

August 5, 2022

Submitted via email to: regulations@dfpi.ca.gov, copy to [REDACTED]

Department of Financial Protection and Innovation, Office of Financial Technology Innovation

2101 Arena Boulevard

Sacramento, CA 95834

Re: Invitation for comments on the regulation of crypto asset-related financial products and services under Executive Order N-9-22

Dear members of the DFPI,

On behalf of Linqto Inc. and its subsidiaries, including Trustline Inc. (collectively “Linqto” or the “Company”), we appreciate the opportunity to submit comments to the California Department of Financial Protection and Innovation (“DFPI”) on the above-referenced invitation. We support the DFPI’s important efforts to spur responsible innovation in financial services by clarifying regulatory expectations for emerging crypto asset-related products and services. I am pleased to provide you with further relevant business context.

Linqto is a company that provides secondary market liquidity for private companies in the technology sector. Our platform allows founders, VCs, and employees to realize early returns without waiting for an IPO or trade sale and allows accredited investors to access these opportunities. Under the hood, Linqto Liquidshares LLC, a Linqto Inc. subsidiary, purchases restricted stock in private companies, forms subsidiary SPV holding companies, and offers membership interests in the SPV. Liquidshares offerings are exempt from SEC registration under Regulation D and transactions are brokered through a FINRA-registered and SIPC member firm. Furthermore, we are in the process of registering a new alternative trading system (“ATS”) with the SEC that will utilize blockchain technology to facilitate more liquid, transparent, and efficient secondary markets.

It is our belief that there are many merits to blockchain technology, with special regard to real-time gross settlement (“RTGS”). Such systems promise a way to transfer ownership of value between multiple parties in a more efficient, verifiable, and secure manner than before. We also believe that crypto asset regulation should enhance the dollar’s strength and status as the world reserve currency but should be careful not to stifle innovation. To that end, we believe that a robust regulatory framework for the issuance of US dollar-denominated (“fiat”) stablecoins is necessary to achieve this outcome. Regulatory authorities are well positioned to provide guidance for stablecoin issuers under existing money transmission, securities, and banking laws. However, we have identified a few gaps in guidance.

The first is regarding securities law and the application of existing exemptions (e.g., Rule 506(c)) to privately issued stablecoins (e.g., stablecoins issued to accredited investors for transactional use within a private investing platform). A fiat-backed stablecoin product on its own does not meet the definition of a security because holders have no expectation of profit. However, a stablecoin yield product, such as Circle Yield is a good example of a 506(c) offering. Form D should be filed with the commissioner in the latter case, but not the former; confirmation from the DFPI on this reasoning would be appreciated.

Regardless of reserve asset composition, a licensed custodian must safeguard the assets, which must meet the US Treasury's definition of a high-quality liquid asset (HQLA). If the stablecoin is backed by HQLAs *other* than US dollars, such as US Treasury bills, then it is our understanding that blue sky laws take effect, as the stablecoin is effectively treated as a security because it is backed by securities.

Larger banks may adopt permissioned technology, but they could also settle over public networks which are seeing increasing adoption by consumers. Public network blockchains typically charge a transaction fee paid in the blockchain's native digital asset and is typically destroyed or extracted by a network operator. Financial entities who leverage the public ledger must be able to obtain the native digital asset in sufficient quantities at sustainable prices. To operate such a service, the risk to holding and obtaining the native digital asset must be managed appropriately. For innovation's sake, it is important that regulators treat these digital assets as vital network participation tokens used to pay transaction fees, and thus reduce the tax reporting burden for small transactions. The sole treatment of digital assets as a speculative investment asset does not do justice to licensed businesses who are using the digital assets for compliant business activities. We very much appreciate the department's efforts to view digital assets from multiple perspectives.

Furthermore, regulations should carefully consider a crypto-asset service or product's data retention capabilities. There should be a requirement for such digital asset services to retain on-premises copies of digital asset network history, particularly with respect to all transactions related to the service's business activities. If the public network becomes unreachable, the retained records will allow such service providers to comply with requests from regulators. This is not an unreasonable request for companies to implement. Furthermore, new private market solutions can lower the cost of data retention and replication in the long term.

Lastly, I want to share the potential impact on blockchain technology in secondary markets. Blockchain operates within what I refer to as a "trustless execution environment," meaning that each participant retains their own version of the distributed ledger history. This environment allows formerly uncooperative market participants to interact in new cooperative capacities. For example, Linqto competitors could offer their secondary market offerings on the same blockchain, which allows Linqto's customers to access competitor investment products through the Linqto platform via a standard agreement with said competitor, allowing the competitor to collect a commission in the process. The promise of such interoperability will increase liquidity and accessibility in private markets, but there are many hurdles, including the standardization of the equity security structure, custody, and legal agreements. Linqto is looking forward to further exploring these opportunities in tandem with industry best practices and regulatory guidance.

Thank you for your consideration of these comments as you move forward with creating a transparent and consistent business environment for companies operating in blockchain, crypto assets, and related financial technologies. We welcome further discussions about this important topic with you and your team. If I can ever be of any assistance or if you have any further questions, please do not hesitate to contact me at [REDACTED].

Best regards,



Matthew Rosendin

Vice President of Ledger

Linqto Inc.