

Comments on
File Number S7-08-19
Concept Release on Harmonization of Securities Offering Exemptions
September 23, 2019

INTRODUCTION

Blockchains, LLC (“Blockchains”) is pleased to respond to SEC release 2019-97, “SEC Seeks Public Comment on Ways to Harmonize Private Securities Offering Exemptions.” Blockchains is developing a first-of-its-kind platform on the public Ethereum blockchain powered by built-in solutions for private key management, world-class digital asset storage, self-sovereign digital identity, and reputation. As an early-stage blockchain software development company, Blockchains is providing its perspective through the lens of a technology startup seeking to expand access to investments in early-stage technology companies to a broader group of investors. At the same time, based on our executive management’s vast experience in protecting the rights of individual consumers, we recognize that any such expansion must be balanced by appropriate investor safeguards.

We believe that a single accredited investor definition cannot properly address and empower the development of new methods of capital formation, including blockchain-enabled digital securities (“Digital Asset Securities” or “Digital Asset Security”),¹ which have only existed for approximately two years. As a new asset class that contains different characteristics than traditional equity securities, Digital Asset Securities require a new approach to determine accredited investor status that properly balances the policies of promoting capital formation and protecting investors from unsustainable financial loss. Thus, we are proposing a new accredited

¹ For purposes of this comment, Blockchains assumes that the Digital Asset Securities being discussed in this comment meet the definition of a security under relevant securities laws.

investor definition that is specific to Digital Asset Securities offerings and we encourage the Commission to utilize this proposal in any revised accredited investor definition it promulgates.

As demonstrated in this comment, any test based purely upon income or net worth, or similar characteristics, ignores a more important factor for determining whether a potential investor possesses a sufficient level of sophistication to properly evaluate Digital Asset Securities offerings—technological sophistication. Any revised formulation of the accredited investor definition should contain specific provisions relating to Digital Asset Securities that focus on objective tests to measure the investor’s experience with those securities. These measures should center on the quality and quantity of the investor’s transactions in cryptocurrency and Digital Assets Securities, information that could be readily and objectively verifiable by Digital Asset Securities issuers or third parties.

Additionally, we believe a robust Digital Asset Securities ecosystem requires a balanced approach to secondary market transferability. The current regulations governing secondary market trading of securities provide a framework for secondary market trading of Digital Asset Securities but require unnecessarily long holding periods through resale restrictions. These restrictions make investments more feasible for those accredited investors who can hold their purchased securities for long periods of time, but less feasible for those investors who require more immediate liquidity. Liquidity is a key requirement that should be accommodated to promote adoption and to provide investors with the ability to sell the Digital Asset Securities more quickly than currently allowed. As such, and as detailed below, we propose that the secondary market transferability regulations be amended to balance the need for more immediate liquidity with appropriate investor protections.

LESSONS LEARNED FROM INITIAL COIN OFFERINGS

In 2017, Digital Asset Securities offerings emerged through a structure labeled as an “initial coin offering” (or “ICO”). While many ICOs involved the offering and sale of unregistered securities without an applicable exemption from registration under securities laws, these offerings employed revolutionary technological features that dramatically improved the creation, custody, and maintenance of Digital Asset Securities. Additionally, while certain ICO issuers engaged in fraudulent conduct due to the lack of registration, many legitimate startups and their investors benefited from fewer restrictions on very efficient capital-formation initiatives. ICOs provided many early-stage technology companies that did not fit the traditional profile of venture-backed companies with access to a global pool of capital to fund development and operations.

For example, Ethereum, a global, open-source blockchain platform for decentralized applications, is not owned by any individuals or venture capital funds. As a result, an equity securities offering was not a viable option. Thus, the founders of Ethereum chose to implement a unique online crowdsale structure that was open to all investors in order to raise funds.² The Ethereum example, which was a precursor to later ICOs, provides the Commission with an example of the positive elements of ICOs on which the Commission should focus when formulating an accredited investor definition for Digital Asset Securities and considering amendments to the secondary market sale restrictions for unregistered securities.

