition, or streaming axes? Should the Commission adopt a delayed compliance date for trading systems that use AMMs for buyers and sellers to enter trading interest into the system and negotiate a trade? What compliance date should the Commission adopt for these types of trading systems? Please explain.

We believe that the primary focus should be exchange platforms. It is important to consider that other services like market makers, while they play a crucial role in improving markets' efficiency, are not the central players. They do not serve retail customers, either, therefore Flowdesk believes that there is no need for regulating such market participants solely based on trading protocols or the different means by which trading interest is entered into the system.

36. Should the Commission adopt different compliance dates for New Rule 3b-16(a) Systems based on the technology supporting its exchange activity (e.g., internet, DLT, cloud)? For example, should the Commission adopt a delayed compliance date for trading systems that use DLT to bring together buyers and sellers using trading interest and establish protocols that allow participants to negotiate a trade? Please explain. What compliance date should the Commission adopt for these types of trading systems? Please explain.

Yes, Flowdesk agrees that the Commission should consider different compliance dates based on the technology supporting the exchange activity.

The adoption of a delayed compliance date for trading systems using Distributed Ledger Technology (DLT) is warranted due to its relative novelty compared to other technologies. It is important to recognize the maturity of a technology and its impact on regulations. For instance, cloud technology is already widely used by most companies, while DLT is still in its early stages. To ensure that the regulations remain relevant and effective in the long run, a comprehensive understanding of the trajectory and potential developments of the technology is necessary. Therefore, the Commission should carefully assess the progress and direction of DLT before determining the appropriate compliance dates for systems utilizing this technology.

37. Should the Commission adopt different compliance dates for New Rule 3b-16(a) Systems based on the volume that trading systems transact? For example, should the Commission adopt a delayed compliance date for a trading system that transacts a certain level of dollar volume or share volume, and if so, what should that volume be? Should the Commission adopt different compliance dates for trading systems based on all of their transaction volume or only transaction volume in a category of security or in a crypto asset security? Please explain. What compliance date should the Commission adopt for these types of trading systems? Please explain.

In line with Flowdesk's principle of fair competition, we believe that trading systems' volume should be an important factor in determining their compliance dates.

38. Should the Commission adopt different compliance dates for New Rule 3b-16(a) Systems based on a combination of factors described above or any other factors? Please explain.

Flowdesk agrees that the Commission should consider adopting different compliance dates for New Rule 3b-16(a) Systems based on a combination of factors. These factors can include:

1. Technology: the maturity and impact of the technology supporting the trading system, such as DLT or cloud technology.
2. Number of Asset Types: whether the trading system deals with a mixed range of asset types or specializes in a specific type.
3. Counterparty Type: differentiating compliance dates based on the types of users participating in the system, such as retail investors, institutional investors, or professional traders.
4. Volume and Size: considering the trading system's volume of transactions and the size of the company operating it (for example, by employee count).
5. Number of Assets Traded: taking into account the number of different assets traded on the platform.

By considering these factors, the Commission can tailor compliance dates to the unique characteristics and circumstances of each trading system, ensuring effective regulation while accommodating the specific needs and complexities of the market participants involved.

45. Do commenters agree with the Commission's characterization of platforms in the market for crypto assets securities? Please provide any relevant details that you believe are missing from the Commission's description.

Flowdesk does agree with the Commission's characterization.

53. Please provide any information on the role of bilateral voice trading in the market for crypto assets securities.

Flowdesk does not see bilateral voice trading as an important means of communication. Therefore, we do not agree with proposals to privilege this type of communication in crypto trading as it would most probably prove costly, cumbersome, and less transparent than the current customs.

55. Would the Proposed Rules enhance regulatory oversight and investor protection in the market for crypto asset securities? Would requiring New Rule 3b-16(a) Systems that trade crypto asset securities to register as broker-dealers help lead to these benefits? Would the Proposed Rules lead to improvements in the safeguarding of confidential information in the market for crypto asset securities?

Flowdesk believe that the Proposed Rules would indeed enhance regulatory oversight and investor protection.

Nevertheless, it is important to note that regulation is only one side of the equation. While the (traditional) securities market is well-regulated today, market abuse and conflicts of interest are still abundant. Thus enforcement – and building the capacity for it – is a central concern. We believe that enforcement should follow the same principles as regulation and prioritize the monitoring and oversight of industry participants accordingly.

