MEMORANDUM

To: Crypto Task Force Meeting Log

From: Crypto Task Force Staff

Re: Meeting with Representatives of Alluvial Finance Inc. and Willkie Farr & Gallagher LLP

On April 21, 2025, Crypto Task Force Staff met with representatives from Alluvial Finance Inc. and Willkie Farr & Gallagher LLP.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. Alluvial Finance Inc. and Willkie Farr & Gallagher LLP representatives provided the attached documents, which were discussed during the meeting.

ALLUVIAL FINANCE, INC. MEETING WITH SEC CRYPTO TASK FORCE

Proposed Agenda

1. **Liquid Staking Tokens** - Further to Alluvial's memorandum re Liquid Staking Tokens dated March 24, 2025, Alluvial proposes to address the Crypto Task Force's request for information regarding liquid staking tokens (**LSTs**), including:

   a. Typical functionality and implementation of liquid staking protocols

   b. Benefits and use cases for LSTs

   c. Markets for LSTs

   d. Risk mitigation

   e. Application of U.S. federal securities laws to LSTs

   f. Liquidity pathways for ETFs

Intended Attendees

- Mara Schmiedt, Chief Executive Officer and Co-Founder, Alluvial Finance, Inc.
- Matt Leisinger, Chief Product Officer and Co-Founder, Alluvial Finance, Inc.
- Evan Weiss, Chief Operating Officer, Alluvial Finance, Inc.
- Evan Thomas, General Counsel, Alluvial Finance, Inc.
- A. Kristina Littman, Partner, Willkie Farr & Gallagher LLP (counsel to Alluvial)

To:	U.S. Securities and Exchange Commission Crypto Task Force
From:	Alluvial Finance, Inc.
Date:	March 24, 2025
Re:	Liquid Staking Tokens

Overview

Alluvial Finance, Inc. ("**Alluvial**" or "**we**") submits this memorandum to the U.S. Securities and Exchange Commission's (the "**SEC**" or the "**Commission**") Crypto Task Force (the "**Task Force**") in response to the Task Force's request for information regarding liquid staking tokens ("**LSTs**").[1]

For the reasons summarized in this memorandum, Alluvial submits that the Commission should clarify the circumstances under which the Commission will not consider the issuance and trading of LSTs issued by liquid staking protocols to be subject to the U.S. federal securities laws. Specifically, the Commission should clarify that LSTs created by liquid staking protocols do not constitute securities under the U.S. federal securities laws where users of the protocol retain ownership and control of their staked assets and the function of the protocol is limited to administering the technical aspects of staking operations while facilitating transferability of staked assets using the LST.

Liquid staking protocols are a technological innovation that allows users to stake crypto assets on proof-of-stake blockchain networks while simultaneously retaining the ability to transfer or sell those staked assets through the use of LSTs. Additional benefits include reducing the risk of slashing and addressing operational and counterparty risks.

---

[1] See: Commissioner Hester M. Peirce, "There Must Be Some Way Out of Here" (February 21, 2025). URL: https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125. Specifically, question 4 asks: "Users of liquid staking applications receive a so-called "liquid staking token." This token represents their staked crypto asset, and the token can be used in other activities, all while continuing to participate in the proof-of-stake protocol. Should the Commission address the status of liquid staking tokens under the federal securities laws, and, if so, what issues should it address?"

There has been rapid growth in liquid staking protocols since they first emerged in or around 2020.[2] Today, over $30 billion USD of crypto assets are staked using liquid staking protocols,[3] and there are many critical use cases for liquid staking protocols by institutions, enterprises and retail users that have not yet been fully realized.

Regrettably, this rapid adoption and growth has occurred largely outside the United States due to the uncertain and adverse regulatory environment in the U.S. over the last several years. In this regard, concerns that liquid staking involves the offering and trading of securities has inhibited the adoption of liquid staking in the U.S., prevented the development of robust U.S. markets for LSTs and driven many innovators focused on liquid staking to limit their connections with the U.S.

In addition, in *SEC v. Consensys*, the Commission relied on alleged statements by developers of certain liquid staking protocols to support an argument that the issuance of LSTs by those protocols amounted to an offering of investment contracts.[4] These included statements regarding the historical staking reward rate when using the protocol, the protocol's use of professional node operators, security audits of the protocol's source code and the availability of insurance mechanisms to protect protocol users from slashing losses. The Commission's argument has created a perverse incentive to *not* take steps to disclose information, reduce risk and otherwise protect protocol users because doing so may increase regulatory risk for protocol developers.

