

July 31, 2023

BY E-MAIL

General Secretariat
The International Organization of Securities Commissions
1 Oquendo 12, 28006
Madrid, Spain

Re: Public Comment on IOSCO’s Consultation Report on Policy Recommendations for Crypto and Digital Asset Markets

To Whom It May Concern,

We greatly appreciate this opportunity to respond to the consultation report entitled “Policy Recommendations for Crypto and Digital Asset Markets” (the “**Consultation**”), issued by the International Organization of Securities Commissions (“**IOSCO**”) on May 23, 2023.¹ Andreessen Horowitz (“**a16z**”) is committed to working with international officials and regulators to address the specific risks and opportunities in the blockchain and web3 ecosystems.

We believe that blockchain technology is a revolutionary advance in the development of the Internet. Since it was first developed in 2008, the blockchain ecosystem has grown rapidly, and our firm has been at the forefront of advancing the industry through investments in web3 companies that develop products and services relating to decentralised social networks, identity management, enterprise solutions, financial services, content creation, environmental protection, data storage, and many other sectors. As an industry leader, we have also assisted domestic and international regulators and officials with education around the unique attributes of decentralised systems, as well as the development of clear and robust regulatory frameworks that are appropriately calibrated to those attributes. We hope to channel our industry observations in providing helpful feedback to the Consultation.

As an initial matter, we support IOSCO’s focus on centralised crypto-asset service providers (“**CASPs**”). In our view, the question is not, and has never been, whether there should or should not be web3 regulation. Rather, the question is at which layer of the blockchain technology stack does regulation make the most sense.² We would agree that centralised businesses—rather than decentralised protocols or software—are the most appropriate target for regulation and would support many of the proposals included in the Consultation insofar as they are solely applied to centralised businesses.

In addition, we appreciate IOSCO’s outcomes-focused, principles-based approach set out in the Consultation, and its decision to avoid a one-size-fits-all regime or prescriptive taxonomy for the industry. We recognize that the guiding principle of “same activity, same risks, same regulatory outcomes” adopted by the Consultation makes a nuanced departure from a principle adopted by other

¹ Int’l Org. of Sec. Comm’ns, Policy Recommendations for Crypto and Digital Asset Markets Consultation Report (May 2023), <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD734.pdf>.

² In our “Regulate Web3 Apps, Not Protocols” series, we argue that regulation of web3 should focus on centralised / business-owned applications and onboarding access points to decentralised protocols, rather than the software protocols themselves. Our position is based on historical precedent (*i.e.*, early Internet protocols like SMTP, HTTP, and TCP were allowed to develop on an open-source, decentralised basis) and the technical reality that autonomous software protocols cannot comply with subjective, often-conflicting global regulatory obligations. For more information see our “Regulate Apps, Not Protocols” series, which is available at <https://a16zcrypto.com/posts/series/regulate-apps-not-protocols-ranp/> (Miles Jennings, *Regulate Web3 Apps, Not Protocols*, a16z Crypto (Sept. 2022); Miles Jennings & Brian Quintenz, *Regulate Web3 Apps, Not Protocols Part II: Framework for Regulating Web3 Apps*, a16z Crypto (Jan. 2023); Miles Jennings, *Regulate Web3 Apps, Not Protocols Part III: The Web3 DAO Dilemma*, a16z Crypto (Jan. 2023); Miles Jennings & Brian Quintenz, *Regulate Web3 Apps, Not Protocols Part IV: Practical Application*, a16z Crypto (Feb. 2023)).

regulators — that of “same activity, same risk, same regulation.”³ We are encouraged that the Consultation’s guiding principle recognizes that regulatory frameworks should seek to achieve regulatory outcomes for investor protection and market integrity that are the same as, or consistent with, those required in traditional financial markets, but that it will not always be effective to apply the same form of regulation to achieve the same regulatory outcome. Nevertheless, we believe the principle of “same activity, same risk, same regulatory outcome” may be ill-suited to web3 technology depending on how the phrase is translated. Two activities can indeed be the same in substance, but the technology employed and the manner in which they are carried out can give rise to substantially different risks. For example, when a user decides to exchange crypto-assets by interacting with open-source, permissionless, and autonomous smart contracts, the user is exposed to substantially lower counterparty risk as compared to a user who exchanges crypto-assets through a proprietary platform hosted by a centralised crypto-asset service provider. Traditional regulatory frameworks tend to focus on “trusted” financial intermediaries — precisely the same entities for which blockchains seek to provide an alternative. At the same time, these frameworks are generally not designed to account for novel aspects of blockchain technology, including decentralisation, transparency, immutability, peer-to-peer features, and other important characteristics. For the foregoing reasons, when confronted with a crypto-asset activity that mirrors a traditional business activity, we would encourage IOSCO to evaluate the extent to which the use of blockchain technology has changed the risk profile of such activity. If this distinction of risk is incorporated into the concept of “regulatory outcomes,” then we would support such an overarching framework.

