MEMORANDUM

To: Crypto Task Force Meeting Log
From: Crypto Task Force Staff
Re: Meeting with Representatives of Injective Labs, Inc., Injective, LLC, and Injective Foundation

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On January 13, 2026, Crypto Task Force Staff met with representatives from Injective Labs, Inc., Injective, LLC, and Injective Foundation.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. Injective Labs, Inc., Injective, LLC, and Injective Foundation representatives provided the attached document, which was discussed during the meeting.

INJECTIVE LABS.
205 West 28th St., 10th Floor
New York, NY 10001

November 14, 2025

Crypto Task Force
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-0213

Re: Request for Meeting with Injective Labs Inc. and the Injective Foundation

Dear Members of the SEC's Crypto Task Force:

Injective Labs Inc. and the Injective Foundation respectfully request a meeting with the SEC Crypto Task Force to discuss the topics set forth on the Agenda below.

Introduction

Injective is a permissionless, layer 1 blockchain, designed specifically for financial applications. Injective was founded in the United States and Injective Labs Inc. is headquartered in New York City.

Injective Labs previously submitted comments to the Crypto Task Force on July 9, 2025 and October 29, 2025, which are attached hereto as Exhibits A and B, respectively. Now, both Injective Labs and the Injective Foundation would welcome the opportunity to meet and discuss the Crypto Task Force's current position on a number of issues which are set forth in the Agenda below.

Agenda and Analysis

1. The legal status of DeFi. Injective would like to discuss the recommendations set forth by Injective Labs in its July 9, 2025 and October 29, 2025 comments to the Crypto Task Force:

A. Clarifying that certain decentralized finance protocols may not constitute "exchanges" or "broker-dealers" under the Exchange Act;

B. The current status of a potential safe harbor framework for DeFi trading and lending protocols that are progressing toward decentralization, modeled on Commissioner Peirce's proposed Rule 195;

C. Exemptive relief from broker/dealer rules for frontend interfaces that simply facilitate user access to DeFi protocols;

D. Confirmation that DeFi credit protocols that are (i) non-custodial, (ii) over-collateralized with transparent, automated liquidation parameters, (iii) governed by open-source code with no ongoing centralized-actor discretion material to user returns, and (iv) not used to raise capital for an issuer or enterprise, do not involve investment contracts under *Howey* or notes under *Reves*.

2. Tokenization of Real World Assets ("RWAs"). Injective is interested in discussing potential compliance paths for offering RWAs in the U.S., including the viability of transfer agent, broker/dealer, and Alternative Trading System licensing. As part of this discussion, Injective would also appreciate the opportunity to cover tokenized equities.

Proposed Meeting Attendees

Mirza Uddin, Head of Business Development, Injective Foundation

John Francis Medel, Government Relations Specialist, Injective, LLC

Brandon Goss, Head of Research, Injective Foundation

Noah Axler, General Counsel, Injective Labs Inc.; Counsel to the Injective Foundation

We thank the Crypto Task Force for considering this meeting request.

Respectfully,

Noah Axler
General Counsel, Injective Labs Inc.

EXHIBIT A

INJECTIVE LABS.

July 9, 2025

BY ELECTRONIC SUBMISSION (https://www.sec.gov/about/crypto-task-force/submit-written-input)

Commissioner Hester M. Peirce
Crypto Task Force
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-0213

Dear Commissioner Peirce and Members of the SEC's Crypto Task Force:

Injective Labs Inc. ("Injective Labs") appreciates the opportunity to contribute its perspective to the SEC's ongoing dialogue on digital asset regulation and respectfully submits this comment in response to Commissioner Hester Peirce's February 21, 2025 statement, *"There Must Be Some Way Out of Here,"* and the related inquiries posed by the SEC's Crypto Task Force. We are one of the largest American-founded blockchain development companies, headquartered in New York City, and are deeply committed to advancing Web3 innovation in a compliant and constructive manner.

Summary of Recommendations

1. **Clarify the legal status of decentralized protocols:** Confirm that qualifying decentralized finance protocols do not constitute "exchanges" or "broker-dealers" under the Exchange Act, regardless of the classification of the assets being transferred. Regulation should apply only where there is meaningful human intermediation and custodial control, not to autonomous, self-executing code.

2. **Establish a safe harbor for responsible decentralization:** Adopt a formal safe harbor framework for DeFi trading and lending protocols that are progressing toward decentralization, modeled in part on Commissioner Peirce's proposed Rule 195. This exemption should include structured disclosures and timelines, allowing developers to responsibly phase out trust dependencies while meeting public policy objectives.

3. **Exclude neutral frontend interfaces from broker-dealer rules:** Provide a clear exemption for frontend interfaces that simply facilitate user access to DeFi protocols, so long as they do not exert control over user assets or transaction execution. Under this framework, a qualifying frontend is one that merely transmits instructions to and from a decentralized protocol, without exerting control over users' assets or execution pathways.