In support of its view that LSTs created by liquid staking protocols and designed to evidence legal and beneficial ownership of staked crypto assets (and any accrued network rewards) do not constitute securities under the U.S. federal securities laws, Alluvial endorses the detailed legal analysis published by the Proof of Stake Alliance ("**POSA**") in its paper *U.S. Federal Securities and Commodity Law Analysis of Liquid Staking Receipt Tokens*.[5]

---

[2] According to DefiLlama data, inflows to Ethereum LSTs started in late 2020, rising to nearly 2M ETH at the end of 2021, roughly 5.3M ETH at the end of 2022, 11M at the end of 2023 and approximately 13M ETH at present. Source: DefiLlama

[3] As of March 24, 2025, CoinGecko reported that over $35 billion USD is staked via liquid staking, of which over $25 billion USD is staked on Ethereum, approximately $2.9 billion USD on Solana and the remainder on other blockchains. Source: CoinGecko

[4] Securities and Exchange Commission v. Consensys Software Inc., No. 1:24-cv-04578 (E.D.N.Y. June 28, 2024). URL: https://www.sec.gov/files/litigation/complaints/2024/comp-pr2024-79.pdf

[5] Proof of Stake Alliance, *U.S. Federal Securities and Commodity Law Analysis of Liquid Staking Receipt Tokens*, (February 21, 2023). URL:
https://www.proofofstakealliance.org/22123-posa-liquid-staking-legal-white-paper

Based on this analysis, Alluvial has outlined below criteria for liquid staking protocols that, in its view, fall outside U.S. federal securities laws and urges the Commission to consider adopting them. The Commission's confirmation of the circumstances under which liquid staking is not subject to the U.S. federal securities laws would have an immediate positive impact on the growth and adoption of liquid staking within the U.S. and encourage innovators in the rapidly growing liquid staking market to build within the U.S.

About Alluvial

Alluvial is a U.S. software development company founded by experienced leaders in the crypto industry who previously helped build some of the largest first generation staking-as-a-service companies including Figment and Bison Trails (acquired by Coinbase in February 2021). Alluvial originally developed the technology underlying the Liquid Collective liquid staking protocol, and continues to serve as one of many Liquid Collective ecosystem participants.

In addition to building staking technologies, Alluvial actively supports the development of responsible policies and standards for staking. Alluvial's Chief Operating Officer is the founder of POSA, now a project of the Crypto Council for Innovation. Alluvial chaired POSA working groups that, in 2023, developed [legal white papers addressing key legal questions surrounding the regulation and taxation of liquid staking in the U.S.](#) Alluvial was also a key contributor to the development of [POSA's Industry Principles for Staking](#), which are designed to ensure continued and responsible growth of staking. Most recently, Alluvial spearheaded the development of the [Node Operator Risk Standard](#) ("**NORS**"), an industry-led standard defining criteria to objectively evaluate and certify whether a node operator has professional-quality best practices in place for Ethereum validator risk management.

Liquid Staking Protocols

Liquid staking protocols allow users to stake assets while simultaneously retaining the ability to sell or transfer the staked assets. Typically, assets staked on proof-of-stake blockchain networks are locked and cannot be transferred while staked. This lock-up period may continue after the user has signaled to the blockchain network that they wish to unstake their assets. In turn, this complicates, if not prevents, the user from selling or borrowing against staked assets unless and until the assets are fully unstaked.

Liquid staking protocols address this liquidity constraint using non-custodial smart contracts to programmatically administer staking and issue an on-chain staking receipt, also known as

an LST.[6] Liquid staking users stake assets by sending them to these smart contracts, which programmatically stake the assets to validators participating in the protocol. The smart contracts also create LSTs that are designed to represent the staked assets and any accrued network rewards. Upon redemption of the LSTs, the smart contracts return the staked assets (and any accrued network rewards) to the user. LSTs are intended to function as electronic documents of title, akin to traditional warehouse receipts, which are widely used in commercial commodity transactions. LSTs can be transferred, traded, or otherwise used in commercial transactions, allowing users to stake and generate network rewards while retaining the ability to transact with the staked assets in the form of LSTs.

Regulatory Barriers to Adoption of Liquid Staking

Based on our experience in the industry, we believe that uncertainty as to whether liquid staking protocols and LSTs are subject to the U.S. securities laws is the single biggest barrier to the adoption of liquid staking protocols within the U.S. Due to concerns that dealing in LSTs will present exposure to liability under the U.S. federal securities laws, U.S. crypto trading platforms generally do not make LSTs available for trading or otherwise support LSTs. Similarly, many liquidity providers that trade crypto over-the-counter ("**OTC**") will not execute OTC trades for LSTs within the U.S. or with U.S. counterparties. As a result, LSTs are primarily traded via decentralized finance ("**DeFi**") protocols or crypto trading platforms operating outside the U.S.,[7] many of which are not accessible to U.S. persons. This limits the accessibility and transparency of markets for LSTs within the U.S.

