August 30, 2026

Securities and Exchange Commission

100 F Street NE

Washington, DC 20549-1090

Re: **Request for Comment on Novel ETFs (Release No. 33-11426; 34-105808; IC-36228; File No. S7-2026-24)**
https://www.federalregister.gov/documents/2026/07/02/2026-13423/request-for-comment-on-novel-etfs

Submitted: **VIA EMAIL** rule-comments@sec.gov https://www.sec.gov/rules/sro.shtml

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Dear Commissioners,

Chainalysis is the blockchain data platform. We provide data, software, services, and research to government agencies, exchanges, financial institutions, and cybersecurity companies in over 70 countries. Our infrastructure supports investigation, compliance, and market surveillance operations globally.

Foreword

Three core positions underpin our response.

First, blockchain-based Novel ETFs provide an opportunity for enhanced market surveillance compared to many traditional asset classes. On-chain data creates supervisory capabilities that do not exist for ETFs holding illiquid, OTC, or opaquely traded assets. We set out the evidence for this in Section I.

Second, blockchain analytics-enabled programs are superior to categorical asset-class exclusions as regulatory safeguards. Illicit activity rates for major crypto assets are lower than many assume, and granular risk assessment is possible. Blanket portfolio restrictions are unnecessary when such tools exist. We make this case in Section II.

Third, technology-enabled disclosure leveraging native blockchain transparency should replace static text warnings for crypto Novel ETFs. Products based on public ledgers can provide real-time, verifiable, machine-readable transparency that traditional ETF disclosures cannot match. We propose a specific framework in Section III.

These proposals carry implementation costs for issuers and exchanges, but they are proportionate to the investor protection benefits and leverage infrastructure that major market participants have already deployed for existing compliance obligations.

Summary of Key Recommendations

1. Exchanges listing blockchain-based Novel ETFs should deploy monitoring systems and report on their analytical coverage and identified gaps. (Section I, Question 5)

2. The Commission should condition Rule 6c-11 reliance for crypto Novel ETFs on analytics-enabled compliance programs as a more targeted alternative to imposing blanket minimum securities holdings or categorical asset-class exclusions. (Section II, Question 6)
3. Blockchain-based Novel ETFs should provide technology-enabled disclosure: daily on-chain portfolio snapshots, independent NAV verification, counterparty exposure metrics, and smart contract risk assessments, delivered through standardized machine-readable formats. (Section III, Question 26)
4. A tiered regulatory framework distinguishing Novel ETFs by supervisory capability rather than asset class would better serve investor protection: streamlined review for transparent-holding ETFs with mandatory analytics, extended review for those lacking comparable transparency. (Section IV, Question 27)

I. Market Surveillance and Investor Protection for Novel ETFs

Relevant to Questions 5 and 9

Public blockchain architecture enables monitoring capabilities unavailable for traditional ETFs. Every transaction is recorded permanently with timestamp, sender, recipient, amount, and associated metadata, all cryptographically verified, visible to any observer with appropriate infrastructure, and free from selective reporting or delayed disclosure.

Blockchain Transparency as Supervisory Infrastructure

Four supervisory capabilities flow from this structure, each addressing a specific concern the Commission raised in Question 5.

A. First, real-time portfolio monitoring enables continuous verification that Novel ETF holdings match disclosed investment strategies. Platforms track every wallet address in custody arrangements, watching inflows and outflows as they occur. Authorized participants can verify that creation and redemption activity aligns with reported NAV calculations. They should also conduct counterparty due diligence on custodians and liquidity providers using on-chain exposure analysis, and verify on-chain settlement of creation and redemption baskets independently. Regulators can independently assess whether fund managers execute disclosed strategies or deviate through undisclosed positions. This addresses the Commission's concern about the ETF arbitrage mechanism functioning.

B. Second, cross-platform manipulation detection identifies coordinated trading activity across multiple exchanges and DeFi (DeFi) protocols simultaneously. Address attribution links activity across venues, enabling detection of wash trading and coordinated activity spanning multiple platforms. When a trader manipulates prices through coordinated buy orders on three exchanges, the activity leaves a visible footprint through shared wallet addresses or common funding sources. This addresses the Commission's concern about maintaining fair, orderly, and efficient markets.

C. **Third, counterparty exposure assessment** provides transparency into Novel ETF transaction counterparties and associated risks. Analytical platforms attribute wallet addresses to known entities, exchanges, custody providers, DeFi protocols, sanctioned actors, and addresses linked to theft or fraud. Attribution coverage prioritises the counterparties that matter most for investor protection: major exchanges, custody providers, and sanctioned entities.This addresses the Commission's concern about investor protection.

