

**Public Comment Submission**

**U.S. Securities and Exchange Commission (SEC)**

**Regarding Proposed Rule: Safeguarding Rule (IA-6240 / Rule 223-1)**

**Date:** [2025, 4/22]

**Submitted by:** [Kyunghoon Lee / ████████████████████ ]

## **The Only Viable Path to Crypto Legitimacy:**

### **Conditional Commodity & ETF Frameworks as a Paradigm Shift**

**Subheading: "Fixing Everything All at Once Has Failed: A Paradigm Beyond Perfection Paralysis"**

#### **Introduction**

This submission responds to the SEC's proposed Safeguarding Rule (IA-6240), which rightly recognizes the growing urgency around crypto asset custody. We propose a four-tiered, conditional regulatory framework that complements the intent of IA-6240 by offering a **graduated, enforceable, and incentive-aligned model** for integrating digital assets into the U.S. financial ecosystem without sacrificing innovation, investor protection, or custodial integrity.

This framework supports the SEC's goals while expanding regulatory agility and restoring market confidence.

### **1. Key Definitions: Four Conditional Instruments**

#### **1.1 Conditional Limited Commodity Approval**

A provisional designation where a digital asset is treated as a commodity only if specific, regulator-approved conditions are met and sustained. Ideal for decentralized networks capable of governance evolution.

## 1.2 Conditional Limited ETF Authorization

ETF access granted to digital assets on a conditional basis, contingent on verifiable milestones (custodial compliance, on-chain disclosures, governance mechanisms). Violations trigger automatic revocation.

## 1.3 Time-Bound Provisional Commodity Designation

A temporary commodity classification given to centralized or opaque tokens (e.g., XRP) for limited market operation under regulatory monitoring, expiring unless explicitly renewed or upgraded.

## 1.4 Time-Bound ETF Tolerance Authorization

Short-term ETF authorization granted under enhanced scrutiny, allowing price discovery and controlled investor access for assets awaiting full classification.

## 2. Core Problem the Framework Addresses

The current binary approach (security vs. commodity) is inadequate for complex, evolving digital assets. Under this model:

- Centralized assets like **XRP** require temporary designation, as permanent commodity status would be premature.
- Decentralized platforms like **Solana (SOL)** require incentive-aligned entry points, achievable through conditional commodity approval.

This framework ensures:

- Continuous monitoring of risky assets;
- Market discipline through roadmap compliance;
- Community alignment via governance-linked obligations;
- Legal clarity for ETF pathways, without regulatory overreach.

### 3. Strategic Outcomes

- **Regulatory Flexibility:** Modularity in enforcement allows SEC to calibrate oversight without rigid reclassification.
- **Investor Confidence:** Conditional ETF approvals signal clear, criteria-based legitimacy.
- **Custodial Accountability:** Integrates with IA-6240's qualified custodian requirements while allowing innovation in self-custody for compliant RIAs.
- **Public Sector Benefits:** As assets meet conditions, capital inflows are tied to industry-standard transparency, creating jobs and infrastructure.
- **Paradigm Shift:** Moves beyond the failings of perfection paralysis and toward testable, enforceable regulation.

### 4. Alignment with IA-6240 (Safeguarding Rule)

This framework operates in harmony with IA-6240:

- Encourages asset issuers and RIAs to self-align with safeguarding requirements.
- Reduces enforcement load by incentivizing community-led governance integrity.
- Anticipates the need for differentiated custody models while preserving investor protection.

For example:

An RIA managing a conditional ETF for SOL may meet IA-6240 by disclosing governance votes, external audit compliance, and on-chain treasury transparency

— all reinforced by community mechanisms.

## **5. Conclusion**

Crypto legitimacy isn't binary. It must be earned. It must be conditional.

We respectfully recommend the SEC consider adopting this four-tiered, conditional integration model to bridge current gaps in classification, custody, and legitimacy.

**This framework is not a loophole. It is a structure.**

**Not a compromise. But a contract.**