March 20, 2025

VIA ELECTRONIC DELIVERY

The Honorable Hester M. Peirce
Commissioner
Crypto Task Force
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
crypto@sec.gov

RE: Crypto Task Force Input

Dear Commissioner Peirce:

Virtu Financial, Inc. ("Virtu")[1] very much appreciates the opportunities and interactions we have had in the past to engage with you on important market structure issues impacting our financial markets. Like so many other market participants, we are grateful for your thought leadership on innovative ways to enhance the transparency, competitiveness, and resilience of our market ecosystem, and we would like to thank you for your public service.

We were especially pleased to see Acting Chairman Uyeda's announcement of the creation of the Crypto Task Force ("Task Force") and your role in leading it. We applaud this Commission for taking a proactive approach to addressing the regulatory challenges facing digital assets. Virtu strongly supports innovation and development in the digital asset space and commends the efforts of the new Administration and the SEC for taking a direct and interactive approach to this important issue. As an initial matter, a transparent and predictable regulatory framework is essential for fostering innovation, protecting investors, and ensuring the long-term growth of the crypto ecosystem. Regulation by enforcement is not a sustainable or fair approach—market participants and investors deserve clear guidance on which digital assets can be traded in the U.S. and under what conditions. Today, many firms seeking to operate in global markets exclude U.S. persons from their activities, while foreign platforms increasingly block U.S. investors, limiting access and competitiveness. The industry faces uncertainty around custody rules, wallet requirements, tax treatment, and other important issues. We stand ready to be a resource to the Commission in this constructive effort.

[1] Virtu is a leading financial firm that leverages cutting-edge technology to deliver liquidity to the global markets and innovative, transparent trading solutions to its clients. Virtu operates as a market maker across numerous exchanges in the U.S. and is a member of all U.S. registered stock exchanges. Virtu's market structure expertise, broad diversification, and execution technology enable it to provide competitive bids and offers in over 25,000 securities, at over 235 venues, in 36 countries worldwide.

In response to your request for input, provided below are some of our thoughts on what we believe are the most critical issues that need to be resolved to enhance the ecosystem for digital assets and recommendations the Task Force might consider as it commences its review and consideration of the critical topics you laid out in your statement of February 4, 2025,[2] and in your supplemental request for comment of February 21, 2025.[3]

1. Security Status and Regulatory Boundaries

The determination of whether a token qualifies as a security is a foundational issue that impacts the broader regulatory framework, investor protection, and market innovation. Clearly defining the boundaries of the SEC's jurisdiction in the crypto space is essential to fostering a fair and predictable regulatory environment. Market participants need well-defined rules of the road to ensure compliance and promote responsible innovation without fear of arbitrary enforcement. While no-action letters can provide useful insights, they are no substitute for comprehensive, straightforward, and transparent guidance that establishes which products, services, and activities fall within the SEC's oversight and which do not.

We believe there are multiple potential approaches that can achieve these goals and are pleased that the Task Force has scheduled an industry roundtable to discuss this critical question. We are confident industry roundtables like this will help drive toward a workable consensus approach. We look forward to the commentary and anticipated guidance and clarity that will result from this discussion.

As part of its analysis and decision-making, we respectfully submit that the SEC should actively collaborate with U.S.-domiciled cryptocurrency exchanges to develop a structured and transparent framework for coin and token offerings. One possible approach could involve the establishment of a regulatory sandbox, allowing exchanges and issuers to test and launch digital assets in a controlled environment with clear guidelines. Such a framework would provide regulatory clarity while fostering innovation and compliance within the industry. Additionally, by implementing a form of safe harbor provision, the SEC could encourage greater participation from legitimate projects that might otherwise be deterred by regulatory uncertainty. This approach would strike a balance between investor protection and technological advancement, ensuring that new digital assets can be introduced in a way that aligns with existing securities laws while promoting growth in the U.S. crypto ecosystem.

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[2] SEC Commissioner Hester Peirce, *The Journey Begins* (Feb. 4, 2025), available at https://www.sec.gov/newsroom/speeches-statements/peirce-journey-begins-020425.
[3] SEC Commissioner Hester Peirce, *There Must Be Some Way Out Of Here* (Feb. 21, 2025), available at https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125.

2. **Broker-Dealer Custody and Other Financial Responsibility Requirements**

The analysis for determining the appropriate haircut for crypto assets should follow the same principles applied to other asset classes, evaluating factors such as liquidity, volatility, credit risk, and market depth – as opposed to the current regime which effectively imposes a 100% haircut on any digital asset. Bitcoin and Ethereum, for example, are among the most liquid assets in global financial markets, with deep order books, significant daily trading volumes, and active participation from institutional investors and therefore should be subject to haircuts comparable to those applied to products with similar characteristics in other asset classes. While crypto markets may present some unique considerations—such as differences in settlement mechanisms and evolving regulatory frameworks—these factors should be incorporated into a consistent risk-based approach rather than serving as a justification for an arbitrary, outsized haircut. Ensuring broker-dealers can appropriately classify the assets they hold for themselves and also for their customers is critical for effective risk management and regulatory compliance and applying a fair and consistent haircut methodology across all asset classes, including crypto, will promote market stability and investor protection.

