MEMORANDUM

To:	Crypto Task Force Meeting Log
From:	Crypto Task Force Staff
Re:	Meeting with Representatives of Jito Labs, Inc. and Multicoin Capital Management, LLC

On February 5, 2025, Crypto Task Force Staff met with representatives from Jito Labs, Inc. and Multicoin Capital Management, LLC.

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

To: Commissioner Hester Peirce, Chair - SEC Crypto Task Force
From: Rebecca Rettig, Chief Legal Officer - Jito Labs
          Greg Xethalis, General Counsel - Multicoin Capital Management, LLC
Date: January 29, 2025
Re: February 5, 2025 Meeting Topics

This memorandum briefly describes the topics to be discussed at the February 5, 2025 meeting between Jito Labs (represented by CEO Lucas Bruder and CLO Rebecca Rettig) and Multicoin Capital Management, LLC (represented by Managing Partner Kyle Samani and GC Greg Xethalis) (collectively, the "attendees"), on the one hand, and you and members of the staff of the U.S. Securities and Exchange Commission ("Commission"), including the Crypto Task Force (the "Staff"), on the other. This memorandum is not intended to be comprehensive, but provides a high-level overview of the attendees' objectives for the February 5 meeting.

The attendees expect to address two main topics during the meeting: (i) the ability to include staking as a feature in exchange traded products ("ETPs") and (ii) potential models for staking in certain cryptoasset ETPs. As set forth more fully below, we believe *first* that including staking as a feature in certain ETPs will benefit investors, more accurately reflect the benefits of native network assets and permit issuers to support the security of the networks in which the assets operate; and *second*, that there are at least two viable paths with respect to staking in ETPs: (a) to allow a certain portion of the assets in the ETPs themselves to be staked via service providers who run validators while still allowing timely redemptions, or (b) to include a liquid staking token ("LST") reflecting the staked version of the native asset (*e.g.*, SOL (native asset of the Solana blockchain):JitoSOL (LST)) such that it would amount to the entire set of native assets being staked.

We look forward to discussing these matters with you and the Staff, and welcome any comments or questions in advance of or at the meeting.

I.   Staking as a Feature in ETPs

As the Staff is aware, certain issuers originally included staking as a feature in their applications for ETPs for Ethereum's native token, ETH. At that time, the Commission requested that the issuers remove the staking feature from their respective ETP applications. We understand the Staff may now be amenable to revisiting staking in ETH and other cryptoasset ETPs, including in connection with new applications filed for a SOL ETP.

A. Staking Reflects The True Nature of PoS Native Tokens

Staking refers to the process in which validators in a proof-of-stake ("PoS") blockchain, like Ethereum, or in a delegated proof-of-stake ("dPoS") blockchain network, like Solana, "lock up" the network's native cryptocurrency (*e.g.*, ETH, SOL) to participate in and demonstrate their alignment with the network's consensus mechanism. In most PoS networks, validators participate in the consensus mechanism — *i.e.*, confirming transactions that settle to the network — by putting up or

otherwise holding a certain amount of the staked asset. Typically, there are rewards for performing properly or consequences for failing to do so, or both, depending on the network. Staking builds network security by ensuring validators have a vested interest in the proper performance of the network.

Rewards generally take the form of transaction fees and newly minted units of a network's native asset. PoS networks grant validators the right to generate additional native cryptocurrency as a reward for properly validating transactions, as well as the right to receive transaction fees and tips paid by network participants in connection with sending transactions. These rewards are shared between validators and stakers for participating in securing the network. Reward amounts and mechanisms may vary by network, but the way in which rewards are generated by the network and then distributed is open, public and transparent.

Critically, staking is an essential part of any PoS/dPoS blockchain and is an inherent feature of any native token of such a network.

B.   Liquid Staking

In addition to staking directly by or with a validator, individuals may participate in staking for PoS/dPOS networks through liquid staking protocols. Liquid staking is a mechanism by which users stake assets with one or more validators through a smart contract protocol and receive a receipt token — the LST — evidencing the native assets staked and the rewards earned via the liquid stake. For example, in the Solana ecosystem, a user can stake SOL in the Jito stake pool — across one or more validator nodes — and in return, receive JitoSOL as a representation of the stake and the rewards.[1] Liquid staking can be designed to decentralize stake across validators, which provides for greater network security.

When held, LSTs are generally freely transferrable, meaning they can be productively used allowing the holder the benefits of their assets and the network the benefit of the staking alignment. A user can withdraw their native assets from the liquid staking pool — typically with a short lag time — upon supplying the LST to the liquid staking protocol. Upon redemption of the LST, the user will receive the correct number of natively staked assets (*i.e.*, the amount originally supplied to the protocol) as well as the pro rata portion of rewards the user earned through their portion of supplied (staked) assets. While the LST is identifiable as a separate asset, it derives its value from the native asset on which it is based because the LST is interchangeable for a fixed number of such native asset.

