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October 4, 2023

Michael Clements, Director
File: GAO-23-105346
Government Accountability Office
441 G St., NW
Washington, DC 20548

Re: BLOCKCHAIN IN FINANCE: Legislative and Regulatory Actions Are Needed to Ensure Comprehensive Oversight of Crypto Assets

Dear Mr. Clements,

Owl Explains appreciates the opportunity to comment on The GAO Report: [Blockchain in Finance: Legislative and Regulatory Actions Are Needed to Ensure Comprehensive Oversight of Crypto Assets](#) and its recommendations:

- (i) that Congress consider legislation for federal oversight of non security crypto asset spot markets and stablecoins and
- (ii) that seven financial regulators establish a (or adapt an existing) coordination mechanism to identify and address blockchain-related risks.

Owl Explains is a project led by the legal team at Ava Labs, Inc. which aims to support appropriate regulation of blockchain and crypto assets through a set of guiding principles known as the [Tree of Web3 Wisdom](#) - and a system for determining the legal and regulatory treatment of crypto assets according to their true nature known as the '[sensible token classification system](#)'.

We congratulate the GAO for its approach in (i) to focus on specific categories of tokens to be the subject of legislation for federal oversight and in (ii) to focus on specific risks.

This approach acknowledges some vitally important fundamentals that are worth reiterating here:

- that tokens are not all the same
- that tokens are digital representations and can represent anything
- that tokens therefore cannot be treated all the same under law and regulation
- that many tokens represent items that are already regulated so do not require new regulation

- that many other tokens represent items that are not regulated in the non-blockchain world because they do not require it and so should not be regulated as tokens on a blockchain either.

Blockchain is a new technology, but in essence it is simply a new kind of database or filing cabinet. When it comes to law and regulation, treating all tokens the same simply because they are tokenized and recorded on a blockchain makes as little sense as treating a sketch, an ID card, a receipt or a share certificate all the same because they are printed on paper and filed in the same filing cabinet.

Instead, law makers and regulators should treat each token according to what it actually represents - just as they do with things written on paper.

The good news is that the majority of tokens represent things that already existed before blockchain and can be treated as legal or illegal, regulated or unregulated just as they always have been. Lawmakers should simply scrutinize what the token actually represents - its features, functions and risk profile - and apply existing laws and regulations - or not - accordingly. This way regulation stays consistent across different technologies - same asset, equals same risk, which results in the same legal and regulatory treatment.

The Owl Explains [sensible token classification system](#) breaks tokens down into the following five high level categories that represent the vast majority of use cases today and into the future:

Physical asset tokens: Any digital representation of a tangible (real-world) asset created and maintained on a DLT (that is, tokenized). This category is very broad and could be divided into smaller categories based on the particular type of tangible asset (e.g., gold coin physical asset tokens, Air Jordan physical asset tokens, cup of coffee physical asset tokens versus coffee cup physical tokens, etc.).

Services tokens (includes music, digital art); Any digital representation of services to be provided by one or more persons/entities to other person(s)/entities. This category also includes music and purely digital art files (the intellectual property underlying the music or digital art file may be an intangible asset token, discussed next, if not transferred with the file). This category is also quite broad because it includes any type of services and digital art/music such that it is susceptible to sub-categorization (e.g., cleaning services tokens, personal performance tokens versus concert tokens, legal services tokens, etc.).

Intangible asset tokens: Any traditional intangible (non-physical) asset. Another broad category susceptible to sub-categories based on the asset class (bond tokens [security tokens], real estate ownership tokens, government program tokens, loyalty points program tokens, etc.).

Native DLT tokens: A narrow category of truly DLT-native tokens (e.g., Bitcoin, Ether, AVAX, etc.). Might be a subset of intangible asset tokens in the sense that these tokens are just a bundle of rights with no physical item involved, although some may have an element of services (e.g., when the token is used for resource allocation on the network). This classification system treats native DLT tokens as not a subset of intangible asset tokens because the latter must be something

that exists (or can exist) distinct from the blockchain that creates and maintains it. Native DLT tokens have no existence or purpose without the associated blockchain.

Stablecoins: A narrow category of tokens that do not fall within any other category and are designed to maintain stable value against some underlying, reference or linked asset or pool/basket of assets.

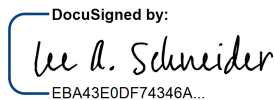
Classifying tokens according to this system will be a crucial first step in the implementation of the GAO's recommendations as summarized at (i) and (ii) above. Applying the sensible token classification system will ensure that any legislation Congress proposes is appropriately targeted - and that all relevant regulators are able to identify and address risk appropriately through the coordination mechanism proposed. The [CFTC](#) and the [IRS](#) have already recognized these concepts.

We therefore encourage the GAO and all policymakers and regulators to start their activities with reference to the fundamental principles in the [sensible token classification system](#) and use its broad categories to orient their efforts.

About Owl Explains

Owl Explains is a project created by the Legal team at Ava Labs with the goal of becoming a trusted educational resource for policymakers, regulators, and other parties interested in learning about blockchain technology, cryptoassets, and Web3. Owl Explains develops content delivered by leading industry experts, including [podcasts](#), [explainers](#), [articles](#), and [quizzes](#), focusing on understanding the technology and the full breadth of its use cases, distinguishing where those use cases fit within existing regulatory frameworks, as well as defining principles for regulation based on the nature of the asset and activity. Innovation is the soil from which we can create a better Internet. Blockchain is its root system: decentralized, transparent, secure, and traceable. We believe that sensible regulation in conjunction with innovation and invention is the best way to guide the transformative power of Web3 to empower individuals and businesses, drive economic inclusion, and benefit the planet. As such, the Owl has the [Tree of Web3 Wisdom](#), a set of principles to help guide blockchain regulation worldwide.

Sincerely Yours,

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Lee A. Schneider
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Ava Labs, Inc.