Background on the Injective Blockchain

Injective Labs is the original developer of the Injective blockchain ("Injective"), which stands as the first and only blockchain purpose-built for finance, establishing itself as one of the largest layer-one

blockchain networks in the crypto ecosystem. Our lightning-fast, interoperable platform provides developers with powerful plug-and-play modules for creating advanced Web3 financial applications, combining institutional-grade speed and scalability with the security and decentralization that define modern blockchain finance. Since its founding in 2018, Injective has processed over 2 billion onchain transactions and facilitated more than $57 billion in cumulative volume, demonstrating real-world utility that bridges traditional finance with decentralized innovation.

Injective sets itself apart from general-purpose blockchains by embedding native financial primitives directly into the protocol layer. This is achieved through advanced modules built into the chain. While traditional blockchain applications rely on smart contracts within virtual machines and face gas fees, resource limits, and restricted interfaces, Injective's modules are native protocol components written in the same language as the core chain and compiled into binary. These modules allow direct state access and native composability, enabling more powerful and efficient development.

This architectural distinction shapes what is possible in terms of performance, complexity, and user experience. Injective's modules include but are not limited to the following

- An **onchain orderbook module** that supports fully decentralized spot, perpetual, and derivative markets;
- A **decentralized oracle module** allowing permissionless integration of on-chain and off-chain price feeds;
- **Smart contract functionality** via CosmWasm, supporting user-defined financial instruments and autonomous protocol logic;
- A **governance module** which enables INJ stakers to propose and vote on protocol upgrades, parameter changes, and funding allocations.

Crucially, Injective operates without centralized intermediaries. All transaction settlement, order matching, and market creation are executed via deterministic, open-source smart contracts or protocol logic.

The Injective ecosystem's remarkable growth trajectory is supported by world-class backing: Injective was incubated by Binance and is backed by prominent investors such as Jump Crypto, Pantera Capital, and Mark Cuban. INJ, the native asset powering Injective's rapidly expanding ecosystem, serves as the cornerstone for network governance, staking, and operations – aligning incentives and securing a robust economic model for the blockchain. Injective's unique positioning as a finance-first blockchain has carved out an unmatched niche in the competitive landscape, attracting developers, users, and even institutions seeking a purpose-built platform capable of handling the rigorous requirements of next-generation decentralized finance. In many ways, Injective represents the convergence of Wall Street's legacy of financial innovation with the cutting-edge potential of blockchain technology.

The Promise of Onchain Finance

We believe the onchain economy – encompassing decentralized finance (DeFi) and other blockchain-based financial innovations – presents a transformative opportunity for the United States. Not only can these technologies broaden economic inclusion and drive growth, they can also enhance the integrity and

efficiency of markets. Millions of Americans are already engaging with crypto, with current estimates indicating that over 52 million Americans hold digital assets.[1] This widespread adoption underscores that blockchain-based finance is no longer a fringe interest, but rather a mainstream reality. Embracing onchain finance within a properly defined regulatory framework would both serve these Americans and help ensure that innovation and capital remain onshore. In short, bringing crypto into the regulatory fold is essential if we want to harness its benefits for U.S. consumers and the economy at large.

The advantages of onchain finance are manifold. For example:

- **Inclusivity and Access:** Decentralized platforms enable 24/7 trading and global accessibility, allowing anyone with an internet connection to participate in markets at any time. This always-on, peer-to-peer model can democratize finance by extending opportunities to populations and regions traditionally underserved by the legacy financial system.

- **Transparency and Security:** Blockchain transactions are recorded on public ledgers, giving regulators and market participants unprecedented visibility into market activity. Smart contracts can automatically enforce rules and risk controls. This transparency and automation can reduce fraud and enhance security and market integrity compared to opaque traditional financial infrastructures.

- **Economic Growth:** The Web3 sector is already driving significant investment and job creation in the U.S. Since 2008, the Web3 industry has created over 200,000 American jobs and attracted more than $107 billion in capital investment, with over 5,700 U.S. startups founded in this space.[2] By fostering onchain finance innovation, the United States can unlock new avenues of economic growth and high-tech leadership – much as it did during the rise of the Internet era.

In summary, we see enormous promise in the new onchain economy. Realizing this promise in a safe and sustainable way will require sensible oversight, but that oversight should be enabling rather than prohibitive. We firmly believe that encouraging the growth of onchain finance aligns with American interests and values. Doing so will create domestic jobs and opportunities, while also ensuring that the United States retains its global leadership in finance and technology. As one public policy analysis observed, maintaining leadership in digital assets and blockchain is becoming central to U.S. global competitiveness.[3] We share this view.