C.   Solutions For Prior Questions Relating to The Staking Feature

We understand that three primary issues drove removal of staking as a feature in previous ETP applications: (i) managing redemptions efficiently and, where possible, consistent with a T+1 settlement cycle, as time requirements may conflict with native "unbonding periods" in PoS

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[1] https://www.jito.network/docs/jitosol/liquid-staking-basics/.

blockchains;[2] (ii) managing tax implications of staking in the context of a grantor trust; and (iii) determining whether staking as a service creates a securities transaction.

At the February 5 meeting, we will discuss potential solutions that will address these issues.

II.   Paths Forward In Permitting Staking in Cryptoasset ETPs

Given the critical role of staking of blockchain networks, we believe staking would be a net benefit to these ETPs products and the overall crypto industry. Allowing staking of native cryptocurrencies would enhance the safety and security of the networks in which these assets operate, and would align investors with the unique features of these assets. Restricting staking in cryptoasset ETPs harms (i) investors, by crippling the productivity of the underlying asset and depriving investors of potential returns, and (ii) network security, by preventing a significant portion of an asset's circulating supply from being staked.

There are at least two viable models for staking in ETPs.

First, issuers and authorized participants ("APs") can contract with reputable companies, such as Jito Labs, that host validators for certain blockchain networks and provide secure staking environments to stake the native assets held by the ETP (the "Services Model"). In the Services Model, staking service providers will stake native assets on behalf of the ETPs; issuers and APs will have to determine whether and how redemptions can be effectuated within a T+1 cycle due to staked assets becoming available only upon an unbonding period. This is possible by, among other things, only permitting a portion of the native assets to be staked with a service provider. With the right ratio (*e.g.*, staking only 40% or 60% of the total assets), the assets can be reasonably assured of prompt redemption on a T+1 timeline.[3]   Any staking rewards would accrue to the value of the shares, or could be designed in the ETP trust agreement to be sold and distributed pro-rata to investors.[4] With respect to the question of whether the staking in this model is considered a securities transaction, we

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[2] "Unbonding period" refers to the mandatory waiting period enforced by the network to allow someone to withdraw staked or delegated tokens from validators. During this mandatory waiting period, tokens remain locked and cannot be used, held or sold by anyone other than the validator. The unbonding period ensures the security and stability of the network by ensuring that validators have sufficient stake to keep them aligned with the consensus mechanism. Unbonding periods vary by blockchain network.

[3] ETP trust agreements and disclosure documents provide mechanisms for and disclosure related to suspensions or delays in the ETP creation and redemption process. In determining the appropriate staking ratio to define in the trust agreement, the ETP sponsor must consider the structure of the particular blockchain's unbonding period, the anticipated net flows of the asset, and the likelihood that the ETP would be capable of satisfying redemptions in a timely order. The trust document would require resetting the percentage of assets staked on a predefined basis such that, when the most recent creation, redemption and related bonding or unbonding action is completed, the ETP will hold assets at the target stake. This mechanism would mimic the mechanical nature of allocated and unallocated custodial account functions such as those incorporated into precious metals ETPs.

[4] In the traditional commodity-based trust shares ETP model, the units of the applicable commodity per share ratio will decline as the sponsor's fee and other recurring or extraordinary expenses of the trust are paid over time. In a staked cryptoasset ETP, it is possible (and for ETH and SOL almost certain) that the revenue from even partial staking will far exceed the expense ratio of the ETP. As such, a SOL ETP that starts at .1 SOL/share could, in the future, equal 0.11 SOL/share instead of 0.09 SOL/share. This mimics the favorable investor experience in zero or negative fee ETPs that utilize securities lending programs to fully offset expenses.

believe that regardless of the Staff's determination on that question, staking should be permissible and also will be possible in an ETP structure.

Second, rather than directly staking assets from the asset investment as in the Services Model, investors may receive the benefits of staking through ETPs that hold LSTs (the "LST Model") — either a dual-commodity model (*i.e.*, including both the native asset and the LST relating to that native asset) or, in certain circumstances, a single-commodity model (*i.e.*, 100% LST). The LST Model will allow for redemptions within the required time period because a dual-commodity ETP will not be subject to unbonding periods; specifically, rather than staking the native assets to generate rewards, the LSTs will perform that function, allowing assets and rewards to be redeemed. The LST Model addresses the redemption timeline to comply with the relevant rule and eliminates the question of how the Commission should analyze staking as a service. The LST Model also simplifies the creation-redemption mechanism, accounting, and grantor trust issues for the ETP and could be operated consistent with precious metals basket ETPs such as WITE and GLTR.

The solutions and implications set forth above are not exhaustive. We believe that the staking feature and any novel challenges arising out of it can be addressed through various solutions that are within the Commission's purview.

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We appreciate the opportunity to meet with the Commission on these topics, as well as your desire to engage transparently on issues relating to cryptoassets.

We look forward to a productive dialogue with you and the Staff.