3. **Custody Solutions for Investment Advisers**

Virtu recognizes that addressing and improving custody solutions is a crucial step in fostering the growth and widespread adoption of crypto assets. Secure and reliable custody infrastructure is essential for institutional investors and retail participants alike, as it mitigates concerns related to asset security, fraud, and regulatory compliance. By enhancing custody mechanisms, market participants can feel more confident in holding and transacting digital assets, leading to increased trust and mainstream acceptance. Virtu believes that resolving these challenges will not only attract more investors which leads to greater innovation, but also create a more robust and resilient cryptocurrency ecosystem.

4. **Crypto Exchange-Traded Products**

Virtu is in favor of expanding the number of spot cryptocurrency tokens that can be included in exchange-traded products (ETPs), as this will not only help grow the overall market but also enhance liquidity for the underlying digital assets. A regulatory framework is already in place and the SEC has approved spot Bitcoin and Ethereum ETPs; the SEC should move swiftly to approve additional cryptocurrency tokens for ETP trading, subject to the existing rules, including notice and comment process that affords an opportunity for robust input from investors and market participants, and an oversight role for the Commission. Importantly, the ETP structure provides significant benefits, including transparency, strong investor protections, tax advantages, and other operational efficiencies. For example, Virtu is an authorized participant ("AP") in numerous ETPs globally and in the United States, enabling it to engage in transactions with an ETP issuer to "create" new and freely tradeable ETP shares or redeem ETP shares, in each case in exchange for the ETP's underlying holdings, or in some cases a cash equivalent.

We compete with other market makers to provide liquidity in ETPs and their underlying assets with the narrowest spread between the two and utilize the creation and redemption mechanisms to convert an ETP to its component parts or vice versa in connection with our liquidity provision. Continuous creation and redemption mechanics and the competitive dynamics among market making firms drive exceedingly narrow spreads and enable investors in an ETP to efficiently realize returns that track very closely with the underlying basket of assets. We have observed these outcomes over a wide range of issuers and specific NAV valuation benchmarks.

5. <u>Section 31 Fees</u>

Although this topic was not addressed in your statements, we also urge the Commission to consider the most equitable manner of funding the comprehensive efforts and infrastructure that will be required to establish a regulatory framework for digital assets. The SEC is funded primarily through Section 31 transaction fees,[4] which are charged on certain securities transactions to cover the agency's regulatory costs. However, because Section 31 fees are only collected from equity, options, and security futures transactions—not from crypto-related activity—the SEC is effectively relying on traditional market participants to subsidize its enforcement and oversight of an entirely separate sector. This imbalance suggests that a broader funding review is warranted, not only to ensure that emerging markets contribute appropriately to regulatory costs but also to address concerns about the high rate and increased volume of these fees. Given the significant burden on traditional market participants, we believe it is time for the Commission to reassess Section 31 fees—both to evaluate their structure in light of market evolution and to consider a more equitable funding approach, especially to the extent that the SEC determines that crypto-related activities fall with the regulatory jurisdiction of the agency .[5]

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[4] 15 U.S. Code § 78ee - Transaction fees.

[5] On this topic, we direct the Commission's attention to a recent op-ed authored by Ari Rubenstein of GTS Securities, which argues that digital asset firms should be required to pay Section 31 fees. Financial Times, *Time for the SEC to get serious on crypto* (Feb. 21, 2025), available at https://www.ft.com/content/96c3a8da-e3c5-4b19-a848-08995cda91a4.

Virtu appreciates the Commission's attention to this comment letter in response to the request from the SEC Crypto Task Force. The U.S. capital markets are the most vibrant, liquid, and transparent in the world, and it is essential to foster innovation in the digital asset space to ensure they continue to thrive. Encouraging regulatory clarity and forward-thinking policies will not only help our markets grow but also ensure they remain competitive on a global scale while offering investors greater choice and access to emerging financial technologies. Virtu looks forward to continued engagement with the Commission to support a regulatory framework that balances innovation with investor protection, ultimately strengthening the integrity and efficiency of our financial markets.

Respectfully submitted,

Andrew Smith
Global Business Development and Corporate Strategy

cc: The Honorable Mark T. Uyeda, Acting Chairman
The Honorable Caroline A. Crenshaw, Commissioner