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August 21, 2025

Submitted via Email

Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

RE: Ava Labs Comment on CFTC Request for Input on Listing of Spot Crypto Asset Contracts

Dear Mr. Kirkpatrick:

Our client Ava Labs, Inc., together with the Owl Explains project (collectively, “Ava Labs”), submits this comment letter in response to the Commodity Futures Trading Commission’s (“CFTC” or the “Commission”) request for input regarding the listing and trading of spot crypto asset contracts.¹ Ava Labs appreciates the opportunity to provide comments on this important topic and commends the Commission for its leadership in exploring a regulatory approach that can deliver clarity for market participants, protect consumers, and support the orderly growth of digital asset markets in the United States.

Herein, Ava Labs respectfully offers a proposed framework for regulation of spot trading of “protocol tokens”—*i.e.*, those tokens that are integral to the functioning of protocols, whether blockchain, smart contract, or otherwise. The proposed framework leverages the CFTC’s existing statutory authority, regulatory structures, and regulated entity types to provide a straightforward course to the goal of regulated spot trading and related activities. The recommendations set forth herein are guided by the view that responsible regulation should safeguard users, consumers, and

¹ CFTC, Release Number 9105-25, Acting Chairman Pham Launches Listed Spot Crypto Trading Initiative (Aug. 4, 2025), <https://www.cftc.gov/PressRoom/PressReleases/9105-25/>.

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investors, uphold market integrity, and encourage innovation, competitiveness, and U.S. leadership in this rapidly developing area.

I. Background

Ava Labs is a Brooklyn-based technology company formed in 2018, with the aim of advancing blockchain and related technologies in order to foster greater adoption of this new database layer of the internet.² Ava Labs' founder and CEO, the Cornell computer scientist Dr. Emin Gün Sirer, has spent much of his career developing, building, and implementing distributed systems and blockchain protocols. His testimony before the House Financial Services Committee in 2023 provides background for the technology and several of the themes and concepts discussed below.³

Ava Labs focuses its efforts on the Avalanche blockchain technology, which is one of the most innovative blockchain technologies available due to its speed to finality and the ability of users to build customized blockchains for virtually any use case, including those that have strict compliance requirements. The Avalanche Primary Network was launched by a diversified group of validators in September 2020, bringing its novel consensus mechanism and the ability to create compliant blockchains to the world. The Avalanche Primary Network is powered by the proof-of-stake⁴ based Avalanche consensus⁵ and is secured by a distributed set of independently operated validators located around the globe who secure the network and authenticate transactions. The native token of the Avalanche Primary Network is AVAX, which serves as the unit of account and means by which resources are allocated on the network through, among other things, paying “gas” and other fees and staking to operate validator nodes.

The Avalanche protocol also affords users the ability to build interoperable, custom layer-1 blockchains,⁶ integrating compliance needs with bespoke programming for any use case. This capability makes Avalanche a network of blockchains, rather than a single chain.

² Owl Explains is a project created by the legal team at Ava Labs with the goal of becoming a trusted educational resource for regulators, policymakers, and other stakeholders interested in learning about blockchain technology, cryptoassets, and Web3. Owl Explains also collaborates with academics to give greater exposure to the research being done on these topics, including through its [podcast series](#) with [CBER forum](#).

³ See *The Future of Digital Assets: Providing Clarity for the Digital Asset Ecosystem*, House Comm. on Fin. Serv. (Jun. 13, 2023), <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408851>.

⁴ See *Team Rocket, et al., Scalable and Probabilistic Leaderless BFT Consensus through Metastability* (Aug. 24, 2020), [https://cdn.prod.website-files.com/6009805681b416f34dcae012_Avalanche Consensus Whitepaper.pdf](https://cdn.prod.website-files.com/6009805681b416f34dcae012_Avalanche%20Consensus%20Whitepaper.pdf).

⁵ *Id.*

⁶ See *Avalanche L1s*, Avalanche, <https://build.avax.network/docs/avalanche-l1s>.

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To date, the network has not only been used to process multitudes of transactions, but also to launch and operate all sorts of projects. Here are some examples of what participants from around the world have built:

- **Offering of tokenized securities and other financial instruments** by financial institutions like BlackRock, Franklin Templeton, Apollo Global Management, and KKR.
- **Offering of cross-border payment solutions** by companies like Visa, StraitsX and Fonbnk.
- **NFT-based ticketing and consumer programs** offered by Sports Illustrated and SK Planet.
- **Privacy, Security, and Data Integrity components** of blockchain-based solutions, in connection with a wide range of entities like the California DMV, Deloitte, Chainlink, and J.P.Morgan.