Regulatory Clarity as a Catalyst for Progress

Despite the strides made by ecosystems like Injective and others, we acknowledge that the broader U.S. regulatory environment for crypto and DeFi remains uncertain. As is the case with the broader crypto market, DeFi (at least with respect to spot decentralized trading and lending protocols) remains

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[1] **The Wall Street Journal**, *"Coinbase Presses Congress to Clarify Crypto Rules Amid Investor Exodus"* (Feb. 2025).
[2] **Coindesk**, *"Web3's Economic Footprint in the U.S.: Jobs, Investments, and Startups"* (June 2024).
[3] **Coinbase Global Inc**., *Comment on Department of Commerce Request for Comment on Digital Asset Competitiveness* (July 5, 2022).

effectively unregulated in the U.S. This is not necessarily for lack of effort. In fact, DeFi has survived two recent attempts at regulation that could have effectively ended its existence in the U.S.[4]

The lack of clear rules and definitions in key areas of digital asset regulation is increasingly becoming a barrier to both innovation and investor protection. Ambiguity around the classification of digital assets, how decentralized protocols should comply with financial regulations, and what activities may trigger licensing requirements has created a climate of regulatory uncertainty. This uncertainty, in turn, has tangible negative consequences: it can chill investment and development by responsible U.S. projects, and it can drive legitimate activity offshore into less regulated jurisdictions. In the worst case, American consumers may be left with fewer protections – accessing innovative financial products only through foreign or unregulated platforms – if U.S. policy does not keep pace with technology.

Encouragingly, we are beginning to see thoughtful proposals emerge that aim to bridge the gap between the old regulatory frameworks and this new technology. In March, the prominent venture firm Andreessen Horowitz (a16z) submitted a comprehensive letter to this Crypto Task Force outlining a vision for crypto regulation. In it, a16z argued that its approach would offer "a way out of the quagmire created by the collision of blockchain technology and federal securities laws."[5] This encapsulates the current predicament: legacy laws written decades ago (or more) are straining to accommodate decentralized digital assets, resulting in a regulatory quagmire. But rather than merely pointing out the problem, a16z and others have begun to suggest solutions. For example, a16z's letter recommended that the Commission provide new, tailored guidance to facilitate certain crypto activities (such as custody of crypto assets by registered investment advisers) as an interim step until formal rules can be updated.[6] The idea is to modernize interpretations of existing law so that well-intentioned actors can comply now, instead of waiting years for the perfect all-encompassing regulatory regime.

In our view, the ultimate path forward lies in collaboration. Regulators and innovators each possess pieces of the puzzle needed to build a healthy onchain financial system. The SEC brings deep expertise in investor protection and market oversight, while the crypto industry brings technological expertise and creative solutions to longstanding inefficiencies. By working together, we can develop frameworks that leverage the strengths of both. For example, regulators could partner with blockchain companies to better understand onchain data monitoring, which in many ways can empower oversight far beyond what is possible in traditional markets. Conversely, industry can gain insight into the regulatory perspective, ensuring that new products are designed with compliance and risk mitigation in mind from the outset. We strongly agree with those in our industry who suggest that thoughtful clarity in regulation is the key – clarity that draws on the knowledge of all stakeholders. As noted, clear rules can simultaneously protect investors and foster innovation, avoiding the false choice between the two. We are heartened by

[4] Specifically, (i) on April 10, 2025, President Trump signed a measure passed by Congress repealing Section 80603 of the Infrastructure Investment and Jobs Act, which would have imposed self-contradictory IRS reporting requirements on DeFi front-ends in relation to permissionless use; and (ii) on June 12, the Commission withdrew notices of proposed rulemaking relating to amendments to Exchange Act Rule 3b-16 regarding the definition of "Exchange.

[5] **Fortune**, *"Andreessen Horowitz Sends 50-Page Crypto Policy Proposal to SEC"* (March 2025).

[6] **Bloomberg**, *"A16z Urges SEC to Clarify Crypto Custody Rules for Investment Advisers"* (April 2025).

statements from policymakers indicating that such win-win outcomes are achievable, and we are determined to help make them a reality.

COMMENTS AND ANALYSIS

A. DeFi protocols that truly are decentralized should not be deemed brokers, dealers, or exchanges under the Exchange Act, regardless of whether the assets transacted are securities

The Securities Exchange Act of 1934[7] (the "Exchange Act") imposes registration requirements on certain market intermediaries. Fundamentally, Commission jurisdiction requires: (i) the intermediation of a transaction involving a security and (ii) intermediation by a human or collection of humans (i.e. entities).

A DeFi protocol that effects transactions in crypto assets that are not securities[8] is not required to register with the Commission as a broker or an exchange. Further, a "qualifying decentralized financial protocol" that effects transactions in securities should likewise not be required to register. Such a protocol is not a "person, organization, association, or group of persons"[9] for purposes of registering as an exchange, nor is it a "person" for purposes of registering as a broker.[10]

These protocols are software enabling private peer-to-peer transactions. They eliminate the need for trust and intermediaries by executing transactions in a preprogrammed manner that is transparent and understood by all participants. These protocols are permissionless, they do not "reason" and they do not exercise discretion. They merely execute their code. In accordance with the foregoing, such qualifying protocols need not (and in many cases, inherently cannot) distinguish between permissionless (bearer-type) crypto assets that are not securities, on the one hand, and crypto assets that may be subject to security classification under certain scenarios via off-chain determination by a human actor (i.e., lawyer, regulator, judge, etc.), on the other.[11]