56. Do commenters agree that the Proposed Rules would reduce trading costs and improve execution quality for market participants that use New Rule 3b-16(a) Systems? Do commenters agree that Regulation SCI would improve the resiliency of New Rule 3b-16(a) Systems in the applicable securities markets? Do commenters agree that Rule 301(b)(6) would improve the resiliency of such systems in the applicable securities markets?

While Flowdesk does see the rationale of the analysis, we do not fully see it as correct. We believe that ultimately, the labor costs associated with compliance would offset, even overtake efficiency gains. Nevertheless, we believe that it is an important step towards the socio-economic usefulness, stability, and technological development of blockchain technology.

68. Do commenters agree with the Commission's assessment of the impact of the Proposed Rules on efficiency, competition and capital formation? Do commenters agree that the Proposed Rules would allow for competition among trading systems on a more equal basis? Do commenters agree with the Commission's assessment as to the risks of increasing barriers to entry and causing current trading systems to exit the market? Please explain.

Flowdesk does agree with the Commission's assessment of the impact of the Proposed Rules on efficiency, competitions, and capital formation.

69. To what extent would the Proposed Rules increase the barriers to entry for new trading venues or cause some existing trading venues to exit the market? How would these effects vary based on the size and/or type of trading venue and the securities market in which it operates? Please explain.

The Proposed Rules may increase barriers to entry or cause industry participants to exit the market. This is why Flowdesk, in line with its basic regulatory principles, finds it important to implement a progressive framework for compliance taking into account company size and trading volumes. Such an approach would mitigate negative market impact of the regulation and improve the new rules' acceptance.

70. How would the Proposed Rules affect innovation? Please explain. Which provisions of the Proposed Rules would affect innovation the most and how? Please explain.

We believe that the risk of smaller but more innovative players' disregard, avoidance of regulations always exists, and many may choose jurisdictions with lower requirements. However, we disagree with the idea that higher legal standards automatically mean less innovation. Flowdesk is confident that a progressive regulatory framework – as argued previously – can offset potentially negative market effects. Moreover, we believe that clear communication from the regulators and readily available, accessible guidelines can further safeguard innovation.

75. For purposes of determining compliance with the Fair Access Rule and Regulation SCI, an ATS must determine its trading volume to assess whether the ATS is subject to these rules. Does an ATS have the ability to obtain the necessary information to calculate thresholds to determine if the ATS is subject to Regulation SCI and Regulation ATS? Why or why not?

It is essential for ATSs to receive or be able to access clear and comprehensible classifications and guidelines. Additionally, ATSs should establish robust internal controls and operations to ensure accurate calculation and compliance with these regulations.

In such a case, Flowdesk believes that an ATS has the full ability to obtain the necessary information to calculate thresholds and determine if it is subject to Regulation SCI and Regulation ATS.

Concluding statement on Flowdesk's guiding principles on the legal regulation of blockchain technology

We consider many of the following principles to be in line with the Digital Services Act (DSA), an EU regulatory framework that we draw inspiration from as a model for blockchain regulation – particularly regarding the fair allocation of rights and responsibilities among industry participants.

Proportionality

While the challenges facing the industry are sweeping, it is important to keep in mind that **the entire blockchain space is dwarfed by both Big Tech and, naturally, traditional finance (TradFi)**.

Flowdesk does not subscribe to the notion that blockchain technology is still "nascent" or in its very early stages. In fact, it has taken far too long for the industry to develop contractual and legal safeguards. Nevertheless, given the immense scale and socio-economic impact of both Big Tech and traditional finance, it is reasonable and necessary to subject them to detailed regulation. Yet, blockchain technology's impact is still far from being comparable.

It also should be recognized that regulatory action has also been sluggish in steering the sector in the right direction. This regulatory delay has created barriers for numerous honest and well-intentioned communities, startups, and established institutional actors. It impeded their entry to the market due to high reputational and operational risks and left the ground wide open for dishonest players.

This is why we welcome the SEC's proposal addressing this shortcoming and rectifying the situation. It is an important and pressing task, and Flowdesk is committed to contributing to it to the best of our abilities.

Fair competition

Flowdesk fully agrees that a regulatory framework is desirable that takes into account the "balance of power" and the effective capacities of the various players of the industry.

We believe that the European Union's Markets in Crypto-Assets (MiCA) Act was crucial to create the foundations for a nuanced framework regarding the blockchain industry in Europe. Yet, such a sweeping regulation might create proportionality issues for smaller intermediaries. Hence it is fair and just to establish a system of rights and obligations that, similarly to the DSA, takes into account the capability, size, and significance of industry participants.