Appendix A to this letter provides further detail and links to many different use cases for blockchain and tokenization of assets.

II. Considerations Related to CFTC and SEC Jurisdiction

In crafting and implementing regulation of spot trading, it is critical to maintain the integrity of the Commodity Exchange Act (“CEA”) and the federal securities laws. Each of these regulatory regimes was structured to bring only certain types of instruments, intermediaries, and transactions within their scope, in furtherance of well-defined regulatory purposes. Consistent with that design, Ava Labs believes it is best for the federal securities laws to remain centered on securities, and for the CEA to remain centered on commodities and commodity interests.

Ava Labs has long emphasized the importance of token classification, because blockchains allow for the digital representation of virtually anything. Ava Labs’ first submission to the SEC Crypto Task Force on April 23, 2025,⁷ explained how important the nature of an asset is in classifying tokens for legal and regulatory purposes and set forth five high-level categories of tokens based on the type of asset being digitally represented:

- **Physical asset tokens:** Any digital representation of a tangible asset (*e.g.*, gold coins, Air Jordans, cups of coffee vs. coffee cups) created and maintained on a blockchain

⁷ See Lilya Tessler, Sidley Austin LLP on behalf of Ava Labs, Inc. and Owl Explains, *RE: Asset-Based Classification; Decentralization; Regulatory Status of Technology Functions; Treatment of Infrastructure Providers*, U.S. Sec. & Exch. Comm’n (Apr. 23, 2025), <https://www.sec.gov/files/ctf-written-sidley-austin-ava-labs-04232025.pdf>.

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- (also known as “DLT” for distributed ledger technology). Tokenized agricultural commodities would fall in this category, but not futures or swaps on such commodities.
- **Services tokens:** Any digital representation of services (*e.g.*, cleaning services, personal performances vs. concert tickets, legal services) to be provided by one or more person(s)/entity(ies) to other person(s)/entity(ies). 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).
 - **Intangible asset tokens:** Any digital representation of intangible assets (*e.g.*, bonds, intellectual property rights, government benefits, loyalty points programs).
 - **Security tokens:** A subset of intangible asset tokens representing any asset that meets the definition of a “security” under the Securities Act of 1933, as amended (the “Securities Act”), or the Securities Exchange Act of 1934, as amended (the “Exchange Act”).⁸
 - **Futures and swaps tokens:** A subset of intangible asset tokens representing the financial instruments regulated under the CEA.
 - **Native DLT tokens:**⁹ A category of tokens that are integral to the functioning of a blockchain protocol. Native DLT tokens have no existence or purpose without the associated protocol. These are within the grouping “Protocol Tokens” as defined below. As outlined in our April 23, 2025 submission to the Crypto Task Force, Native DLT tokens are not investment contracts.¹⁰
 - **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, usually

⁸ See Securities Act, 15 U.S.C. §§ 77a–77aa (2018); Securities Exchange Act of 1934, 15 U.S.C. §§ 78a–78qq (2018).

⁹ “A native token is the primary digital asset and currency of a specific blockchain. It is essential for the blockchain’s operations. Native tokens facilitate transactions and pay for transaction fees. They also reward miners or validators who secure the blockchain. Unlike non-native tokens, native tokens are integral to the blockchain’s core functions... [and] are created directly on their respective blockchains. They are essential for the blockchain’s operations.” *Native Token*, CoinAPI.io, <https://www.coinapi.io/learn/glossary/native-token>.

¹⁰ See Tessler, *supra* note 7, at 8 (“Native DLT Tokens are not investment contracts or other types of securities because they are integral to the functionality of a network and are not issued by a legal entity as a security.”); see also Lee Schneider, *Oranges Are Not Securities And Neither is SOL*, Crowdfund Insider (Jul. 12, 2022), <https://www.crowdfundinsider.com/2022/07/193572-oranges-are-not-securities-and-neither-is-sol/>.

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fiat currencies, or linked asset or pool/basket of assets. This category should not be broadened such that it swallows all other categories.¹¹

From this classification methodology, many of the jurisdictional issues between the CFTC and the Securities and Exchange Commission (the “SEC”) fall away, because the nature of most assets that are tokenized on blockchains are self-evident.¹² The Native DLT token classification, however, has been the area of great debate amongst commentators, regulators, and courts. Lately, Ava Labs has used the term “protocol tokens” as inclusive of Native DLT tokens. Protocol tokens are the tokens integral to the functioning of any type of protocol or network, whether a layer 1 or layer 2 blockchain, a smart contract, a restaking protocol, or otherwise (hereinafter, “Protocol Tokens”).¹³ The Protocol Token designation has the benefit of being technology neutral in the event new technologies are developed that utilize an integral token.