Blockchains is a major proponent of the opportunities that Digital Asset Securities offer if the Proposed Accredited Investor Definition, as defined below, is adopted by the Commission.

² See <https://en.wikipedia.org/wiki/Ethereum>.

The definition below promotes expanded access to investment opportunities, expanded access to capital, increased efficiencies in the offering, sale, and settlement of securities, additional avenues for small and medium-sized businesses to raise capital, and robust secondary market liquidity (collectively, the “Economic Development Policies”). Qualifying additional investors who meet the policy goals of the Commission as accredited in the Digital Asset Securities ecosystem will expand the pool of available capital to small and medium-sized businesses while allowing a broader community of investors to participate in wealth-creation events. At the same time, we are also mindful of the critical investor protections mandated by the Securities Act of 1933 (the “Securities Act”) and the Securities Exchange Act of 1934 (the “Exchange Act”) (collectively, the “Investor Protections”). Fortunately, these two policy goals are not mutually exclusive. We believe that Digital Asset Securities, bound with appropriate amendments to the definition of accredited investor and secondary market sale restrictions, will substantially enhance both Economic Development Policies and Investor Protections in a way that will benefit all stakeholders in the Digital Asset Securities ecosystem.

SEC’S MANDATE TO REVIEW AND POSSIBLY AMEND THE DEFINITION OF ACCREDITED INVESTOR AND SECONDARY MARKET SALE RESTRICTIONS

In 1996, the National Securities Market Improvement Act (“NSMIA”) added Section 28 to the Securities Act, which provided the Commission with flexibility to tailor the securities offering exemptions in the Securities Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), enacted in 2010, expressly directs the Commission to review the accredited investor definition every four years “to determine whether the requirements of the definition should be adjusted or modified for the protection of investors, in the public interest, and in light of the economy” (See 12 U.S.C. 5301, Section 413(b)(2)(A)).

Notably, Congress has made amendments to the Securities Act that have focused on expanding non-accredited investor access to securities offerings. Those amendments have resulted in beneficial policy developments. For example, the Jumpstart Our Business Startups Act (the “JOBS Act”), enacted in 2012, eased securities law restrictions relating to (i) the initial public offering (“IPO”) process for equity securities and (ii) the private placement capital-raising process for most issuers through amendments to Title III, also known as the Crowdfund Act. The Crowdfund Act created new ways for private companies to use crowdfunding strategies for issuing securities, a structure that previously was not permitted under securities regulations. As such, past amendments to securities laws have a proven and positive track record of improving economic conditions by easing restrictions in a way that broadens access to securities offerings and capital while maintaining adequate investor protections. We believe the time has come for the Commission to apply a similar policy expansion to the primary offering and secondary sales of Digital Asset Securities.

REGULATION D AND CURRENT ACCREDITED INVESTOR DEFINITION

The Securities Act, which regulates public securities offerings, contains two basic objectives: first, to ensure that issuers provide investors with material financial and other information about the securities being offered for sale; and second, to prevent fraud in connection with issuers’ sales of securities. These objectives are largely effectuated through the securities registration process. (See, e.g., Commissioner Francis M. Wheat, Disclosures to Investors – A Reappraisal of Federal Administrative Policies under the ‘33 and ‘34 Acts (Mar. 1969) (often referred to as the “Wheat Report”). However, Congress has recognized that there is no practical need for registration in certain investment circumstances and that the public

benefits from registration are, at times, too remote (H.R. Rep. No. 73-85 (1933)). As such, the Securities Act contains several exemptions to its registration requirements.

The exemptions in Regulation D (17 CFR 230.500-508) are the most widely used transaction exemptions for securities offerings. One such transaction exemption is a security offered to a purchaser that meets the definition of an accredited investor. 17 CFR 230.501(a) defines an accredited investor, in relevant part, as any person who meets one or more of the following qualifications:

- A person with a net worth, together with his or her spouse, of more than \$1 million;
or
- A person who has had income in excess of \$200,000 in each of the most recent two years or joint income with his or her spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year.