We believe regulations should aim to create a **level playing field** among blockchain service providers, crypto-financial companies, and DeFi services.

Coupled with the principle of proportionality, we believe that a fair system would encourage best practices from the majority of players while imposing restrictions on the largest ones. As the industry matures, more stringent rules can be introduced with time. We believe that such a system would rely on **public, transparent scoring and labeling mechanisms**: providing clear indicators similar to semaphore signals, hotel star ratings, or credit ratings. This would guide users, the industry, investors, and entrepreneurs alike towards understanding what constitutes best practices and discourage undesirable behavior.

Incrementality

By incrementality, we mean more than the progressively increasing rights and duties of players. It also refers to the **temporal dimension of the regulation**. There should be fair time limits for implementing the different rules. This applies to users, participants in the blockchain industry and its customers, traditional industries interacting with DeFi, and regulators. All stakeholders need adequate time to develop the necessary capabilities, both in terms of human resources and technology.

Overregulation and hasty measures that forcefully connect DeFi to TradFi – such as mandating bank deposits for certain crypto projects – may inadvertently create more problems they solve. Instead, **a progressive regulatory framework that rewards early adoption** should be established, allowing sufficient time for all parties involved to adapt to new requirements and make necessary adjustments. This approach ensures a smooth transition and minimizes potential disruptions in the industry.

Transparency and accountability

These values do not only underpin Flowdesk's vision and mission, but are also the fundamental principles of blockchain technology.

Hence we believe that the baseline for all measures should be the **disclosure of reasonably in-depth information** on personal and corporate identity, business, technological details of services, and significant transactions.

However, it is important to note that such identification does not preclude the protection of **privacy** features like pseudonymity or even anonymity. Blockchain technology offers **zero-knowledge technological solutions** to satisfy identification requirements while preserving actors' identities by default.

Combining transparency and accountability with fair competition, we advocate for a **focus on robustly regulating actors who possess or control multiple business lines and verticals, sometimes referred to as "crypto conglomerates" or CeDeFi** rather than implementing blanket regulations. Such regulation – in line with the raison d'être of blockchain technology of itself – should seek to **eliminate concentration of power as well as conflicts of interest** within and among crypto organizations.

Democracy, the rule of law, and due process

These values constitute the backbone of our societies. Blockchain technology was conceived to empower and develop them – not, by any means, to replace them. These virtues have very tangible consequences to blockchain and financial regulations.

Firstly, decisions regarding crypto and DeFi should not be made by a single entity. There needs to be **proper, distributed supervision of the industry by adequate institutions with advanced technological capabilities**. The United States as well as Europe must strive to build a sophisticated **digital infrastructure**, taking inspiration from examples such as the "India Stack", to serve its citizens, maintain and improve its global competitiveness. Strengthening the Transatlantic alliance should not be overlooked especially considering the current global political economic conditions.

We are also very familiar with the challenges of operating a crypto-financial business in numerous jurisdictions with diverging laws and at times byzantine rules. However, we believe that **US and international regulators can do more with less. This entails consolidating and summarizing essential rule sets, creating pilots and sandboxes, sharing data with trusted industry participants, providing compliance tools, and openly monitoring developments.** This public commenting opportunity exemplifies such an endeavor, and Flowdesk expresses its sincere gratitude for it.

Thirdly, it is important to note that while DeFi needs regulation inspired by "traditional" sectors, the ultimate goal is to update "traditional" sectors' regulations, too, with what works in crypto and what does not. Decentralized (or disintermediated) finance was not intended to be a separate field, but a new financial technology to make the economy work fairer and more efficiently. One of its key purposes includes exerting a progressive influence on traditional financial regulations, along with updating rules on conflict of interest and transparency. Hence the ultimate purpose of crypto and DeFi regulations is to **achieve synchronization between rules governing TradFi and DeFi** in the long run.

Outlook

Relying on these fundamental values, we propose certain refinements and adjustments in the overall regulatory approach.

Flowdesk believes that decentralization is a technological means to make the economy fairer and more democratic. The role of the law should **not so much focus on technology, but rather on its application by very human individuals and entities** who develop, deploy, use, and benefit from the technology. Hence the regulation's objective should be to ensure a level, ethical playing field, free and fair competition, and preclude conflicts of interest and monopolization in finance.

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