Ava Labs submits that it is the spot trading of Protocol Tokens that the CFTC should address in this process. The framework proposed below is based on Protocol Tokens and recognizes that this asset type is something new that does not fit comfortably in the definition of “commodity” or “security.”

Accordingly, Ava Labs proposes a framework that distinguishes between two categories: (i) “Pre-Functionality Protocol Tokens,” and (ii) “Protocol Tokens.” “Pre-functionality” refers to the state in which a Protocol Token and its underlying protocol are not fully programmed with the technical features that make it integral to the protocol’s operation, and before the protocol is deployed for live use. Offers and sales of Pre-Functionality Protocol Tokens have been the situations most often called “capital raising” and “investment contracts.” In contrast, there has been broader agreement that “functional” Protocol Tokens—which refers to the state when both the tokens and the protocol are live and functioning in accordance with their design, such that the tokens can be used as an integral part of the workings of the protocol—fall more comfortably in

¹¹ SEC Div. of Corp. Fin., *Statement on Stablecoins*, U.S. Sec. & Exch. Comm’n (Apr. 4, 2025), <https://www.sec.gov/newsroom/speeches-statements/statement-stablecoins-040425>.

¹² The CFTC Global Markets Advisory Committee has recognized these points about tokenization in its [recommendation](#) on tokenized non-cash collateral and in its proposed token classification [system](#).

¹³ Ava Labs recommends formally defining the term “Protocol Token” as follows:

“The term ‘protocol token’ means an intangible, commercially fungible asset, that is integral to the functioning of a protocol, whether that protocol is a distributed ledger, blockchain, smart contract or other type of software protocol.”

This term should not include any asset that confers upon its owner any of the following rights in a person: (i) a debt or equity interest in that person; (ii) liquidation rights with respect to that person; or (iii) an entitlement to an interest, dividend, distribution, or other similar payment from that person.

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the definition of “commodity” under the CEA.¹⁴ As such, the framework proposed herein relates to the CFTC developing a regime for the spot trading of Protocol Tokens, with Pre-Functionality Protocol Tokens excluded.

III. Leveraging Existing Frameworks for Spot Trading Protocol Tokens

This brings us to the regulation of intermediaries conducting activities in Protocol Tokens. Set forth below is a proposed framework under which the CFTC would regulate spot trading and related activities in Protocol Tokens. The framework is designed to leverage existing regulatory structures and registered persons, including the core principles and various policies and procedures requirements. By relying on these well-established systems, the proposal allows for discrete new rulemaking rather than the creation of new regimes.

A. Authority Over Spot Protocol Token Activities Through CFTC-Registered Entities

Ava Labs agrees with the Acting Chair’s view that there is a path to a regulatory framework for intermediaries engaged in spot trading of Protocol Tokens under the CFTC’s existing statutory authority. Specifically, Ava Labs believes that the CFTC already possesses the requisite authority to regulate the trading of Protocol Tokens when such activity is conducted by, through, or on entities registered with the CFTC (current and future), including, but not limited to, designated contract markets (“DCMs”). This authority is grounded in the following (existing) provisions of the CEA:

- **General Rulemaking Authority – CEA § 8a(5):** This provision contains the Commission’s general rulemaking authority, granting the Commission broad authority to “make and promulgate such rules and regulations as, in the judgment of the Commission, are reasonably necessary to effectuate any of the provisions or to accomplish any of the

¹⁴ Ava Labs recommends formally defining the terms “Pre-Functional” and “Functional,” with respect to Protocol Tokens, as follows:

“(i) Pre-Functionality.—The term ‘pre-functionality,’ when used in connection with a ‘protocol token’ or its corresponding protocol, refers to the state of a ‘protocol token’ or its corresponding protocol prior to the token and the protocol being programmed with the technical functionality to be integral to the functioning of a protocol and the protocol being deployed such that users may use the protocol and the protocol token for their intended purposes on a live network; and