We are encouraged that Chairman Atkins recognized the individual's right to participate in DeFi and the fact that self-executing code may rightfully sit outside the definition of "broker-dealers, advisers, exchanges, and clearing agencies." In his opening remarks at the final Crypto Roundtable[12], Chairman Atkins stated:

> Many entrepreneurs are developing software applications that are designed to function without administration by any operator. The idea of self-executing software code that is accessible to everyone, *but controlled by no one*, and that enables private, peer-to-peer transactions may sound like science fiction. But, blockchain technology makes possible an entirely new class of software

[7] 15 U.S.C. § 78a et seq.
[8] E.g., crypto assets deemed digital commodities under the Digital Asset Market Clarity Act of 2025 ("CLARITY Act").
[9] 15 USC § 78c.
[10] 15 USC § 78c(a)(4).
[11] For illustrative purposes a stablecoin token may be adjudicated a security (yield-bearing) in the wallet of an allow-listed person and that same token might simultaneously be deemed a non-security (non-yield-bearing) in the wallet of another who is not allow-listed.
[12] Remarks at the Crypto Task Force Roundtable on Decentralized Finance, Paul S. Atkins, Chairman (Washington D.C. June 9, 2025).

that can perform these functions *without an intermediary.* I do not believe that we should allow century-old regulatory frameworks to stifle innovation with technologies that could upend and most importantly improve and advance our current, traditional intermediated model. We should not automatically fear the future.

These onchain self-executing software systems have proven to be resilient in the face of crises. While centralized platforms wavered and failed under recent stresses, many onchain systems continued to operate as designed pursuant to open-source code.

Most current securities rules and regulations are premised upon the regulation of issuers and intermediaries, such as broker-dealers, advisers, exchanges, and clearing agencies. The drafters of these rules and regulations likely did not contemplate that self-executing software code might displace such issuers and intermediaries. I have asked the Commission staff to explore whether further guidance or rulemaking may be helpful for enabling registrants to transact with these software systems in compliance with applicable law.

More recently, Chairman Atkins noted: "Tokenization is an innovation. And we, at the SEC, should be focused on how we advance innovation in the marketplace."[13]

1. Proposed Exchange Act Rule re: Qualifying Decentralized Finance Protocols

Clearly, the factors a protocol must demonstrate to be deemed outside the scope of intermediary regulation should justify the result; that is, that the risks the Exchange Act was intended to guard against are so unlikely to be present in the self-execution of the protocol's activity (because there are no "persons" acting as intermediaries) that there is no regulatory rationale for requiring the protocol to register.

Along these lines, we believe that the framework for decentralization set forth in the CLARITY Act is instructive. Specifically, a qualifying DeFi protocol would mean "a blockchain system through which multiple participants can execute a financial transaction":

- in accordance with an automated rule or algorithm that is predetermined and non-discretionary; and

- without reliance on any other person to maintain control of the digital assets of the user during any part of the financial transaction. For purposes of this definition, a "decentralized governance system"[14] would be excluded from the definition of a person or a group of persons under common control.

However, a DeFi trading or lending protocol would not be a qualifying decentralized finance protocol if:

[13] CNBC Squawk Box Interview with Chairman Atkins (July 2, 2025); https://www.cnbc.com/video/2025/07/02/sec-chairman-paul-atkins-on-regulating-private-markets-rise-of-stock-tokenization.html

[14] Defined as meaning, with respect to a blockchain system, any transparent, rules-based system permitting persons to form consensus or reach agreement in the development, provision, publication, management, or administration of such blockchain system, where participation is not limited to, or under the effective control of, any person or group of persons under common control.

- a person or group of persons under common control has the unilateral authority, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, to control or materially alter the functionality, operation, or rules of consensus or agreement of the blockchain system; or

- the blockchain system does not operate, execute and enforce its operations and transactions based solely on pre-established, transparent rules encoded directly within the source code of the blockchain system.

2. Proposed Exchange Act Rule re Front-end Exemption

Front-ends by which users interface with a DeFi protocol (whether a qualifying decentralized finance protocol or not), do not warrant regulation as a broker-dealer when such front-ends merely send and relay instructions to and from the protocol.

A qualifying front-end means a software application that:

- provides a user with the ability to create or submit an instruction, communication, or message to a DeFi protocol for the purpose of executing a transaction by the user; and

- does not provide any person other than the user with control over the assets of the user or the execution of the transaction of the user.

B. *For new DeFi protocols actively moving toward full decentralization, a time-based exemption from the definition of broker, dealer and exchange similar to the securities registration exemption (Rule 195) proffered by Commissioner Peirce*

While decentralization presents a strong rationale in limiting the application of the Securities Acts, many industry experts have noted the challenges and risks associated with networks pre-maturely limiting centralized control over protocol operations.[15] A measured unwinding of control allows developers to more easily remedy security and governance bugs, as well as reverse or course-correct on any misalignment within the network's incentive model. In short, a phased decentralization allows teams to iterate, prove resiliency, and gradually hand off control.