This definition is “intended to encompass those persons whose financial sophistication and ability to sustain the risk of loss of investment or ability to fend for themselves render the protections of the Securities Act’s registration process unnecessary.” (Regulation D Revisions; Exemption for Certain Employee Benefit Plans, Release No. 33-6683 (Jan. 16, 1987) [52 FR 3015] (the “Regulation D Revisions Proposing Release.”)). Qualifying as an accredited investor is significant because accredited investors may participate in non-public (i.e., unregistered) investment opportunities, which provide access to potential wealth-creation events, including investments in private companies and offerings by hedge funds, private equity funds, and venture capital funds.

THE UNINTENDED CONSEQUENCES OF THE ACCREDITED INVESTOR DEFINITION IN THE DIGITAL ASSET SECURITIES ECOSYSTEM

An accredited investor test focusing purely on an investor's annual income or net worth does not necessarily measure "financial sophistication" or the investor's "ability to sustain the risk of loss of investment." It is a quantitative test rather than a qualitative determination resulting in a very limited number of individuals gaining access to unregistered securities offerings when some of those individuals may not even qualify as sophisticated or financially stable. Additionally, limiting the number of potential investors results in a limited pool of capital available to small and medium-sized businesses, many of which do not fit the investment goals of those who qualify as accredited investors.

Additionally, the resale of securities that were purchased pursuant to the exemption under Rule 504 of Regulation D³ is generally restricted for long periods of time. This, in turn, has further limited the number of accredited investors who can purchase these securities to those who have the financial ability to hold the securities until the restriction periods lapse (or longer). Due to their financial ability to hold these securities, more immediate liquidity through secondary market resale of the securities is not necessary. This construct has further cemented accredited investors' position as nearly exclusive pre-IPO capital providers because they can afford to hold investments while other investors who require more immediate liquidity options in order to invest are shut out of the investment opportunities.⁴ As a result, the number of investors capable

³ Rule 504 of Regulation D is the most popular fundraising exemption, having raised \$2 billion in 2018 (See [Concept Release on Harmonization of Securities Offering](#) (June 18, 2019), p. 19).

⁴ See [Concept Release on Harmonization of Securities Offering](#) (June 18, 2019), pp. 22-23 (wherein it states, "[a] significant number of attractive investment opportunities in the exempt market, including access to many growth-stage issuers, may be available only to investors with certain characteristics, such as accredited investors who, if natural persons, must meet an income or net worth test.").

of investing is limited.⁵ These investors typically focus on technology companies with the potential for high growth and large returns. Consequently, a large number of small and medium-sized businesses are shut out of private fundraising opportunities because they do not meet the investment thesis of most accredited investors.⁶

These outcomes do not always align with the Commission’s policy goals of protecting investors while also expanding access to capital for small and medium-sized businesses. We see these unintended consequences playing out in every city across the United States, with the limited exception of San Francisco, New York, Seattle, and Boston, to name a very select few.⁷ Small businesses (defined as fewer than 500 employees) make up 99.9 percent of all businesses in the United States and employ 58.9 million people, or 47.5 percent of the country’s workforce.⁸ Yet, most of these businesses are excluded from private capital formation due to the investment ecosystem that has formed around the current regulatory framework.⁹

⁵ See Id. at p. 14 (wherein it states, “[s]econdary market liquidity is a key concern of investors In other words, an investor’s willingness to participate in an exempt offering and the price he or she would be willing to pay may depend on the investor’s assessment of whether, when, and on what terms the security can be resold.”).

⁶ See 3 Trends that Prevent Entrepreneurs from Accessing Capital (2018), the Kauffman Foundation (<https://www.kauffman.org/currents/2018/07/3-trends-that-prevent-entrepreneurs-from-accessing-capital>).