D. **Fourth, smart contract monitoring** detects security vulnerabilities, anomalous governance activity, and protocol-level risks in DeFi protocols where Novel ETFs may hold positions. Continuous monitoring platforms track protocol dependencies and alert when things break, enabling rapid response rather than reliance on point-in-time audits. Contract analysis scans protocol code for common vulnerability patterns, assesses whether administrative keys create centralisation risks, and evaluates whether price oracles resist manipulation. This addresses the Commission's concern about structural and operational issues.

These four capabilities do not eliminate risk. They make certain risks visible, measurable, and actionable in ways that traditional ETF asset classes cannot match. But there are gaps, and it is worth being direct about both what analytics can mitigate and what it cannot.

Blockchain analytics can monitor ETF custody wallet addresses continuously for unexpected outflows, internal transfers suggesting poor key management, or interactions with high-risk addresses. Traditional ETF custody arrangements relying on periodic reconciliation provide no equivalent real-time breach detection capability.

Privacy-preserving protocols including Zcash and Monero obscure transaction details through cryptographic techniques. Address attribution identifies when funds enter privacy protocols but often cannot trace flows within them. Whether Rule 6c-11 conditions should exclude privacy-preserving assets or require enhanced disclosure when Novel ETFs hold such positions merits Commission consideration.

Cross-chain bridge vulnerabilities create custody risks that analytics can identify but not prevent. Bridge exploits represented over two billion dollars in losses during 2022 according to Chainalysis research. Monitoring can detect when funds move through vulnerable bridge infrastructure, but cannot stop an exploit in progress.

Native blockchain transparency strengthens rather than weakens the case for maintaining generic listing standards for crypto Novel ETFs. Exchanges deploying monitoring systems can detect manipulation, wash trading, and layering in crypto markets with greater precision than traditional supervisory tools because every trade leaves a permanent record, every counterparty relationship is mappable, and every funding source is traceable.

Recommendation: We recommend that, rather than restricting generic listing standards for blockchain-based Novel ETFs, the Commission clarifies through IM guidance that exchanges listing such products deploy monitoring systems meeting defined standards. Exchanges should document their analytical deployment, coverage scope, and identified gaps through periodic reporting.

II. Portfolio Requirements and Rule 6c-11 Amendments

Relevant to Question 6

Portfolio restrictions operate as blunt instruments, in theory imposing identical treatment on a Novel ETF holding Bitcoin that trades on regulated United States exchanges with comprehensive address attribution and one holding illiquid tokens trading exclusively on unregulated offshore venues. Minimum securities holdings thresholds or concentration limits will therefore conflate distinct risk profiles without regard to measurable differences in transparency or supervisory capability.

The illicit share of all attributed crypto transaction volume remains below one percent according to the 2026 Chainalysis Crypto Crime Report. These rates reflect successful deployment of address attribution and sanctions screening across major exchanges and custody providers. Categorical restrictions that group such asset classes with assets that have materially higher illicit exposure ignore this risk differentiation.

Categorical asset-class exclusions foreclose innovation in areas where native transparency provides genuine investor protection advantages. A Novel ETF holding tokenised financial instruments on a public blockchain would combine the credit quality of the underlying assets with on-chain verifiability of fund holdings. Analytical platforms, auditors, and authorized participants could confirm independently that the fund holds what it claims without relying solely on periodic issuer disclosures. Categorical restrictions treating all blockchain-based instruments as non-securities would prohibit such products despite offering greater holdings transparency than traditional bond ETFs with opaque over-the-counter pricing.

Analytics-Enabled Programs as Alternative Framework

If the Commission requires analytics deployment as a condition of Rule 6c-11 reliance, it addresses investor protection without foreclosing innovation. An analytics-enabled compliance program for crypto Novel ETFs should cover three capabilities:

1. **Sanctions screening:** real-time comparison of all ETF transactions and counterparties against OFAC designated addresses, with defined maximum screening latency and detection rate requirements.
2. **Illicit counterparty detection:** assess counterparties against attribution databases to identify addresses linked to darknet markets, ransomware, theft, fraud, or sanctioned jurisdictions, with materiality thresholds and documented investigation protocols.
3. **Suspicious activity identification:** behavioural analysis to detect wash trading across linked addresses, structuring activity, and anomalous transaction flows from custody wallets that is inconsistent with disclosed investment strategies or other evidence sources.strategy, with documented investigation procedures and suspicious activity report filing to FinCEN where Bank Secrecy Act obligations apply.

Defining what the required capabilities are through performance standards rather than mandating specific technologies or vendors allows flexibility while ensuring the outcomes it is seeking. Performance standards should be vendor-neutral, applying equally to all analytical providers, and should not require disclosure of proprietary methodologies. Issuers

should submit program descriptions in Rule 485(a) registration statements demonstrating how deployed systems meet these standards, with periodic attestations from independent auditors verifying performance against benchmarks.