(ii) Functional.—The term ‘functional,’ when used in connection with a ‘protocol token’ or its corresponding protocol, refers to the state of a ‘protocol token’ or its corresponding protocol when, and after they are programmed with the technical functionality to be integral to the functioning of a protocol and the protocol being deployed such that users may use the protocol and the protocol token for their intended purposes on a live network.”

purposes of [the CEA].” These purposes include protecting market participants, promoting market integrity, preventing fraud and manipulation, and promoting responsible innovation.¹⁵ The Commission could use this authority, along with its rulemaking authority specific to various categories of registrants (*e.g.*, CEA §§ 4s(b)(4) and 4s(d) (swap dealers and major swap participants), CEA § 8a(7) (registered entities¹⁶), CEA § 8a(8) (registrants not members of a registered entity), and CEA § 17(e) (registrants not members of a registered futures association)), to regulate the Protocol Token spot trading activities of registrants. Such rulemaking could impose on registrants engaged in spot Protocol Token activities requirements related to recordkeeping, disclosure, customer protection, and conflict-of-interest safeguards in connection with Protocol Token spot trading activities, and could also require DCMs and other registered entities and registered futures associations to adopt rules regulating the Protocol Token spot trading activities of their respective members and participants.

- **Anti-Fraud and Anti-Manipulation Authority – CEA § 6(c)(1):** This provision makes it unlawful to employ any manipulative or deceptive device “in connection with” a contract of sale of any commodity in interstate commerce. Courts have confirmed that it applies to fraud and manipulation in spot commodity markets.¹⁷ This statutory foundation supports Commission rules designed to prevent misconduct in Protocol Token spot trading, such as surveillance and reporting obligations.
- **Core Principles for Trading Venues and DCOs; Listing of Contracts – CEA §§ 5, 5c, 5h, and 5b:** Section 5(d) enumerates the Core Principles that DCMs must satisfy, including preventing market manipulation, ensuring financial integrity, and providing fair and equitable access. Section 5c(c) authorizes the Commission to review, approve, or condition the listing of new contracts and “other instruments” submitted by DCMs and other registered entities. Parallel Core Principles apply to swap execution facilities (“SEFs”) under § 5h and to derivatives clearing organizations (“DCOs”) under § 5b, including requirements for impartial access, monitoring to prevent abusive practices, robust risk management, and safeguarding customer funds. Applied to Protocol Tokens, these provisions provide a basis to require that any spot trading conducted on or through a CFTC-registered trading venue or clearinghouse complies with the Core Principles and related CFTC regulations—for example, through transparent trading rules, market surveillance, customer protections, and systemic risk safeguards.

¹⁵ See CEA § 3(b).

¹⁶ As such term is defined in CEA § 1a(40), including DCMs, derivatives clearing organizations, and swap execution facilities.

¹⁷ See, *e.g.*, *Commodity Futures Trading Comm’n v. McDonnell*, 287 F. Supp. 3d 213 (E.D.N.Y. 2018).

- **Oversight of Self-Regulatory Organizations – CEA §§ 5(d), 5b(c)(2), 5h(f), and 8a(5):** The CEA treats DCMs, DCOs, and SEFs as self-regulatory organizations (“SROs”), each subject to Core Principles set forth in §§ 5(d), 5b(c)(2), and 5h(f). These provisions require such entities to enforce compliance with their rules, and further provide that they must comply with any requirement the Commission may impose by rule or regulation pursuant to CEA § 8a(5) (which, as discussed above, sets out the CFTC’s general rulemaking authority). Taken together, these provisions empower the Commission to require such SROs to adopt and enforce rules governing the spot Protocol Token activities of their members and participants. In this way, the Commission can leverage the existing SRO framework to extend oversight to the Protocol Token activities occurring on or through these venues.
- **Retail Commodity Transactions – CEA § 2(c)(2)(D):** This provision brings certain leveraged, margined, or financed retail commodity transactions within the Commission’s jurisdiction “as if” they were futures contracts. The Commission has applied this authority to retail digital asset transactions.¹⁸ This confirms that retail Protocol Token spot transactions involving leverage or margin fall within the Commission’s regulatory reach.
- **Exemptive Authority – CEA § 4(c):** This provision empowers the Commission to exempt transactions from certain CEA provisions, subject to conditions necessary to protect customers and preserve market integrity. The stated goal of this broad exemptive power is “to promote responsible economic or financial innovation and fair competition.” In the context of Protocol Tokens, § 4(c) offers a flexible mechanism to craft tailored regulatory approaches—for example, tailoring the CEA’s intermediary core principles to reflect the fundamental differences between derivatives and spot Protocol Token markets, and conditioning exemptions on compliance with disclosure standards, custody protections, or anti-manipulation safeguards.