⁷ Only 0.6 percent of businesses raise venture capital (See Trends in Venture Capital, Angel Investments, and Crowdfunding Across the Fifty Largest U.S. Metropolitan Areas (2016), the Kauffman Foundation (https://www.kauffman.org/-/media/kauffman_org/research-reports-and-covers/2016/ase-briefing-1216_final.pdf)).

⁸ 2018 Small Business Profile, U.S. Small Business Administration Office of Advocacy, (<https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf>).

⁹ The Kauffman Foundation has estimated that 81 percent of entrepreneurs do not have access to a bank loan or venture capital. (<https://www.kauffman.org/currents/2018/07/3-trends-that-prevent-entrepreneurs-from-accessing-capital>).

We believe that the Digital Asset Securities ecosystem offers the promise to mitigate these unintended consequences if the ecosystem is reasonably regulated through our proposed amendments to the accredited investor definition and secondary market trading restrictions for unregistered Digital Asset Securities. These digitally native securities instruments represent transformational opportunities for investors, companies, and regulators alike, so long as the regulatory framework aligns with policy in a way that unlocks rather than impedes the potential of Digital Asset Securities.

Blockchain technology, which drives Digital Asset Securities, offers an efficient, automated, and auditable platform to issue securities to anyone who qualifies as an accredited investor under the Proposed Accredited Investor Definition. This new technology platform has the potential to allow participation in small-dollar amounts, to reduce the cost of issuance to businesses, and to allow issuers to immediately and objectively validate and certify that each investor meets the Proposed Accredited Investor Definition.

PROPOSED AMENDMENTS TO ACCREDITED INVESTOR DEFINITION AS IT RELATES TO DIGITAL ASSET SECURITIES

We are proposing that the Commission amend the accredited investor definition as it applies to Digital Asset Securities offerings in order to provide broader access to wealth-creation events for retail investors while still providing reasonable limits to participation to protect investors. The dual analysis in the two-part test we propose (hereinafter referred to as the “Proposed Accredited Investor Definition”) ensures that each investor is both sophisticated and protected from overall financial loss, the seminal securities offering policy goals of the Securities Act.

First, the purchase of Digital Asset Securities, whether in a primary offering or in the secondary market, requires a significant level of technological sophistication. To participate in any Digital Asset Securities market, one typically uses the services of a Digital Asset Securities exchange. As such, successfully navigating this process serves as a capable litmus test for determining whether an individual has the necessary subject matter sophistication to purchase, and invest in, Digital Asset Securities.

Specifically, in order to purchase Digital Asset Securities, investors must (i) create a digital wallet to receive and store the Digital Asset Securities being offered for purchase and (ii) use a cryptocurrency (e.g., Ether or Bitcoin) or another Digital Asset Security to purchase the Digital Asset Security. To do so, an investor must follow these steps. First, the investor must create his or her own digital wallet (e.g., Trezor) to receive and store the Digital Asset Securities being offered for sale.¹⁰ Second, the investor must then create an account with an exchange (e.g., Coinbase or Gemini, each of which is headquartered in the United States and utilizes substantial Know-Your-Customer and Anti-Money-Laundering procedures) in order to access a platform where cryptocurrencies and Digital Asset Securities are bought and sold. Third, the investor must have cryptocurrency in his or her exchange account by either sending cryptocurrency from his or her digital wallet to an exchange account or by purchasing cryptocurrency with an exchange account. Fourth, the investor must use the cryptocurrency in the exchange account to purchase

¹⁰ A digital wallet serves as the primary gateway to all blockchain interactions. Once created, it is similar to an email account. Digital wallets are used to store, send, or receive cryptocurrency or digital assets from other digital wallets similar to email accounts and email. Digital wallets leverage asymmetric cryptography to secure the use of the wallet, which relies on public/private key technology. A digital wallet's public key is similar to an email address – a public-facing address that other digital wallet owners use to send digital assets to a particular digital wallet. A digital wallet's private key is similar to an email account's password. The private key allows a digital wallet owner to transact using his or her digital wallet and to secure his or her digital wallet against unauthorized transactions.

the Digital Asset Security being offered for sale. Fifth, the investor must send the Digital Asset Security purchased from the exchange account to his or her digital wallet. Having engaged in these steps, an investor will have demonstrated a sufficient level of specialized knowledge and sophistication concerning Digital Asset Securities.