Diversification and Concentration Limits

Traditional diversification rules rely on security-level identification through CUSIP numbers or similar identifiers, which many crypto assets lack while specific concentration limits are also a poor fit. A Novel ETF restricted to twenty-five percent maximum holdings in any single crypto asset could satisfy the limit by spreading positions across multiple blockchain networks or protocol versions that represent economically identical exposure. The rule would be met on paper while concentration risk remained unchanged.

Analytics-enabled programs address concentration risk more effectively through counterparty exposure assessment. Rather than limiting holdings in specific assets, issuers demonstrate they have diversified their counterparty relationships through transaction analysis. A Novel ETF executing trades across multiple exchanges, maintaining custody relationships with diverse providers, and avoiding concentrated exposure to individual DeFI protocols would present lower operational risk than a fund satisfying formal diversification rules while maintaining all positions with a single custodian.

Recommendation. Rather than amending Rule 6c-11 to impose minimum securities holdings, diversification requirements, concentration limits, or categorical asset-class exclusions, the Commission should issue IM guidance conditioning Rule 6c-11 reliance for Novel ETFs investing primarily in blockchain-based assets on deployment of analytics-enabled compliance programs. Programs should address sanctions screening, illicit counterparty assessment, and suspicious activity identification, with performance standards developed in consultation with OFAC, FinCEN, and industry participants. Meanwhile, issuers should submit program descriptions in Rule 485(a) registration statements detailing deployed systems and independent audit procedures.

III. Disclosure Requirements for Blockchain-Based Novel ETFs

Relevant to Questions 7 and 26

Form N-1A registration statements rely on narrative descriptions of investment strategies, principal risks, and portfolio composition. Holdings are disclosed through quarterly N-PORT filings with a sixty-day lag. For ETFs holding private debt, over-the-counter derivatives, or securities trading on foreign exchanges, this means investors cannot independently verify portfolio holdings in real time, monitor trading activity between disclosure dates, or assess whether fund managers execute disclosed strategies without deviation.

However, every transaction that a Novel ETF executes on a public blockchain creates a permanent record: timestamp, counterparties, amounts, and associated smart contract interactions. Institutional investors, authorized participants, and auditors with access to blockchain analytics tools can verify portfolio holdings daily and monitor trading activity in real time. Fund managers themselves can provide retail investors with richer, more timely

disclosure because blockchain analytics gives them continuous visibility into their own holdings, counterparty exposures, and transaction history. Retail investors also benefit indirectly: the same on-chain transparency enables independent scrutiny by journalists, academics, and regulators that holds fund managers accountable. This is a structural improvement over traditional disclosure where both the quality of information and the ability to verify it depend entirely on the issuer's own reporting.

Technology-Enabled Disclosure Framework

Four categories of technology-enabled disclosure should be required for blockchain-based Novel ETFs as a condition for Rule 6c-11 reliance. All four are operationally feasible today using existing analytical infrastructure.

1. **First**, daily portfolio snapshots presenting current holdings across all custody wallet addresses, with asset quantities, market values, and links to blockchain explorers enabling independent verification.
2. **Second**, independent NAV verification, where authorized participants and auditors can check reported NAV against their own calculations using on-chain holdings data and the issuer's published pricing methodology. This is feasible where analytical platforms provide holdings data and issuers publish their pricing methodologies, weighting conventions, and adjustment factors.
3. **Third**, counterparty exposure metrics disclosing concentration risk across exchanges, custody providers, and DeFi protocols, including percentage of assets held with each counterparty and material changes in counterparty relationships.
4. **Fourth**, smart contract monitoring for DeFi protocol positions, providing continuous detection of security vulnerabilities, anomalous governance activity, and protocol-level risks. This is operational today for enterprises monitoring protocol dependencies, enabling rapid incident response rather than reliance on point-in-time audits.

These disclosures should be delivered through standardized machine-readable formats enabling analytical platforms, data vendors, and investor tools to consume the data directly. The Commission should coordinate with industry bodies to develop uniform specifications.

Recommendation. The Commission should require technology-enabled disclosure for Novel ETFs investing primarily in blockchain-based assets as a condition for Rule 6c-11 reliance. Required capabilities should include daily portfolio snapshots with blockchain explorer links, independent NAV verification enabling independent calculation, counterparty exposure metrics showing concentration across exchanges and protocols, and smart contract monitoring providing continuous vulnerability detection and incident response for DeFi positions. Implementation should occur through standardized machine-readable formats. The Commission should coordinate with industry standards bodies to develop uniform specifications.