Taken together, these provisions establish a comprehensive statutory foundation for the Commission to regulate how its registrants, including but not limited to DCMs, engage with Protocol Token spot markets. By requiring compliance with Core Principles, exercising its rulemaking powers, and tailoring obligations through exemptive authority, the CFTC can implement a tailored regulatory regime for Protocol Token activities. Extending oversight over intermediaries in this manner would ensure consistent, commodity-focused regulation, leveraging the Commission’s existing authority over its intermediaries and, more generally, over fraud and

¹⁸ See, e.g., *In the Matter of Universal Navigation Inc. d/b/a Uniswap Labs*, CFTC Docket No. 24-25 (Sept. 4, 2024) (finding that retail users purchased tokens such as ETH2XFLI providing approximately 2:1 leveraged exposure to Ether and Bitcoin, which “contained no restrictions that would result in, and generally did not result in, actual delivery ... within 28 days,” and were offered to non-ECPs through Uniswap’s interface, thus falling within § 2(c)(2)(D)).

manipulation in spot commodity markets and its proven experience regulating derivatives linked to Protocol Tokens.

B. Targeted Rulemaking for Spot Trading Protocol Tokens

To ensure regulatory clarity and consistency, Ava Labs recommends the Commission undertake a targeted rulemaking to allow its intermediaries to conduct spot trading of Protocol Tokens, while mandating similar rulemakings by its SROs. This rulemaking should define the scope of covered Protocol Tokens, establish baseline market integrity and customer protection requirements for regulated platforms and entities, and harmonize compliance obligations with those already applicable to CFTC registrants.

By acting through a focused, fit-for-purpose rulemaking, the CFTC can provide regulatory certainty and support the safe, transparent, and orderly development of the Protocol Token trading marketplace, including the protection of users, consumers, and investors.

IV. Outline of Proposed CFTC Regulatory Framework for Spot Protocol Tokens

Following is an outline of the proposed CFTC regulatory regime for intermediaries engaged in spot Protocol Tokens activities. This framework is grounded in the CFTC's existing statutory authority and leverages the CFTC's existing regulations.

A. CFTC Oversight of Protocol Token Spot Trading By CFTC-Registered Entities

The Commission should enact regulations explicitly setting out its jurisdiction over spot or cash market transactions in Protocol Tokens when conducted by, through, or on entities registered with the CFTC. Such jurisdiction should encompass any sale, trade, transaction, custody, or other intermediary activity conducted on or through a CFTC-regulated entity, or by any other entity required to register with the Commission. The regulation should explicitly exclude Pre-Functionality Protocol Tokens from the Commission's oversight.¹⁹

B. Authorization of Registered Entities

The CFTC's rulemaking should authorize existing CFTC registrants—including DCMs, futures commission merchants ("FCMs"), introducing brokers ("IBs"), swap dealers, swap execution facilities, and derivatives clearing organizations—to engage in activities involving

¹⁹ See *supra* Section II, at 5–6 (discussing Pre-Functionality Protocol Tokens).

Protocol Tokens in the cash or spot markets.²⁰ These activities should be permitted to the extent they are functionally equivalent to, and consistent with, the types of activities the relevant category of registrant is already permitted to conduct under its existing registration category. For example, an IB would be permitted to engage in soliciting or accepting orders for the purchase or sale of any Protocol Token in the cash or spot markets, and a DCM would be permitted to list for trading spot Protocol Token contracts.

This regime ensures continuity of regulatory oversight by leveraging the Commission's proven supervisory structures. Importantly, this authorization avoids creating entirely new categories of registrants; instead, it recognizes that existing CFTC registrants are well-positioned to extend their compliance, risk management, and customer protection practices into Protocol Token markets.²¹

C. Tailored Rulemaking to Address Protocol Token-Specific Risks

Existing CFTC rule categories provide a strong foundation but should be adapted to reflect the distinctive features of Protocol Tokens. Key areas of focus should include:

- **Recordkeeping and reporting:** Registered entities should be required to maintain comprehensive records of Protocol Token spot transactions, with provisions adapted to accommodate distributed ledger data and blockchain-native audit trails.
- **Capital adequacy and margin standards:** Risk-based capital requirements should ensure that entities engaged in Protocol Token spot trading maintain financial resilience appropriate to the volatility of these assets.
- **Customer protections and segregation:** Clear segregation of customer Protocol Token holdings from firm assets is critical to preventing misuse of client property.

