

The Digital Chamber
1667 K Street NW, Suite 640
Washington, DC 20006

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA 1700 K Street, NW
Washington, DC 20006

March 12, 2025

Re: The Metaverse and the Implications for the Securities Industry Report Request for Comments

Dear Ms. Piorko Mitchell:

The Digital Chamber (“**TDC**”) appreciates the opportunity to comment on *The Metaverse and the Implications for the Securities Industry Report* (“**Metaverse Report**”) published by the Financial Industry Regulatory Authority (“**FINRA**”) on October 24, 2024. Founded in 2014, The Digital Chamber is the world’s largest digital asset and blockchain trade association. TDC represents more than 150 diverse members of the blockchain industry globally, including FINRA registered broker-dealers, metaverse platforms, SEC registered investment advisors, digital asset exchanges, investment companies and exchange traded funds, token projects, and a wide range of other digital asset economy participants. Guided by the principle of promoting industry compliance with applicable law, TDC seeks to foster a legal and regulatory environment in which digital asset users can enjoy regulatory certainty as they apply blockchain technologies to an array of commercial, technological, and social purposes. Through education, advocacy, and close coordination with policymakers, regulatory agencies, and industry members across the United States, we are working to foster a sound regulatory environment that allows this innovative industry, its technological advances, and the economic opportunities it creates to thrive within the United States.

We applaud FINRA’s Office of Financial Innovation (“**OFI**”) for publishing the Metaverse Report and inviting stakeholder feedback. Metaverse technology is a potentially transformative frontier for the financial services industry, offering possibilities such as virtual and immersive experiences for trading, financial consultation, investor education, and enhanced data visualization. FINRA’s proactive effort to study these developments demonstrates its commitment to understanding their implications for broker-dealers and investors alike. TDC is pleased to contribute to this dialogue, drawing on our members’ knowledge and experiences to ensure that any regulatory approach supports, and does not inhibit, responsible innovation.

Assessment of FINRA’s Metaverse Report

The Metaverse Report is a thorough and well-researched exploration of the metaverse and its potential implications for the financial services industry. The depth and breadth of the analysis reflect FINRA’s commitment to staying ahead of technological advancements that could reshape the securities markets. We appreciate the significant effort by FINRA staff to catalog current and emerging use cases, drawing from real-world examples such as virtual branches, gamified investor education, and virtual reality financial advisors. The report effectively captures the current landscape of metaverse applications in the financial services industry, offering a balanced

view of both the opportunities—such as enhanced customer engagement and operational efficiencies—and the regulatory challenges these innovations present. By addressing these elements, the report serves as a valuable foundation for ongoing dialogue between regulators and industry stakeholders.

Feedback and Comments from TDC and Our Members

As FINRA continues to monitor and evaluate implications of the metaverse for the broker-dealer industry, TDC urges an incremental and thoughtful approach. We recognize and support FINRA's acknowledgment that its rules are generally designed to be technology-neutral, a principle that has allowed the securities industry to adapt to prior technological shifts without necessitating wholesale overhauls of FINRA rules. This technology-neutral framework should continue to anchor FINRA's approach to metaverse technology, ensuring that existing rules can be applied flexibly by broker-dealers to new use cases, encouraging innovation while preserving investor protection and market integrity.

In shaping its regulatory strategy, FINRA can draw valuable lessons from its past experiences with technological change. For instance, FINRA's guidance on the use of social media provided clarity on how broker-dealers could leverage social media platforms like Twitter (now X) and LinkedIn for communications while adhering to rules on supervision, recordkeeping, and advertising (e.g., FINRA Rule 2210). Similarly, the temporary rule relief granted during the COVID-19 pandemic—such as accommodations for remote inspections and electronic signatures—demonstrated FINRA's ability to adapt swiftly to operational shifts while maintaining reasonable oversight.

More recently, FINRA's approach to digital assets has involved collaboration with industry participants to address novel risks, such as those tied to custody and on-chain assessments, without stifling innovation. Many metaverse use cases rely heavily on blockchain technology, necessitating a continued flexible approach from FINRA in its rules and guidance. Further, as Congress and other agencies work to establish clear laws and regulations for digital assets and digital-asset-enabled metaverse platforms, FINRA's adaptability will ensure alignment with these broader efforts and prevent regulatory inconsistencies.

These examples underscore the effectiveness of an iterative, stakeholder-informed process that balances regulatory objectives with the realities of technological innovation and adoption. To ensure that its metaverse-related efforts are similarly successful, TDC recommends that FINRA reflect on several key principles and related questions as it assesses the metaverse's implications for broker-dealers.