IV. Comprehensive Regulatory Framework for Novel ETFs

Relevant to Questions 10, 11, 12, 13, 15, 16, 23, 24, and 27

The supervisory, portfolio, and disclosure frameworks proposed in Sections I through III point toward a single organising principle: regulate Novel ETFs by supervisory capability, not asset class. We propose a two-tier framework based on supervisory capability.

- **Tier One** encompasses blockchain-based Novel ETFs with transparent holdings where analytical infrastructure enables real-time portfolio monitoring, verifiable NAV calculation, and cross-platform surveillance. Tier One classification should require that the underlying asset trades on at least one venue with observable liquidity, that custody infrastructure is operational, and that monitoring systems are deployed, at the time of effectiveness. These Novel ETFs should maintain current automatic effectiveness periods under Rule 485(a) with mandatory analytical deployment as described in Section II. Exchanges listing Tier One Novel ETFs under generic listing standards should demonstrate monitoring systems meeting performance standards for sanctions screening, illicit counterparty detection, and manipulation pattern identification.
- **Tier Two** encompasses Novel ETFs investing in assets lacking comparable transparency: private assets, over-the-counter derivatives, illiquid securities trading on opaque venues, or instruments where independent verification of holdings and pricing is not operationally feasible. These Novel ETFs should face extended effectiveness periods beyond current 75-day and 60-day automatic effectiveness thresholds, enhanced disclosure requirements exceeding Form N-1A baseline standards, or both depending on specific asset characteristics and associated risks.

This framework addresses the Commission's investor protection and market integrity concerns while avoiding categorical restrictions that foreclose blockchain-based innovation offering genuine transparency advantages. The tiering criterion is supervisory capability, not asset class labels. Consider the following scenarios:

A. Novel ETF holding tokenized United States Treasury securities on a public blockchain. This qualifies as Tier One despite investing in blockchain-based instruments.
B. Novel ETF holding equity securities in thinly traded foreign companies with limited public float. This qualifies as Tier Two despite holding traditional securities.

Recommendation. The Commission should adopt a tiered regulatory framework distinguishing Novel ETFs by underlying asset supervisory capability rather than asset class. Tier One blockchain-based Novel ETFs with transparent holdings should maintain current automatic effectiveness periods with mandatory analytical deployment meeting defined performance standards. Tier Two Novel ETFs lacking comparable transparency should face extended effectiveness periods, enhanced disclosure requirements, or both. Tier One classification should require that the underlying asset is tradeable, custody infrastructure is operational, and monitoring systems are deployed at the time of effectiveness. Implementation timelines should reflect market maturity, with the Commission phasing requirements as the number of blockchain-based Novel ETFs grows.

Direct Answers to Consultation Questions

Question 5:Market surveillance for blockchain-based Novel ETFs:

Public blockchain architecture provides supervisory capability for Novel ETFs investing in crypto assets that exceeds what traditional Exchange-Traded Funds holding illiquid or over-the-counter instruments can achieve. Analytical infrastructure enables real-time address monitoring, cross-platform manipulation detection, verifiable portfolio composition assessment, and independent counterparty risk evaluation unavailable for many existing ETF asset classes. The January 2024 spot Bitcoin ETF launches demonstrated that blockchain-based investment products can operate within existing ETF structures.

Question 6: Portfolio requirements and asset-class restrictions:

Rather than amending Rule 6c-11 to impose minimum securities holdings, concentration limits, or categorical asset-class exclusions, the Commission should condition Rule 6c-11 reliance for crypto Novel ETFs on deployment of monitoring systems meeting defined standards. These standards should address sanctions screening, illicit counterparty detection using attribution databases, and suspicious activity identification, with performance standards developed in consultation with OFAC, FinCEN, and industry participants. Issuers should submit program descriptions in Rule 485(a) registration statements detailing deployed systems, performance metrics, and independent audit procedures.

Question 26: Disclosure regime for blockchain-based Novel ETFs:

The Commission should require technology-enabled disclosure for Novel ETFs investing primarily in blockchain-based assets as a condition for Rule 6c-11 reliance. Required capabilities should include daily portfolio snapshots with blockchain explorer links, independent NAV verification enabling independent calculation, counterparty exposure metrics showing concentration across exchanges and protocols, and smart contract monitoring providing continuous vulnerability detection and incident response for DeFi positions. Implementation should occur through standardised machine-readable formats. The Commission should coordinate with industry standards bodies to develop uniform specifications.

Question 27: Additional reforms facilitating innovation:

A tiered regulatory framework distinguishing Novel ETFs by underlying asset supervisory capability rather than asset class would better serve investor protection while preserving space for innovation. Tier One blockchain-based Novel ETFs with transparent holdings should face streamlined review with mandatory analytical deployment. Tier Two Novel ETFs lacking comparable transparency should face extended effectiveness periods or enhanced disclosure requirements.