²⁰ This rulemaking is not intended to alter the CEA's retail commodity transaction provisions set forth in section 2(c)(2)(D) and its various subsections, pursuant to which certain retail leveraged, margined, or financed commodity transactions are regulated as futures contracts, unless resulting in "actual delivery" within 28 days.

²¹ This approach aligns with the principles set out in Ava Labs' May 27, 2025, submission to the SEC Crypto Task Force, which emphasized that no new regulatory framework is needed simply because an intermediary's activities involve digital assets. Rather, the SEC should apply its existing laws based on the nature of the activity. In the same way, there is no need to create new categories of registrants merely because the activity involves a Protocol Token. See Lilya Tessler, Sidley Austin LLP on behalf of Ava Labs, Inc. and Owl Explains, *RE: Supplemental Submission Proposing a Nature of the Activity Test to Determine Whether Infrastructure Providers Need to Register as Securities Intermediaries*, U.S. Sec. & Exch. Comm'n (May 27, 2025), <https://www.sec.gov/files/sidley-austin-behalf-ava-labs-052725.pdf>.

- **Risk management and internal controls:** Registrants should be required to adopt safeguards against operational risks specific to Protocol Tokens, including smart contract vulnerabilities, cybersecurity risks, and custody solutions for Protocol Tokens.
- **Execution, clearing, and settlement processes:** Where clearing is offered, standards should ensure reliable settlement and address the unique mechanics of blockchain transactions.
- **Registration and conduct standards:** Rules should provide clear expectations for Protocol Token trading platforms regarding fairness, transparency, and market integrity.
- **Policies and procedures:** Registrants should be required to establish written policies and procedures appropriate to ensure compliance with applicable regulations, including but not limited to illicit finance and sanctions, and which are calibrated to reflect Protocol Token-specific attributes and risks.
- **Oversight and self-regulation:** Futures associations and other CFTC-regulated SROs should be directed to adopt and enforce rules specific to Protocol Token spot activity for their members and participants.

Importantly, any amendments or new rules should not impose obligations more burdensome than those applicable to analogous regulated markets but should be calibrated to reflect Protocol Token-specific risks. They should also make clear that infrastructure providers, including those using Protocol Tokens in accordance with their design, are not intermediaries and therefore are not within the purview of such rules.²²

D. Transitional Grace Period

To provide continuity while final rules are being developed, the Commission should implement a transitional period for entities that are already registered with the CFTC. Registered entities should be permitted to engage in Protocol Token activities during this interim period if they file a notice of intent signed by their chief executive officer (or president) and chief financial officer. The notice should identify the specific Protocol Token activities to be undertaken and include an attestation that the firm has implemented compliance policies tailored to Protocol Token activities.

²² See Tessler, *supra* note 7, at 10–12 (noting that “blockchain Infrastructure Providers supply the passive infrastructure layer that facilitates the functioning of the network, not intermediary services” and that they “do not engage in archetypal intermediary activities like custodying customer funds or securities, recommending or soliciting trades or portfolio allocations, or executing, clearing, and settling transactions.”).

Ava Labs also suggests providing a grace period for large state-licensed money transmitters—specifically, those licensed in 30 or more states that intend to seek registration with the CFTC. This recognizes the important role of existing money services providers in facilitating consumer access to Protocol Tokens. An appropriate notice procedure should be adopted for these state-regulated entities.

The grace period should last until the Commission’s final rulemaking is adopted, and interim activities should be subject to CFTC and self-regulatory examinations to ensure market integrity and compliance with applicable laws and standards.

This transitional approach prevents market disruption while providing firms time to adapt and regulators time to finalize rules.

E. Treatment of Decentralized Finance

Ava Labs recommends the Commission explicitly exclude decentralized finance (“DeFi”) activities from direct regulation, recognizing that these activities lack a centralized intermediary and therefore fall outside traditional supervisory structures. DeFi systems would be defined as protocols or networks that lack a single point of failure, single source of truth, or centralized authority capable of altering data, determining finality, or custodying assets. As such, purely decentralized systems should remain outside the Commission’s jurisdiction.

However, Ava Labs recommends the final rules make clear that CFTC registrants that engage in DeFi activities must remain subject to existing obligations under the CEA and CFTC regulations. If a registered IB, FCM, or DCM provides access to DeFi trading, that entity should ensure those activities are conducted in compliance with its broader obligations concerning customer protection, market integrity, and anti-manipulation safeguards. This balanced approach acknowledges the innovation of DeFi networks while preserving accountability for regulated intermediaries.