Second, Blockchains recognizes that investing in Digital Asset Securities, like any other private securities offering, carries financial risk. Therefore, reasonable investment protections are necessary to ensure that investors can absorb potential financial loss. We propose that in addition to meeting the foregoing sophistication requirement, the value of Digital Asset Securities that an investor may purchase in the private offering should be limited to 50 percent of the total asset value in the investor's digital wallet at the time of purchase. The Commission's policy goal is to ensure that an accredited investor has the financial ability to sustain the risk of loss of the investment. This test prevents the investor from investing beyond his or her means. Additionally, under this capped approach, an investor's digital asset portfolio will be limited to 50 percent exposure to private exempt securities offerings at any given time, causing the investor to diversify his or her portfolio with other digital asset classes in order to participate in the offering. This diversification, in and of itself, is a powerful tool that will automatically limit exposure to potential investment loss. As such, this framework supports the Commission's policy goal of demonstrating that an investor possesses sufficiently diversified digital assets while participating in Digital Asset Securities sales, thus also satisfying the policy goal of ensuring that he or she has the ability to sustain the risk of loss of the investment.

Based on the foregoing, Blockchains proposes that the Commission amend the definition of accredited investor as it relates to the primary offering or sale in the secondary market of Digital Asset Securities so that it reads as follows.

An Investor’s Initial Qualification as an Accredited Investor – An accredited investor for purposes of his or her initial purchase of Digital Asset Securities in a primary offering or secondary sale is any person who meets the following qualifications:

- A person who (i) has created a digital wallet to receive and store the Digital Asset Securities, (ii) has created an account with an online digital asset exchange, (iii) has transferred cryptocurrency into the exchange account from a digital wallet or purchased cryptocurrency with the exchange account, (iv) uses the cryptocurrency to purchase the Digital Asset Security or Securities, and (v) sends the Digital Asset Security or Securities purchased from the exchange account to his or her digital wallet; and
- A person whose digital wallet contains Digital Asset Securities, cryptocurrencies, or a combination of the two (individually or collectively, the “Digital Assets”) such that the amount of the purchase of the Digital Asset Securities being offered for sale is no greater than 50 percent of the total market value of the Digital Assets contained in the digital wallet at the time of purchase.

An Accredited Investor’s Subsequent Purchases of Digital Asset Securities – Once an investor has initially qualified as an accredited investor and purchased Digital Asset Securities, the investor is qualified for purchases of Digital Asset Securities going forward. As such, the two-part test articulated above is unnecessary; a simple verification of accredited investor status is the single check required to participate in subsequent Digital Asset Securities sales. Therefore, an accredited investor for purposes of any subsequent purchase of Digital Asset Securities in a primary offering or secondary sale is any person who meets the following qualifications:

- A person whose digital wallet contains at least one Digital Asset Security purchased by the person in a previous primary offering or secondary sale pursuant to a lawful accredited investor exemption; and
- A person whose digital wallet contains Digital Asset Securities, cryptocurrencies, or a combination of the two (individually or collectively, the “Digital Assets”) such that the amount of the purchase of the Digital Asset Securities being offered for sale is no greater than 50 percent of the total market value of the Digital Assets contained in the digital wallet at the time of purchase.