This response letter is divided into three parts: *First*, we provide a brief overview of a16z. *Second*, we provide an explanation of our vision for web3 and the essential importance of decentralisation. *Third*, we provide comments in response to some of the specific questions included in the Consultation.

I. About a16z

Andreessen Horowitz, also referred to as a16z, is a venture capital firm that backs entrepreneurs building the future through technology. We invest in seed, venture, and late-stage technology companies, focused on bio / healthcare, consumer, crypto, enterprise, fintech, and games. The firm currently has more than \$35 billion in committed capital under management across multiple funds, with more than \$7.6 billion for our crypto funds.

a16z aims to connect entrepreneurs, investors, executives, engineers, academics, industry experts, and others in the technology ecosystem. We have built a network of experts, including technical and executive talent, top media and marketing resources, Fortune 500 / Global 2000 companies, as well as other technology decision makers, influencers, and key opinion leaders. a16z uses this network as part of our commitment to helping our portfolio companies grow their businesses.

At a16z, we believe we need an Internet that can foster competition and mitigate the dominance of large technology companies, unlock opportunities for the millions on the margins of the innovation economy, and enable people to take control of their digital information. The solution is web3 — the third generation of the Internet — a group of technologies that encompasses digital assets, decentralised applications and finance, blockchains, crypto-assets, and decentralised autonomous organisations. Together, these tools enable new forms of human collaboration. They can break through the stalemates that define too many aspects of public life and help communities make better collective decisions about critical issues, such as how networks will evolve and how economic benefits will be distributed. We are radically optimistic about the potential of web3 to restore trust in institutions and expand access to opportunity.

³ E.g., Financial Stability Board, International Regulation of Crypto-asset Activities: A proposed framework - questions for consultation (Oct. 2022), <https://www.fsb.org/2022/10/international-regulation-of-crypto-asset-activities-a-proposed-framework-questions-for-consultation/>

Within web3, we primarily invest in companies using blockchain technology to develop protocols that will give the Internet new native functionality — Internet infrastructure that millions of people will be able to build on top of to launch their own Internet businesses. To that end, we take a long-term view with respect to all of our investments, and our funds typically have a 10-year time horizon. We do not speculate in short-term crypto-asset price fluctuations and our focus is instead on empowering entrepreneurs to build robust and rich ecosystems that will benefit billions of people.

II. Web3 and Decentralisation

Over the past three decades, arguably no technology has impacted people’s lives more than the Internet. But, just like any technology, the ways that individuals interact with the Internet have changed over time. The Internet can be viewed in three distinct eras: web1, web2, and web3. Each era brought its own new utility to consumers: the ability to read, the ability to write, and now the ability to own. In particular:

- **Web1 - Read (1990 - 2005).** The key feature of web1 was that it was governed by free and open software, commonly referred to as open protocols. Open protocols are not owned by an individual or a company and operate like public utilities. Users of the early Internet were frequently met with open protocol acronyms like HTTP or SMTP — the foundational code for web access / websites and email, respectively. These protocols served as base layer utilities, and their open nature allowed companies like AOL and Netscape to offer easy-to-use services built on top of them. The hallmark of this era of the Internet was the ability to take offline readable material and put it online. Most Internet users of this era were only able to consume information but were limited in their ability to interact. This was the “read” era.
- **Web2 - Read, Write (2005 - 2020).** Building off of the core open protocols used in web1, entrepreneurs and developers created new Internet technology to enable people to interact and collaborate with one another online. For the first time, users could be interactive online. Instead of simply reading the *Financial Times* on a web browser, individuals could now create websites like Facebook, Twitter, and YouTube, where anyone could be their own publisher or broadcaster. These advancements helped accelerate and democratise access to information and communities. In the early days of web2, competition thrived. But over time, participation and economic power consolidated with a handful of large companies. Today, millions of people have built successful businesses based on the access these centralised organisations provide (influencers through Instagram, craftspeople through Etsy, entertainers through YouTube, for example), but most of the economic value flows to the centralised platform and not the small business / user.⁴ These entities can also choose to deplatform an individual user at any time or censor / promote content. The Internet went from open and buildable to closed and controlled. This was the “read and write” era of the Internet.
- **Web3 - Read, Write, Own (2020 - Present).** We are now at the very beginning of the web3 era, which combines the easy-to-use “read and write” functionality of web2 with the ability for users, rather than centralised companies, to, for the most part, own the Internet. In particular, web3 technology enables a new paradigm featuring “trustless computation,” which removes the need to rely on a centralised entity to navigate the web and databases. This makes it possible to develop more complex and sophisticated protocols that offer the functionality of web2 but that can also be owned by users. In addition, it enables users and builders to own their contributions to networks, their intellectual property, and their digital identities, which ownership is denoted in crypto-assets. For example, the current business model for Twitter provides next to no economic value for individuals who publish on the platform. All of the

⁴ Daren Matsuoka, Eddy Lazzarin, Robert Hackett, & Stephanie Zinn, *2023 State of Crypto Report: Introducing the State of Crypto Index*, a16z Crypto (Apr. 2023), p.7, <https://a16zcrypto.com/posts/article/state-of-crypto-report-2023/>.

value accrues to the company, which has the ability to decide who can participate. In web3, a high-performing user or post accrues most of the economic value⁵, and the community of users, through a public voting process and open source code, decides who can participate and post. This structure fixes the core problem of web2 centralisation, where the value is accumulated by one company, and the company ends up fighting its own users and partners. This is the “read, write, and own” era.

Decentralisation is *the* critical feature of web3 systems that enables this paradigm shift and is therefore what will drive the creation of a democratised Internet.⁶ Therefore, in developing a regulatory framework applicable to centralised CASPs, IOSCO should consider whether the presence of decentralisation in a particular web3 system obviates the risks that a specific regulation applicable to centralised intermediaries is intended to address. If decentralisation negates the risk, then the application of such regulation to a CASP may be unnecessary. Further, because decentralised blockchain technology acts as public goods infrastructure, which benefits users, developers, and other stakeholders, we strongly believe that any regulatory framework for CASPs should ensure that obligations placed on issuers and trading venues do not impede the ability of web3 projects to decentralise.

III. Comments in Relation to Specific Consultation Questions

Below, we have included our comments in response to specific questions in the Consultation. We would like to thank IOSCO for its comprehensive engagement with the crypto industry, and its decision to first seek comment on CASPs and to do the same for decentralised web3 ecosystems later this summer. We look forward to continued engagement with IOSCO regarding these issues.

⁵ Chris Dixon, Crypto Tokens: A Breakthrough in Open Network Design, Medium (Jun. 2017), <https://medium.com/@cdixon/crypto-tokens-a-breakthrough-in-open-network-design-e600975be2ef>.

⁶ Decentralisation is a broad term that can be viewed through multiple lenses — including from a technical, economic, and legal perspective. Similarly, there are multiple factors to consider in analysing a particular blockchain project’s level of decentralisation through each lens. For a more extensive discussion of decentralisation, see Miles Jennings, *Principles & Models of Web3 Decentralisation*, Andreessen Horowitz (Apr. 2022), https://a16z.com/wp-content/uploads/2022/04/principles-and-models-of-decentralisation_miles-jennings_a16zcrypto.pdf; Miles Jennings, Stephen Wink & Adam Zuckerman, *Factors of decentralization of web3 protocols: Tools for planning greater decentralization* (May 2023), <https://a16zcrypto.com/posts/article/decentralization-factors-web3-protocols-tables/>.