F. Public Education and Consumer Protection

Finally, the Commission should pair its regulation with a robust public education initiative. Registered entities engaged in Protocol Token trading should be required to provide clear and accessible educational materials covering:

- **Blockchain fundamentals:** *i.e.*, how distributed ledger systems function in practice.
- **Risk disclosures:** including volatility, liquidity limitations, technological vulnerabilities, and legal uncertainties associated with Protocol Tokens.

- **Market distinctions:** highlighting how Protocol Token markets differ from traditional commodity and securities markets.
- **Fraud awareness:** guidance on identifying common fraud schemes, such as pump-and-dump strategies or phishing scams, and instructions for reporting suspected misconduct.

By making these materials widely available, the Commission will ensure that retail participants—who are increasingly active in Protocol Token trading—are better informed and less susceptible to exploitation.

V. Conclusion

The Commission’s exploration of a regulatory framework for spot Protocol Token markets represents a pivotal moment for U.S. markets. A balanced approach can both empower the CFTC to extend its longstanding authority over intermediaries and to police fraud and manipulation in spot trading of Protocol Tokens—ensuring market participants benefit from the same enforcement tools and investor safeguards that underpin trust in other regulated markets—and preserve the flexibility necessary for technological growth and decentralized innovation. By adopting a clear, Protocol Token-based framework, extending oversight to registered entities already familiar with commodity regulation, and tailoring requirements to the unique risks and features of blockchain systems, the Commission can combine targeted regulatory updates with the proven strengths of the existing commodity oversight framework. This integrated approach would enhance market integrity, foster responsible innovation, provide clarity and credibility for both industry and investors, and ultimately establish a durable model for oversight.

Ava Labs and its Owl Explains project stand ready to work with the Commission and other stakeholders to refine and implement this framework. Ava Labs believes the path outlined here will allow the United States to lead in establishing safe, transparent, and competitive digital asset markets while providing much-needed clarity for innovators, intermediaries, and investors alike.

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Ava Labs appreciates the opportunity to provide comments on these important issues. We look forward to discussing these topics with the Commission further and answering any questions you may have. Please use Lilya Tessler, Partner, Sidley Austin LLP (ltessler@sidley.com or 214-969-3510); Kate Lashley, Partner, Sidley Austin LLP (klashley@sidley.com or 305-391-5203); and Lee A. Schneider, General Counsel, Ava Labs, Inc. (lee@avalabs.org) as your contacts with regard to this letter. Thank you for your attention to this matter.

Sincerely,



Lilya Tessler



Kate Lashley

cc:

Hon. Caroline D. Pham, Acting Chair, Commodity Futures Trading Commission

Hon. Kristin N. Johnson, Commissioner, Commodity Futures Trading Commission

Hon. Paul Atkins, Chairman, Securities and Exchange Commission

Hon. Hester M. Peirce, Commissioner, Chair of the Crypto Task Force, Securities and Exchange Commission

Hon. Mark Uyeda, Commissioner, Securities and Exchange Commission

Hon. Caroline Crenshaw, Commissioner, Securities and Exchange Commission

Sen. John Boozman, Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry

Sen. Amy Klobuchar, Ranking Member of the Senate Committee on Agriculture, Nutrition, and Forestry

Rep. Glenn Thompson, Chairman of the House Committee on Agriculture

Rep. Angie Craig, Ranking Member of the House Committee on Agriculture

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Sen. Tim Scott, Chairman of the Senate Committee on Banking, Housing, and Urban Affairs

Sen. Elizabeth Warren, Ranking Member of the Senate Committee on Banking, Housing, and Urban Affairs

Rep. French Hill, Chairman of the House Committee on Financial Services

Rep. Maxine Waters, Ranking Member of the House Committee on Financial Services

Hon. Patrick Witt, Executive Director of the President's Council of Advisers on Digital Assets of the White House

Hon. Scott Bessent, United States Secretary of the Treasury

Hon. Tyler Williams, Counselor to the Secretary of the Treasury

Hon. Andrew Rittenhouse, Senior Advisor, Department of the Treasury

Hon. Thomas Weidner, Senior Advisor, Department of the Treasury

Hon. Jonathan Hurowitz, Special Advisor, Department of the Treasury

Hon. Frank Sensenbrenner, Senior Specialized Examiner on detail to the Department of the Treasury

Lee A. Schneider, General Counsel, Ava Labs, Inc.