Digital Asset Securities also allow for a critical improvement to the accredited investor qualification process. Today, accredited investors largely self-certify their status with a checkbox and a signature on a piece of paper. With the combination of digital wallets and the Proposed Accredited Investor Definition, qualification can be verified objectively and without human involvement by leveraging decentralized applications that analyze digital wallet data on the blockchains in which Digital Asset Securities are maintained. One of the powerful benefits of blockchain technology is the ability to write software applications that can objectively audit the contents of digital wallets to automatically verify the contents of the wallet. This automatic verification system negates the need, and potential inaccuracies, of self-certification and replaces it with highly reliable data automation. This software already exists for verifying Ether in Ethereum wallets with Etherscan¹¹ and Bitcoin in Bitcoin wallets with BlockCypher.¹² As the

¹¹ See <https://etherscan.io/>.

¹² See <https://live.blockcypher.com/btc/>.

technology matures, new software solutions offering verification of other digital assets, including Digital Asset Securities, will be introduced into the marketplace.

**PROPOSED AMENDMENTS TO SECONDARY MARKET TRADING RESTRICTIONS FOR
DIGITAL ASSET SECURITIES**

With the Commission’s explicit goal to “provide additional avenues for small and medium-sized businesses to raise capital.”¹³ Blockchains strongly believes amendments to secondary market sale restrictions for Digital Asset Securities should accompany any amendment to the accredited investor definition so that the regulatory framework is harmonized in favor of expanding individual access to wealth-creation opportunities and expanding business access to capital.

In 2015, President Obama signed the Fixing America’s Surface Transportation Act (the “FAST Act”) into law. The FAST Act promulgated a new registration exemption for the private resale of securities on the secondary market under the “Section 4(a)(1½) exemption” (See Section 4(a)(7) of the Securities Act). In effect, this new exemption provided a nonexclusive safe harbor, much like Rule 506 of Regulation D under Section 4(a)(2) of the Securities Act. Section 4(a)(7) imposes the following requirements for the resale of a private security to qualify under the safe harbor exemption:

1. The purchaser is an accredited investor;
2. Neither the seller, nor any person acting on its behalf, uses any form of general solicitation or advertising;
3. Neither the seller nor any person who has been or will be paid for its participation in the transaction is a “bad actor” under Rule 506(d);

¹³ See Concept Release on Harmonization of Securities Offering (June 18, 2019), p. 193, Section V.

4. The issuer is engaged in business, not in the organization stage or in bankruptcy or receivership, and is not a blank check, blind pool, or shell company that has no specific business plan or purpose and has not indicated that its primary business plan is to engage in a merger with an unidentified person;
5. The transaction does not relate to an unsold allotment to, or a subscription or participation by, a broker or dealer as an underwriter of the securities;
6. The securities have been authorized and outstanding for at least 90 days; and
7. If the issuer of the securities is not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, a variety of specified information must be provided to prospective purchasers, including the issuer's most recent balance sheet and statement of profit and loss and similar financial statements for the two preceding fiscal years, prepared in accordance with U.S. GAAP or, in the case of a foreign private issuer, International Financial Reporting Standards ("IFRS").

The first requirement in Section 4(a)(7) states that "the purchaser is an accredited investor." Therefore, the Commission should amend the definition of accredited investor to match the proposed definition set forth above.

The second requirement in Section 4(a)(7) states that "neither the seller, nor any person acting on its behalf, uses any form of general solicitation or advertising." The Commission should amend this requirement to provide an exemption for the private sale of Digital Asset Securities on securities exchanges that are properly registered under the Exchange Act. A robust secondary trading market requires that Digital Asset Securities have multiple public-facing platform exchanges where said Securities may be offered for resale, purchased, and sold to provide the

liquidity necessary to enhance capital-formation opportunities for small and medium-sized businesses. Exchanges will eventually possess the technological capabilities to objectively confirm that the individual purchasing the Digital Asset Security is indeed an accredited investor under the proposed definition to ensure that non-accredited investors cannot participate. Thus, easing general advertisement restrictions are appropriate because technology can ensure compliance with accredited investor restrictions.