The value of staged, incremental trust dependency-reduction has been acknowledged not only, for example, by a16z's extensive body of authorship relating to progressive decentralization[16] and Vitalik Buterin's notion of stage 0 – 2 in Ethereum rollups[17], but also Commissioner Peirce's proposed Rule 195[18] which

[15] *See* "The math of when stage 1 and stage 2 make sense," Vitalik Buterin (May 6, 2025), wherein he suggests "[t]he only valid reason to not go to stage 2 (full decentralization) immediately is that you do not fully trust the proof system - which is an understandable fear: it's a lot of code, and if the code if broken, then an attacker could potentially steal all of the users' assets. The more confidence you have in your proof system (or, conversely, *the less confidence you have in security councils*), the more you want to move towards the right."
[16] Beginning with "Progressive Decentralization: A Playbook for Building Crypto Applications" Jesse Walden (January 9, 2020).
[17] *See* n. 11.
[18] *See,* https://www.sec.gov/newsroom/speeches-statements/peirce-statement-token-safe-harbor-proposal-20

would provide token issuers regulatory cover in the form of an exemption from registration requirements under Section 5 of the Securities Act of 1933[19] while they work to disperse control and reduce developer dependencies.

In her Preliminary Notes to Rule 195, Commissioner Peirce observed that:

> [F]or a network to mature into a functional or decentralized network that is not dependent upon a single person or group to carry out the essential managerial or entrepreneurial efforts, the Tokens must be distributed to and freely tradeable by potential users, programmers, and participants in the network. *The application of the federal securities laws to the primary distribution of Tokens and secondary transactions frustrates the network's ability to achieve maturity* and prevents Tokens sold as a security from functioning as non-securities on the network.[20]

The exemption would blend elements of Regulation 195 with appropriate disclosures taken from Regulation ATS. Specifically, the exemption would require that:

- The Initial Development Team intends for the network to become a qualifying decentralized finance protocol within four years of the date of mainnet launch;

- Certain disclosures be made available on a freely accessible public website, to include:

    - Liquidity model (AMM, onchain orderbook, batch auction, P2P, etc.) including "plain English" explanation of execution logic
    - Asset coverage
    - Chain coverage
    - Decentralization and governance details and planned milestones
    - Gas and fee schedules
    - Source code
    - Team ownership details
    - Affiliate disclosures (e.g. front-end management)

- The Initial Development Team files a notice of reliance on this exemption with the Commission.

- An exit report is filed with the Commission.

To be clear, the purpose and effect of the foregoing exemption would be to provide regulatory shelter allowing developers to safely and responsibly transition a DeFi protocol into a state of credible neutrality, which would potentially include the permissionless staking, trading, borrowing and lending of bearer crypto asset securities.

[19] 15 U.S.C. §§ 77a-77aa.
[20] *Id.* , note 1.

Concluding Remarks: Pioneering a Better Future for All Americans

The Injective ecosystem is committed to being a constructive partner to U.S. regulators as we collectively navigate this new frontier of finance. As one of the largest US-based crypto companies today, Injective Labs offers a unique perspective on American-led innovation that can work in a compliant manner. We welcome the opportunity to work more closely with the SEC's Crypto Asset Task Force (and other relevant teams) to both educate and empower the Commission in its efforts to craft sensible regulation for digital assets. In practical terms, we stand ready to provide technical briefings, share data and insights from our onchain markets, and engage in frank dialogue about how to achieve compliance in a decentralized context. Our hope is to assist the Commission in developing guidelines that ensure market integrity and consumer protection, while also unlocking the tremendous economic and societal benefits that crypto innovation can deliver. We truly believe the United States can lead by example here – by creating a regulatory model that other nations will follow, one that safeguards investors and encourages responsible innovation.

As an American company at the forefront of DeFi, Injective Labs feels a strong sense of duty to help the U.S. regain its status as the global hub of fintech advancement. We are proud of our New York roots and of how far we've come by adhering to U.S. rules, and we are eager to bring the fruits of our innovation to Americans in a safe and compliant manner. With appropriate regulatory clarity, we can imagine a near future in which U.S. persons have access to cutting-edge financial tools on Injective and other networks – 24/7 trading platforms, new investment opportunities, and more – all under the umbrella of U.S. law and oversight. This would not only benefit consumers and investors, but also reinforce America's role as a beacon of technological and financial progress. We firmly believe that the United States, with its unparalleled financial expertise and entrepreneurial spirit, should lead the world into this new onchain economy, not watch from the sidelines.

Respectfully,

Noah Axler
General Counsel, Injective Labs Inc.

cc: James Williams, Esq., Manatt, Phelps & Phillips, LLP
Mike Katz, Esq., Mannat, Phelps & Phillips, LLP

EXHIBIT B

INJECTIVE LABS.