Similarly, as U.S. institutions and enterprises explore staking opportunities, we understand that they are interested in adopting LSTs but are deeply concerned about the regulatory risk of participating in liquid staking protocols and holding or trading LSTs.

Further, in our experience, many teams developing liquid staking protocols are based outside of the U.S. and/or deliberately do not promote adoption of liquid staking within the U.S., which we believe is primarily out of concern that any presence in the U.S. market will expose them to regulatory or legal liability. This trend of building and promoting adoption outside of the U.S.

---

[6] There may exist liquid staking providers such as crypto trading platforms or other counterparties that will accept custody of assets for staking, stake those assets on behalf of the user, issue a receipt token for those assets and commit to redeeming the receipt token for the staked assets on demand. This memorandum focuses on smart contract-based, non-custodial liquid staking protocols that programmatically administer staking, as opposed to centralized providers that assume custody or control of staked assets.

[7] For example, Lido's stETH is traded primarily on the Curve DeFi protocol and non-U.S. trading platforms such as Bitget, OKX and Bybit. Source: CoinGecko

contrasts starkly with how many of the early leaders in staking, such as Bison Trails (later acquired by Coinbase), Staked (acquired by Kraken), Figment, Consensys, and Blockdaemon, were founded in, or had very strong ties to, the U.S.

In short, we believe that uncertainty about the application of the U.S. federal securities laws to liquid staking has pushed innovators outside of the U.S. and prevented U.S. businesses and consumers from adopting and being market leaders in liquid staking.

Benefits of Liquid Staking Protocols

We believe that liquid staking protocols provide numerous significant benefits to businesses and consumers wishing to participate in staking:

- **Liquidity** – Liquid staking allows users to participate in staking while retaining the ability to deal in their staked assets.

- **More Efficient and Transparent Markets** – As LSTs are fungible, they allow more efficient and transparent markets for staked assets compared to bilateral transactions involving non-fungible alternatives, such as validator NFTs.

- **Capital Efficiency** – As LSTs are fungible receipts for staked assets and can be traded on liquid markets, LSTs are more easily used as collateral, increasing capital efficiency.

- **Diverse Validator Set** – Where a liquid staking protocol allows staking of assets to a set of validators operated by multiple node operators, the protocol reduces operational risks, including slashing risks, and reduces validator concentration.

- **Increased Participation** – Liquid staking can lower barriers to participating in staking, enabling a broader spectrum of participants, particularly those liquidity-sensitive participants, to stake.

- **Counterparty Risk Mitigation** – Where liquid staking protocols are non-custodial – that is, there is no counterparty that assumes custody or control of staked assets – users of liquid staking protocols should not be exposed to the risk of a counterparty's bankruptcy.

- **Transparency of Network Rewards** – Liquid staking protocols calculate and accrue network rewards transparently and verifiably, eliminating the dependence on a

counterparty and its books and records systems to calculate and distribute network rewards.

- **Reduced Product Frictions** - Transferability of LSTs mitigates product frictions that can lock users into service providers, increasing competition and choice.

- **Automatic Staking of Network Rewards** - Where a blockchain network does not automatically stake network rewards when they are received from the network (e.g., Ethereum), liquid staking protocols can be programmed to automatically stake network rewards, which serves to eliminate the operational cost of staking network rewards.

- **Network Reward Smoothing and Risk Spreading** - As liquid staking protocols allocate network rewards and slashing losses pro rata across all users of the protocol, liquid staking protocols smooth network rewards and spread any risks across users of the protocol.

Use Cases for Liquid Staking in the U.S.

We believe that there are numerous significant use cases for liquid staking for U.S. institutional, enterprise and retail users, including:

- **Crypto Exchange Traded Funds** - Sponsors of crypto exchange-traded funds ("**ETFs**") are exploring how to stake assets held by the fund. A key concern is how the fund can meet redemption requirements if staked assets are subject to lock-up periods. Liquid staking would allow ETFs to stake more of their assets, provide investors with exposure to network rewards and ensure staked assets are more capital efficient than current non-fungible alternatives (i.e., validator NFTs, transferring of validator withdrawal credentials or borrowing assets against credit lines).

- **Enterprise/Institutional Borrowing** - As more enterprises/institutions choose to acquire crypto assets to hold on their own balance sheets, liquid staking can allow those enterprises to use staked assets as collateral for borrowing while continuing to earn network rewards.

- **Crypto Trading Platforms** - Many crypto trading platforms offer staking services where the trading platform will stake clients' crypto assets on behalf of the clients. Liquid staking protocols allow crypto trading platforms to provide their users with a

staking solution that removes the friction of unbonding periods by allowing users to sell LSTs.