The fourth requirement in Section 4(a)(7) states that the issuer cannot be at the “organizational stage” in its development. The Commission should, at a minimum, clarify that the definition of “organizational stage” does not include a business that has Digital Asset Securities being privately offered for sale on the secondary market if those Digital Asset Securities have been authorized and outstanding for at least ninety days. The businesses in most need of capital are early-stage businesses, and excluding them from the Section 4(a)(7) safe harbor would not promote the Commission’s stated goal of expanding capital-formation opportunities. While early-stage businesses are high-risk investments, an individual who qualifies as an accredited investor under the Proposed Accredited Investor Definition has the necessary sophistication and financial wherewithal to purchase private Digital Asset Securities on the secondary market and sustain the loss of his or her investment.

The seventh requirement in Section 4(a)(7) states that if an issuer is not subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act, the issuer must provide prospective purchasers with certain financial statements for the two preceding fiscal years. This requirement effectively excludes early-stage businesses that have existed for less than two years from the Section 4(a)(7) safe harbor and fails to promote the Commission’s stated goal of expanding capital-formation opportunities. The Commission should amend the seventh

requirement as it relates to the private sales of Digital Asset Securities on secondary market sales as follows: “The required financial statements must be provided for the preceding two fiscal years unless the business was organized within the last two fiscal years, and if so, the required financial statements must cover the entire history of the business.” Again, while early-stage businesses are high-risk investments, an individual who qualifies as an accredited investor under the Proposed Accredited Investor Definition has the necessary sophistication and financial wherewithal to purchase private Digital Asset Securities on the secondary market and sustain the loss of his or her investment.

Lastly, Blockchains supports an amendment to Section 12(g) of the Exchange Act as it relates to Digital Asset Securities that contain an equity component. Currently, an issuer that is not a bank, bank holding company, or savings and loan holding company is required to register equity securities under the Exchange Act if the issuer (i) has more than \$10 million in total assets and (ii) the securities are held of record by either 2,000 persons or 500 persons who are not accredited investors (See 15 U.S.C. 781(g)(1); 17 CFR 240.12g-1). The promise of expanded access to Digital Asset Security investments through the Proposed Accredited Investor Definition should not be limited to 2,000 persons per issuer. As demonstrated by ICOs, blockchain technology driving Digital Asset Securities offerings makes small-dollar investments economically viable due to the lowered costs of issuance; thus, a large number of investors can participate in Digital Asset Securities offerings through relatively small purchases. Exchange Act registration and reporting requirements are complex, expensive, and in most cases, cost-prohibitive for small and medium-sized businesses. In order to promote expanded access to capital formation, Section 12(g) of the Exchange Act should be amended and harmonized with the Proposed Accredited Investor Definition and the secondary market trading amendments proposed herein.

Liquidity is a critical factor in expanding capital-formation opportunities for small and medium-sized businesses. The current framework would not promote this stated goal as it pertains to Digital Asset Securities because the restrictions expressly exclude early-stage businesses that cannot afford to comply with complex and expensive compliance obligations. These restrictions can be eased, as stated above, if the private secondary market sale is limited to those meeting the Proposed Accredited Investor Definition because qualifying, in and of itself, contains the investor protections needed to satisfy the Commission's stated policy goals. Therefore, Blockchains strongly supports the foregoing Section 4(a)(7) amendments to promote the expansion of capital-formation opportunities for small and medium-sized businesses.

CONCLUSION

Digital Asset Securities technology is a critical evolution in the securities ecosystem. If properly defined and appropriately regulated in securities laws, this technology holds the opportunity to substantially enhance the policy goals of (i) encouraging capital formation, (ii) expanding access to wealth-creation opportunities, (iii) ensuring a level of sophistication to participate in certain offerings, and (iv) appropriately limiting investors' exposure to risk of financial loss. The technology is here. The next step is for the Commission to amend the regulatory framework in a way that unlocks this technology's potential while preserving the policy mandates it seeks to promote. We believe the Proposed Accredited Investor Definition and amendments to secondary market sale restrictions strike the proper balance to both unlock the promise of the technology and enhance Investor Protections. We appreciate the Commission's willingness to review securities laws and encourage the Commission to adopt our suggestions.