205 West 28th St., 10th Floor
New York, NY 10001

October 29, 2025

BY ELECTRONIC SUBMISSION (https://www.sec.gov/about/crypto-task-force/submit-written-input)

Commissioner Hester M. Peirce
Crypto Task Force
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-0213

Dear Commissioner Peirce and Members of the SEC's Crypto Task Force:

Injective Labs Inc. ("Injective Labs") again appreciates the opportunity to contribute its perspective to the SEC's ongoing dialogue on digital asset regulation and respectfully submits this second comment in response to Commissioner Hester Peirce's February 21, 2025 statement, *"There Must Be Some Way Out of Here,"* and the related inquiries posed by the SEC's Crypto Task Force.

On July 9, 2025 Injective Labs submitted a comment to the Commission regarding the appropriate treatment of decentralized finance protocols under the Exchange Act, the benefits of a safe harbor modeled on Commissioner Peirce's proposed Rule 195, and the importance of providing a clear exemption from broker-dealer rules for qualifying front-end interfaces that facilitate access to DeFi protocols. That comment provided background on Injective Labs and the Injective blockchain ecosystem, which in the interest of brevity, we will not repeat in this submission but respectfully encourage the Commission to consider, given that Injective Labs is a U.S. company, headquartered in New York City.

Summary of Recommendations

Issue principles-based interpretive guidance clarifying that DeFi credit protocols that are (i) non-custodial, (ii) over-collateralized with transparent, automated liquidation parameters, (iii) governed by open-source code with no ongoing centralized-actor discretion material to user returns, and (iv) not used to raise capital for an issuer or enterprise, do not involve investment contracts under *Howey* or notes under *Reves*.

COMMENTS AND ANALYSIS

A. DeFi borrowing and lending, generally, does not constitute transactions in investment contracts under Howey, or notes under Reves.

Applying the securities laws designed in the 1930s and 1940s for centralized enterprises to novel decentralized software protocols would be a category error with profound negative consequences for American innovation. DeFi lending transactions bear none of the essential hallmarks of a security as

defined by the Supreme Court in *SEC* v. *W.J. Howey Co.*[1] and its progeny. It is a loan, not an investment contract, and it falls outside the jurisdictional scope of the federal securities laws.

1. Alignment with the Commission's Mission to Foster Innovation

The current tone and policy direction, articulated by Chairman Atkins and Commissioners Uyeda and Peirce, signals a welcome focus on the SEC's historical tripartite mission: protecting investors, maintaining fair and orderly markets, and facilitating capital formation. A collaborative, principles-based approach is essential to achieving this mandate in the digital age.

Chairman Atkins' recent remarks at the "DeFi and the American Spirit" roundtable powerfully frame the issue. He correctly identified DeFi's alignment with "foundational American values—economic liberty, private property rights, and innovation," and cautioned that we should not "allow century-old regulatory frameworks to stifle innovation with technologies that could... improve and advance our current, traditional intermediated model."[2] This perspective is not a call to abandon oversight, but an invitation to apply it judiciously.

Similarly, Commissioner Uyeda's analogy of the Commission navigating a "regulatory wilderness" underscores the need to think beyond existing frameworks. He rightly asked, "In what situations should DeFi systems be deemed to fall outside the scope of the securities laws?"[3] We seek to answer that question directly with respect to DeFi lending, arguing that its structure and function place it squarely outside the scope of existing securities laws. This analysis is consistent with the Commission's Staff Statement on Protocol Staking Activities, which thoughtfully distinguished between ministerial protocol functions and the kind of managerial efforts that implicate securities laws.[4] Applying this same analytical rigor to DeFi lending will provide much-needed clarity and ensure that financial innovation can thrive in the United States.[5]

2. The Technical Reality of DeFi Lending Protocols

To properly apply the law, one must first understand the facts. DeFi lending protocols are not companies or traditional financial intermediaries; they are autonomous software systems comprised of open-source smart contracts deployed on a public blockchain. These protocols facilitate lending and borrowing through a series of automated, non-custodial functions.

Consider two of the most prominent lending protocols, Aave and Compound. While their specific features differ, their core mechanics illustrate the fundamental nature of DeFi lending:

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[1] *SEC* v. W.*J. Howey Co*., 328 U.S. 293 (1946).
[2] Remarks of Chairman Paul Atkins, SEC Roundtable, "DeFi and the American Spirit" (June 9, 2025).
[3] Remarks of Commissioner Mark T. Uyeda, SEC Roundtable, "DeFi and the American Spirit" (June 9, 2025).
[4] SEC Division of Corporation Finance, Statement on Protocol Staking Activities (May 29, 2025).
[5] *See, e.g.*, Statement of Kristin Smith, CEO, Blockchain Association, Applauding Passage and Signing of Measure to Roll Back DeFi-Killing Broker Rule (Apr. 10, 2025).

- *Liquidity Pools*: Rather than matching individual lenders and borrowers directly, these protocols utilize liquidity pools. Lenders, or "liquidity providers, deposit their digital assets into a smart contract designated for a specific asset, such as ETH or the USDC stablecoin. These assets form a pool of liquidity from which borrowers can draw.

- *Algorithmic Interest Rates*: The interest rate for both lenders and borrowers is not set by a centralized or controlling board or committee. It is determined algorithmically by the protocol's code, based on the supply and demand within that specific asset's liquidity pool. This is often expressed as a "utilization rate" - as the percentage of assets being borrowed from a pool increases, the interest rate for both borrowers and lenders automatically rises to incentivize new deposits and discourage further borrowing.

