

Dear Securities and Exchange Commission,

I am writing to express my concerns regarding the proposed rule "Safeguarding Advisory Client Assets." While I appreciate the intention to enhance investor protections and address gaps in the custody rule, I believe that certain aspects of the proposed rule may have unintended negative consequences, particularly for small businesses and startups in the digital asset industry.

One primary concern I have is the burden placed on small businesses and startups. The reporting requirements outlined in the proposed rule would require these entities, many of which would not otherwise be required to track personally identifiable information, to implement such tracking. This would result in additional expenses, potentially hindering their growth and stifling innovation. Small businesses and startups operating within the digital asset industry face unique challenges, and these additional costs could put them at a disadvantage and restrict their ability to compete with larger, more established players.

The proposed rule would significantly increase paperwork, record keeping, and reporting obligations. These requirements can strain the already limited resources of small businesses, diverting their attention from core functions and hindering their ability to grow and succeed. The complexity of the compliance measures outlined in the proposed rule presents another obstacle to implementation. The extensive and often confusing reporting procedures may prove difficult for smaller entities to navigate effectively, placing an unnecessary burden on them.

Furthermore, the increased costs associated with implementing the proposed rule could place these innovative projects at a distinct disadvantage and potentially stifle their growth. In an industry characterized by rapid technological advancements and ongoing competition, it is crucial to foster an environment that encourages entrepreneurialism and diversity. However, the stringent regulatory burden imposed by the Rule may inadvertently create barriers to entry, favoring established players and potentially discouraging new entrants.

Such disincentives for small businesses and startups can ultimately lead to an environment that favors monopolistic entities. As regulatory compliance becomes increasingly complex and costly, larger established firms are better equipped to absorb these burdens, giving them a strategic advantage over their smaller competitors.

I am also concerned about the potential impact of the proposed rule on U.S. firms relative to their foreign counterparts. If the regulatory burden becomes too onerous for small businesses and startups, they may struggle to compete internationally, ultimately leading to a loss of market share which ultimately leads to lost opportunity for U.S. economic growth including potential jobs.

To address these concerns, I would suggest varying adherence requirements based on total transaction volume, in US dollars. Implementing a more flexible approach that exempts smaller businesses and startups from certain aspects of the rule, or provides simplified compliance measures, would alleviate the disproportionate burden they would otherwise face. This would also encourage innovation and diversity, allowing emerging projects to thrive and increase their adherence proportionately as their company grows and can more easily handle the regulatory requirements. It would also provide the added benefit of enhanced consumer protection through reducing the amount of wash trading that is done to manipulate the market or trick consumers into scams.

Additionally, I question the agency's cost-benefit analysis of the proposed rule. It is essential to critically examine the estimated benefits and costs as outlined in the analysis. There may be

instances where the benefits are overstated, or the costs are underestimated, presenting an inaccurate perception of the rule's effectiveness and impact.

Considering the potential impact on third parties, such as service providers and vendors, is also crucial. These entities may face increased costs or operational challenges as a result of the proposed rule, further adding to the burdens faced by small businesses.

Moreover, it is necessary to address how the proposed rule adequately protects consumers and investors. It is vital to ensure that precautions are taken to mitigate potential risks, such as increased fraud and identity theft resulting from the need to collect and store sensitive personal and financial information related to digital asset transactions. It also is very likely to increase transaction fees to cover the cost of regulatory burden, which hurts consumers.

Finally, I would like to seek clarification on the treatment of digital assets that do not fit neatly into existing categories such as currency, security, or commodity. Understanding how these assets will be treated for reporting purposes is crucial for compliance and operational clarity.

I would urge the Securities and Exchange Commission to carefully consider the implementation timeline for the proposed regulations. A gradual and phased approach would allow small businesses and startups the necessary time to adapt their operations to comply with the Rule. Additionally, interim measures could be put in place to facilitate a smooth transition, reduce the potential disruption to businesses, and ensure compliance is achieved without unnecessary strain.

In conclusion, while I appreciate the SEC's efforts to enhance investor protections, I believe that the proposed rule may have unintended consequences that disproportionately burden small businesses and hinder innovation within the digital asset industry. Considering the concerns and alternative suggestions presented, it is my hope that the agency will carefully consider the impact of the proposed rule and work towards a balanced approach that promotes investor protection while fostering a supportive environment for small businesses.

Thank you for considering my comment.

Sincerely,

James Smith