	Consultation Questions	a16z Comments
2	<p>Do respondents agree that regulators should take an outcomes-focused approach (which may include economic outcomes and structures) when they consider applying existing regulatory frameworks to, or adopting new frameworks for, crypto-asset markets?</p>	<ul style="list-style-type: none"> We agree that regulators should take an outcomes-focused approach when considering existing or new regulatory frameworks for crypto-asset markets. We also agree that it would be appropriate for regulators to consider (1) the extent to which crypto-assets are, or behave like substitutes for regulated financial instruments; and (2) whether investors have substituted other financial instrument activities with crypto-assets. As discussed further in our response to Question 9 of the Consultation, as part of the first consideration, regulators should also assess the centralised or decentralised nature of a given crypto-asset on a case-by-case basis, as it can have a substantial impact on a crypto-asset’s underlying risk profile. With respect to the second consideration, we believe the extent to which investors substitute traditional financial instrument activities for crypto-asset activities may provide a useful indicator of the systemic risks potentially posed by crypto-asset activities. Nevertheless, the primary inquiry in crafting regulation for crypto-assets should focus on each crypto-asset’s qualities and the manner in which they are disseminated.
3	<p>Does Chapter 2 adequately identify the potential conflicts of interest that may arise through a CASP’s activities? What are other potential conflicts of interest which should be covered?</p>	<ul style="list-style-type: none"> In our view, IOSCO has identified the primary conflicts of interest that may arise through centralised CASP activities. We also agree that vertical integration can exacerbate conflicts of interests, and the potential for fraud, financial mismanagement, or incompetence of managerial teams could affect consumer welfare and market stability. These risks can be appropriately regulated and managed, much like they are in traditional financial conglomerates. Where centralised CASP activities give rise to substantially the same risks as those found in traditional financial markets — and blockchain technology does not mitigate such risks (for example, through increased transparency) — traditional regulatory frameworks should provide a helpful starting point for regulators to consider in developing crypto-specific regulation.
9	<p>Will the proposed listing/delisting disclosures in Chapter 4 enable robust public disclosure about traded crypto-assets? Are there other mechanisms that respondents would suggest to assure sufficient public disclosure and avoid</p>	<ul style="list-style-type: none"> We agree disclosures may be necessary to impose on CASPs facilitating trade activity as a business and generally agree that the specific disclosures discussed in Chapter 4 would be reasonable. However, we would strongly caution IOSCO against extending such “centralised” disclosure requirements or similar regulatory obligations to decentralised crypto-assets. Decentralised crypto-assets primarily derive their value from decentralised sources, such as market forces, user demand for the underlying

<p>information asymmetry among market participants?</p>	<p>protocol, and the number of developers building on top of the protocol, rather than the managerial efforts of a single development team. These assets are typically (i) utilised in the functioning of a decentralised web3 protocol, (ii) provide holders with governance rights with respect to the protocol, and / or (iii) provide holders with a claim to the protocol’s profits and assets. Given the transparent nature of most blockchains, all relevant information about these assets can typically be found on-chain, and given that the protocol functions autonomously, no ongoing managerial efforts are required to generate protocol profits or asset values. As a result, all potential holders of decentralised crypto-assets have access to the information necessary to value the assets and can trade them on a level playing field. Conversely, centralised crypto-assets primarily derive their value from centralised sources, such as the managerial efforts of a development team. While these assets can provide the same utility and functionality as decentralised crypto-assets, the centralisation increases the likelihood that significant information asymmetries relating to the value of the centralised crypto-assets may arise. In addition, centralised crypto-assets can also represent more traditional financial instruments like bonds or shares. As a result, regulatory frameworks for web3 should have a lighter touch for decentralised crypto-assets (where risks to consumers are lower) and a heavier hand for centralised crypto-assets (where risks to consumers are higher).</p> <ul style="list-style-type: none"> ○ In particular, we note that the Consultation highlights that there “tends to be little, if any, verifiable continuous information provided about or by the crypto-asset issuer”.⁷ While traditional issuer-centric disclosure regimes may be appropriate for centralised crypto-assets, they are neither appropriate nor particularly useful for decentralised crypto-assets. Information about the developer or original issuer of decentralised crypto-assets should be of little relevance to the public given that decentralised crypto-assets do not carry a claim on the original issuer’s finances, and their value does not significantly depend on the activities of the original issuer. In fact, such disclosure could be harmful as it could give acquirers of the crypto-assets the mistaken impression that the issuer has an ongoing obligation to drive the value of the crypto-asset, similar to the obligations of issuers of more traditional financial instruments like bonds and shares. For these reasons, issuer-centric disclosure regimes may be
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⁷ Int’l Org. of Sec. Comm’ns, Policy Recommendations for Crypto and Digital Asset Markets Consultation Report, p.6.