- **Retail Users** - Liquid staking protocols allow retail users to participate in staking regardless of how much they wish to stake. Moreover, as LSTs are transferable, retail users can transfer their staked assets to another crypto trading platform or to a self-custody wallet, giving retail users greater control over their staked assets.

Leading Liquid Staking Protocols Effectively Manage Risk and Protect Users

Leaders in the staking industry, including Alluvial and others involved in liquid staking, have endorsed [POSA's Industry Principles for Staking](#):[8]

- Principle I: Service providers should communicate clearly to ensure that users have all the information necessary to make informed decisions.
- Principle II: Users should control whether and how much of their assets to stake.
- Principle III: Service providers should have explicitly delineated responsibilities.

Consistent with these principles, leading liquid staking protocols generally have most, if not all, of the following attributes, all of which protect users of liquid staking protocols:

- **Publicly Available Source Code** - Source code implementing the protocol is publicly available, facilitating external review.

- **Publicly Available Smart Contract Audits** - Security audit reports are publicly available, ensuring users have information about security risks and steps taken to mitigate those risks.

- **Transparent Governance** - Information on how the protocol and its operations can be altered and in what circumstances is publicly available.

- **Transparent Fees & Accounting** - The mechanism by which network rewards accrue to protocol users and how fees are collected is transparently disclosed.

- **Clarity of Ownership** - There is clarity that protocol users retain ownership of staked assets at all times.

---

[8] Proof of Stake Alliance, *Proof of Stake Alliance Releases Industry Principles for Staking*, (November 9, 2023). URL: https://www.proofofstakealliance.org/staking-industry-principles

- **Accurate Marketing** - The protocol is described as providing technical access to staking, avoiding terminology that implies an investment opportunity.

- **Non-Custodial** - The protocol is non-custodial, meaning that no person other than the LST holder can transfer or otherwise deal with staked assets.

- **No Dependencies for Redemption** - The protocol's unstaking mechanism is not dependent on a single party or point of failure.

- **Incident Response** - There are mechanisms for monitoring the protocol for anomalous behavior and responding to incidents, such as smart contract bugs or operational failures by validators.

- **Validator Selection Transparency and Operator Requirements –** Operators of validators within the protocol's validator set meet publicly disclosed proficiency requirements.

- **Multiple Operators & Stake Decentralization** - Multiple independent operators provide validator services to the protocol.

- **Transparency of Performance** - The performance of validators within the protocol's validator set is publicly reported or otherwise publicly observable.

Alluvial's Perspective

As stated above, Alluvial endorses and adopts POSA's legal analysis explaining why the issuance and trading of LSTs are not subject to U.S. federal securities laws. Based on that analysis, Alluvial respectfully submits that a protocol that satisfies the following criteria is not subject to the federal securities laws:

- **User Ownership and Control** - Users of the protocol retain ownership of their staked assets at all times, and the LST functions as a receipt for ownership/electronic document of title. The protocol promptly and transparently passes along network rewards based on the user's staked assets, less any applicable fees. Users can unstake their staked assets at any time, subject to any lock-up periods imposed by the network.

- **Technical Service** – The function of the protocol is limited to administering technical aspects of staking operations while facilitating transferability of staked assets. The protocol does not transact in users' assets other than to stake them in accordance with the blockchain's staking processes. The protocol does not purport to guarantee liquidity for the LST, borrow against or lend out staked assets, guarantee any amount of rewards or have features or mechanisms that purport to provide materially greater rewards or returns than a user would receive from staking by other means.

The Commission should consider adopting these criteria to clarify when a liquid staking protocol is not subject to U.S. securities laws.[9]

In addition, to ensure that developers of liquid staking protocols can freely disclose information and adopt practices that reduce risks and protect users, the Commission should also clarify that it does not view the following activities in connection with a liquid staking protocol as managerial or entrepreneurial efforts that could give rise to the existence of an investment contract or other type of security:

- Publishing information about the performance of the protocol, including the historical staking rewards earned by users.
- Describing and promoting the features and benefits of the protocol, provided the protocol and the LST are not promoted as investment opportunities.
- Arranging for and publishing security audits of the source code of the protocol.
- Obtaining insurance or other coverage to protect users of the protocol against slashing losses.
- Arranging for listings on crypto trading platforms or other venues where LSTs may be traded.
- Providing protocol monitoring or incident response.
- Developing and applying proficiency requirements for validators in the protocol's validator set.

Conclusion

Alluvial thanks the Crypto Task Force for considering this memorandum and would welcome the opportunity to elaborate on these points at a meeting.

---

[9] Alluvial emphasizes that in its view, even if a protocol does not meet these criteria, that does not mean it is subject to U.S. securities laws, only that further analysis may be required.