- *Overcollateralization and Automated Liquidation*: To mitigate credit risk in a system without identity-based underwriting, borrowers supply collateral in an amount that exceeds the value of their loan. If the value of the borrower's collateral falls below a predetermined liquidation threshold, the protocol's smart contracts automatically permit a third-party liquidator to repay a portion of the debt and claim a corresponding portion of the collateral at a discount. This automated process protects the principal of the lenders in the pool.

- *Non-Custodial and Permissionless*: At all times, users retain control of their assets. They interact directly with the publicly-auditable smart contracts. As Rebecca Rettig, a leading legal expert in the space, testified before Congress, a key hallmark of DeFi is that "there is no identifiable entity or person who holds or otherwise can control cryptoassets on behalf of others."[6] There are no centralized gatekeepers; access is open and permissionless.

Crucially, the developers who initially wrote the code for protocols like Aave, Compound, Maple and others are not parties to these transactions. Once the smart contracts are deployed on the blockchain, they operate autonomously. As Chairman Atkins noted, citing relevant case law, it would be "irrational to hold the developer of a self-driving car liable…for a third-party's use of the car to commit a traffic violation."[7] The same logic applies here; developers who publish code are not managing a securities enterprise just because lending is taking place.

3. DeFi Lending Fails the *Howey* Test for an Investment Contract

The *Howey* test provides a four-part framework to identify an "investment contract": (1) an investment of money, (2) in a common enterprise, (3) with a reasonable expectation of profits, (4) to be derived from the entrepreneurial or managerial efforts of others. A failure to satisfy any single prong is dispositive. DeFi lending transactions fail to meet at least three, and arguably all four, prongs of this test.

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[6] Written Testimony of Rebecca Rettig, Chief Legal Officer, Polygon Labs, before the House Financial Services Committee, Subcommittee on Digital Assets, Financial Technology and Inclusion (Sept. 10, 2024).
[7] *Supra*, n. 2.

a. There Is No "Common Enterprise."

The "common enterprise" prong requires a showing that the investors' fortunes are linked. Courts primarily recognize two types of commonality: horizontal and vertical. DeFi lending satisfies neither. Horizontal commonality, the most rigorous standard, requires the "pooling" of investor funds and the distribution of profits on a pro-rata basis, tying the fortunes of the investors to one another. *See*, *e.g.*, *Revak* v. *SEC Realty Corp*., 18 F.3d 81, 87 (2d Cir. 1994). While assets are "pooled" in a technical sense within a liquidity pool, this does not create the horizontal commonality contemplated by securities law. The return for a lender in the USDC pool on Aave is a function of the utilization rate of that specific pool. It is entirely unaffected by the performance of the ETH pool or any other. A catastrophic loss in one pool would not, by itself, impact the returns of lenders in other, separate pools. The fortunes of the lenders are not interwoven in a shared enterprise.

Nor is there "broad vertical commonality," which would tie the lender's fortune to the efforts of a promoter. A lender's return is determined by the autonomous code of the protocol, not the ongoing efforts of the developers who wrote it. The lender's fortune is tied to the algorithmic interest rate and the borrower's creditworthiness, not to the "success" or "failure" of the development team.

b. Any Return Is Not Derived From the "Managerial Efforts of Others."

This is the most dispositive failure of DeFi lending under the *Howey* test. The SEC's own framework states that the "efforts of others" must be "the undeniably significant ones, those essential managerial efforts which affect the failure or success of the enterprise." [8] Writing and publishing software code is not the same as performing ongoing, essential managerial efforts.

A distinction should be drawn between the technology and the typical business of financial institutions. The developers of DeFi protocols are software engineers, not asset managers. Their work precedes the lending transaction. The lender does not rely on them to generate a return; the lender relies on the autonomous execution of the smart contract code, which operates independently of any developer. The argument that Decentralized Autonomous Organizations (DAOs) constitute "managerial efforts" is misplaced. Lending and governance are distinct activities. A user can lend assets and earn interest without ever owning a governance token. Their return is generated by the loan, not by the governance process, which focuses on high-level parameter changes, not the day-to-day operations that generate yield.

c. The Transaction is a Loan, with an Expectation of Interest, Not "Profits."