		<p>appropriate for centralised crypto-assets given their reliance on management teams, but not for decentralised crypto-assets.</p> <ul style="list-style-type: none"> ○ If disclosures must be required for decentralised crypto-assets, we would strongly recommend that such disclosures are capable of being satisfied by publicly-available information or on-chain data. Without this exception, disclosure obligations could necessitate re-centralisation of web3 ecosystems to comply with the regulation — undermining the very decentralisation that mitigates legacy business risk.
<p>19</p>	<p>What other point of sale / distribution safeguards should be adopted when services are offered to retail investors?</p>	<ul style="list-style-type: none"> ● We support IOSCO’s recommendation to implement systems, policies and procedures, and disclosure in relation to onboarding new clients. We also agree that this should include assessing the appropriateness and suitability of particular crypto-asset products (e.g., the extent to which a crypto-asset is decentralised) and services. Such assessments would build upon Recommendation 6’s proposal to implement substantive and procedural listing standards. ● However, further clarity regarding the Consultation’s proposed suitability and appropriateness assessments is required to fully understand the implications of Recommendation 18. As written, Recommendation 18 may indicate that suitability and appropriateness assessments should be made with respect to a CASP’s customers’ subjective knowledge. We would not support requiring that CASPs develop subjective assessments to determine whether a prospective customer can or cannot access crypto-assets or services facilitated by CASPs. First, we do not believe CASPs are well-positioned to function as official gatekeepers for an individual consumer’s access to crypto-assets and blockchain technology. Second, it would be extremely difficult to devise an assessment in any objective and comprehensive manner that could reasonably deduce whether a prospective customer “does not demonstrate sufficient knowledge [of web3]”⁸. Web3 as an industry is still in a nascent stage of development with new computing primitives and use cases (many of which are primarily non-financial in nature) emerging every day. As a result, such an assessment would likely also require frequent updates as the industry and technology matures.

⁸ Ibid., p.39.

		<p>Ultimately, where conflicts of interest are mitigated by well-tailored regulation (<i>e.g.</i>, the Consultation’s recommendation to require CASPs to disclose their order-routing procedures to regulators to prevent front-running of trades), and reasonable disclosures regarding crypto-assets are furnished by CASPs to users (<i>e.g.</i>, the Consultation’s recommendation to disclose crypto-asset operational descriptions and protocols for transfers), users should be empowered to decide for themselves whether to acquire crypto-assets.</p>
21	<p>Are there additional features of stablecoins which should be considered under Chapter 10? If so, please explain.</p>	<ul style="list-style-type: none"> • We generally agree that the Consultation’s proposals should be extended to centralised stablecoins similar to centralised crypto-assets. We would also support regulators evaluating the processes by which centralised stablecoin issuers acquire, liquidate, and administer collateral in relation to their stablecoin holders. Nevertheless, we would like to highlight that while stablecoins are often used to facilitate trading, lending, and borrowing activities on crypto-asset platforms and DeFi applications as the Consultation points out, they are also increasingly used as a store of value and a means of exchange for goods and services. In particular, stablecoins can be particularly useful in jurisdictions where persistent inflation threatens wealth preservation, access to traditional financial services are limited, or political instability complicates asset protection.^{9,10}

⁹ *Latin America’s Key Crypto Adoption Drivers: Storing Value, Sending Remittances, and Seeking Alpha*, Chainalysis (Oct. 2022), <https://blog.chainalysis.com/reports/latin-america-cryptocurrency-geography-report-2022-preview/>.

¹⁰ Eltaf Najafizada, *Afghan Crypto Buyers Aren’t Trying to Strike it Rich. They’re Just Trying to Keep What They Have Out of The Taliban’s Reach*, Fortune (Apr. 2022), <https://fortune.com/2022/04/24/afghan-crypto-buyers-keep-money-out-of-taliban-reach-stablecoin-herat/>.