Appendix A **Avalanche Indicative Use Cases**

Tokenization & Finance

- **Inversion Capital**
Custom blockchain focused on crypto-native private equity acquisitions and go-to-market
[Source](#)
- **Apollo Global Management & Securitize**
Partnership to tokenize access to a credit fund using Avalanche and other chains.
[Source](#)
- **BlackRock (via Securitize)**
Launched the BlackRock Digital Liquidity Fund (BUIDL) on Avalanche for tokenized money market funds.
[Source](#)
- **Franklin Templeton**
Tokenized U.S. Government Money Market Fund (Benji Investments) on Avalanche.
[Source](#)
- **KKR (through Securitize)**
Private equity fund tokenization via Avalanche subnets.
[Source](#)
- **Diamond Standard**
Turning diamonds into an investable asset class on Avalanche.
[Source](#)
- **Republic Note**
Profit-sharing digital asset on Avalanche.
[Source](#)
- **Wine Capital Fund**
Tokenization of fine wine portfolios for investment purposes.
[Source](#)
- **Homium**
Issued first home equity loans on Avalanche, enabling fractional real estate ownership.
[Source](#)

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- **Intain**
Launched a dedicated Avalanche L1 to digitize and streamline structured finance transactions.
[Source](#)
- **Citi (On-chain Pricing Smart Contracts)**
Experimentation with blockchain-based bilateral trade execution using Avalanche smart contracts.
[Source](#)
- **Watr**
Avalanche L1 to unlock composability and capital efficiency at scale for global commodities trading
[Source](#)
- **Colombian Neobank Littio with OpenTrade**
Offering interest-bearing USD accounts to Colombian users via Avalanche.
[Source](#)
- **ParaFi**
Tokenized investment funds on Avalanche using Securitize.
[Source](#)
- **Balcony real estate**
Real estate tokenization
[Source](#)
- **Misyon Bank**
Tokenization solution for banking products on Avalanche.
[Source](#)
- **Lemonade Insurance**
Smart contracts powering climate insurance in rural regions
[Source](#)
- **Re (Decentralized Reinsurance Marketplace)**
Built on Avalanche for on-chain reinsurance solutions.
[Source](#)

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Cross-Border Payments

- **StraitsX**
Simplifying cross-border payments in Southeast Asia via Avalanche and AvaCloud.
[Source](#)
- **Fonbnk**
Building Avalanche on-ramps for cross-border payments in Sub-Saharan Africa.
[Source](#)
- **Visa-Powered Avalanche Card**
A cryptocurrency card integrated with Avalanche for global transactions.
[Source](#)
- **Nonco**
(FX) On-Chain initiative, bridging institutional FX liquidity and activity with the growing stablecoin market
[Source](#)

Privacy, Security & Data Integrity

- **California DMV**
Using Avalanche for digital vehicle titles and fraud prevention.
[Source](#)
- **Deloitte**
Building solutions for disaster recovery and fraud prevention using Avalanche.
[Source](#)
- **Chainlink & Balcony**
Leveraging Avalanche for secure data oracles and real estate tokenization compliance.
[Source](#)
- **Bergen County, New Jersey**
Land records management with Avalanche for transparency and security.
[Source](#)
- **Kinexys and J.P. Morgan**
Experimenting with Avalanche for privacy-preserving finance and settlement infrastructure.
[Source](#)

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Gaming, Ticketing & Consumer Apps

- **Off the Grid by Gunzilla Games**
Blockchain-based FPS game available on PC and Consoles
[Source](#)
- **Maplestory**
Nexon Group, the global game giant and pioneer of the free-to-play model, launched an Avalanche L1 for the Maplestory IP
[Source](#)
- **Zero one**
All-in-one onchain ecosystem for artists and collectors, available on mobile
[Source](#)
- **Uptop**
The Fan Rewards Superapp, powering Pistons and Cavs fan programs
[Source](#)
- **Youmio**
Custom blockchain for tokenization of AI agents
[Source](#)
- **Independent filmmaking**
Fundraising for filmmaking projects
[Source](#)
- **Sports Illustrated Tickets**
NFT ticketing platform powered by Avalanche.
[Source](#)
- **Tixbase**
NFT-based ticketing solution migrating to Avalanche with global event partnerships.
[Source](#)
- **SK Planet**
Loyalty rewards and consumer engagement programs on Avalanche.
[Source](#)