While the *Howey* analysis often focuses on the other prongs, it is crucial to recognize that the fundamental nature of the transaction is a loan regardless of all the novelty of DeFi and digital assets. The user deposits an asset with the expectation of receiving that same asset back, plus interest. This is the classic economic reality of a debt instrument, not an equity investment. The return is not a dividend or a share in the protocol's revenue; it is interest, paid by the borrower. Case law analyzing loan participation has long distinguished between a fixed rate of return in the form of interest and the expectation of "profits" from a

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[8] SEC, Framework for "Investment Contract" Analysis of Digital Assets (Apr. 3, 2019), quoting *SEC v. Glenn W. Turner Enters., Inc.*, 474 F.2d 476, 482 (9th Cir. 1973).

capital investment.[9] The potential for the underlying lent asset to appreciate in value is entirely external to the lending transaction itself, just as a loan of a barrel of oil does not become a security simply because the price of oil may go up.

d. The Economic Reality of DeFi Credit Protocols

United Housing Foundation, Inc. v. Forman[10] instructs that, in considering whether a transaction involves securities, economic realities control over labels. DeFi lending is secured credit intermediation, not capital formation: the lender expects return of the same asset plus interest; the borrower seeks temporary liquidity against over-collateralized assets; no issuer is raising enterprise capital. Treating such code-mediated, collateralized loans as equity-like investment contracts would extend *Howey* far beyond its purpose.

4. DeFi Lending Fails the *Reves* Test for a Note

Whether an offer or sale constitutes a transaction in a security under *Reves*[11] requires a two-step process: (a) does the offering involve the "issuance" of a note or debt obligations that "does not bear a strong family resemblance to an item on the judicially crafted list of exceptions?"[12] If the answer is no, the offer or sale does not involve a security. If the answer is yes, then: (b) the analysis turns to the following four-factor test: (i) the motivation of the parties; (ii) the plan of distribution; (iii) the reasonable expectation of the public; and (iv) the presence or absence of risk-reducing factor that would make the application of the Securities Acts unnecessary.

a. There is no issuance of a note or debt obligation in DeFi lending.

With respect to transactions on each side of the lending pool/smart contract (lender and borrower):

- Transactions involve no promissory notes (or formal obligations of any kind);
- There is no "issuer" soliciting funds for capital raising purposes (as is typical in debt issuances).
- There are no identifiable obligors;
- Humans only interact with autonomous smart contracts, not human counterparties;

b. *All four Reves factors militate in favor of DeFi lending constituting commercial, rather than investment, activity.*

With respect to the motivations of the parties, while lenders are motivated by profit, borrowers are not seeking to raise capital in a traditional sense, but instead they collateralize their own assets to obtain temporary liquidity. The protocol itself operates pursuant to preprogrammed instructions without human

[9] *See*, *e.g.*, *Union Planters Nat'l Bank* v. *Commercial Credit Bus. Loans, Inc*., 651 F.2d 1174, 1184-85 (6th Cir. 1981) (holding that a fixed rate of return in the form of interest does not satisfy the "reasonable expectation of profits" prong of the *Howey* test).

[10] 421 U.S. 837 (1975)

[11] *Reves v. Ernst & Young*, 494 U.S. 56 (1990)

[12] *Id.* citing *Exchange Nat'l Bank of Chicago v. Touche Ross & Co.,* 544 F.2d 1126, 1137 (CA2 1976)

intervention and has no investment stake in the transaction. The parties' motivations are functionally those of a secured financing, not a capital investment.

With respect to the plan of distribution factor, there is no distribution. Specifically, there is no issuer, no underwriter, no promotion. Rather, transactions are always user-initiated and are limited to peer-to-pool or peer-to-smart contracts.

With respect to the reasonable expectations of the public, lender-users generally treat DeFi lending as collateralized lending, not investment. There are no promises of profit from an identifiable promoter. Reasonable users understand they are using autonomous code, not relying on managerial efforts. On the borrower side, there is no expectation of profit and no capital raise in connection with the transaction. With respect to alternative regulatory regimes/protections, loan transactions are over-collateralized with automated collateral liquidation mechanics such that funds deposited by lenders are adequately collateralized. In light of the foregoing, neither lender deposits nor borrower withdrawals, in connection with DeFi lending, are transactions in notes per *Reves*.

DeFi lending protocols represent a technological paradigm shift. They are automated, non-custodial systems that facilitate borrowing and lending through transparent, autonomous, open-source code. *The core economic function of DeFi lending is credit intermediation,* ***not*** *capital formation*. These protocols are far more akin to permissionless financial utilities than investment schemes. Forcing these software protocols into a regulatory framework designed for centralized entities would stifle a major field of American innovation without providing commensurate investor protection benefits. Participation in DeFi lending protocols, as described herein, does not constitute a securities transaction.

We appreciate the Crypto Task Force's effort to engage constructively and transparently on the complex legal questions surrounding decentralized finance. The issues outlined above, particularly the need for tailored guidance and frameworks that reflect the realities of decentralized protocols, are critical to fostering responsible innovation in the United States. We welcome the opportunity to serve as a resource to the Staff and look forward to continued dialogue in support of a regulatory approach that is clear, workable, and grounded in how these technologies operate in practice. With this in mind, Injective Labs will request a meeting with the Crypto Task Force, via the designated form on the Commission's site. We look forward to discussing with the Staff the topics covered in this comment, as well as those we addressed in our July 9, 2025 comment.

Respectfully,

Noah Axler
General Counsel, Injective Labs Inc.

cc: James Williams, Esq., Manatt, Phelps & Phillips, LLP
Mike Katz, Esq., Manatt, Phelps & Phillips, LLP