The following sections are intended to deepen and facilitate FINRA's understanding of the technology and its practical applications, ensuring that any future guidance is well-informed and proportionate:

- 1. Collaboration with Industry:** Collaboration with broker-dealers and technology providers can clarify how metaverse use cases are being implemented and where regulatory clarity might be needed. Key questions to keep in mind for collaborative efforts include:
 - *Are there regulatory barriers, such as FINRA Rules related to supervision and recordkeeping, that create disproportionate compliance burdens for smaller firms seeking to adopt or experiment with metaverse technologies such as virtual branches or immersive trading platforms?*
 - *Are there unique consumer protection risks or challenges associated with metaverse-based financial services that might necessitate new regulatory guidance or updates to existing rules?*

- *Do current rules on investor education and disclosures adequately address the unique characteristics of metaverse-based interactions, or is there a need for FINRA to provide additional guidance?*
 - *How can firms ensure compliance with consumer and data privacy rules in a metaverse environment?*
- 2. Monitor Trends:** The metaverse is a rapidly evolving space, and its relevance to financial services will depend on adoption trends. FINRA might want to consider the following as metaverse technologies evolve and adoption increases:
- *Is there demonstrable consumer interest in interacting with broker-dealers via the metaverse beyond investor education?*
 - *How might the decentralized nature of some metaverse platforms affect the application of rules related to trade reporting, best execution, and market surveillance?*
 - *Does the Metaverse Report’s definition of the metaverse fully capture the evolving nature of technologies like virtual reality (VR), augmented reality (AR), digital twins, or should refinements be explored? Is it too broad? Is there a consistent definition used by industry that could be adopted to ensure clarity of scope and applicability of rules existing?*
 - *Is there a need for FINRA to provide guidance on how firms should handle cross-border regulatory issues when operating in globally accessible metaverse environments?*
- 3. Provide Targeted Guidance Where Needed:** Rather than broad rulemaking, FINRA could focus on specific use cases where existing rules may need interpretation. FINRA’s technology-neutral rules—such as those governing communications (Rule 2210), supervision (Rule 3110), and recordkeeping (Rule 4511)—can often apply to metaverse activities with thoughtful application. For example, FINRA might want to consider:
- *Are there aspects of metaverse interactions—such as avatar-based communications or immersive experiences—that might not be clearly covered by existing definitions of “communications” under FINRA Rule 2210?*
 - *How should firms supervise metaverse communications to ensure compliance? What is a “written” communication or customer complaint in the metaverse?*
 - *Are there ambiguities in how FINRA rules apply to investor education and marketing in virtual environments, and would firms benefit from targeted guidance on this topic?*
 - *How should firms apply existing rules on suitability and recommendations (e.g., Regulation Best Interest and FINRA Rule 2111) in metaverse settings, where interactions may be more immersive and interactive?*
 - *Do current rules on trade reporting and order handling (e.g., FINRA Rule 5310 and Reg NMS) adequately address the challenges of executing trades in virtual trading environments, or are there gaps that might require additional guidance?*
 - *Are there unique considerations in a metaverse setting where guidance is needed to address the application of anti-fraud and market manipulation rules, such as virtual investor roadshows or tokenized asset offerings?*
 - *How can immersive data visualization enhance investor decision-making and financial literacy without introducing unnecessary complexity?*
 - *How could metaverse-based virtual trading environments impact market dynamics, liquidity, or investor behavior compared to traditional platforms?*

- *How should required disclosures be “delivered” in a metaverse experience?*
- 4. Consider Practical and Operational Implications:** The metaverse’s immersive nature may raise novel and unique operational challenges that FINRA and the industry should explore together. Such challenges may include:
- *If metaverse platforms become decentralized to the point of having no central administrative body, how do recordkeeping, confidentiality, and data protection rules apply? To whom?*
 - *When would a virtual office in the metaverse qualify as a branch office or office of supervisory jurisdiction (OSJ)? For a virtual OSJ, what is a “physical presence” in the metaverse?*
 - *What challenges exist in preserving records of customer orders or discussions in metaverse settings, and how might these differ from traditional electronic communications?*
 - *How can firms establish effective supervisory procedures for associated persons’ activities in decentralized virtual environments?*
 - *What measures can FINRA implement to ensure that its examination staff are equipped to assess metaverse-related activities in a consistent and informed manner, avoiding informal guidance that could inadvertently discourage innovation?*

The heuristic approach outlined in the four previous sections aligns with TDC’s view that the industry should have space to explore the metaverse’s potential—whether for customer engagement, training, or operational efficiencies—while relying on FINRA’s existing frameworks and rules to address risks. We would value the opportunity to partner with FINRA in this effort of collaboration and exploration alongside our mutual members, ensuring that any guidance is informed by and reflects the realities of broker-dealer operations and supports innovation alongside investor protection.

Additional Considerations for FINRA’s Examination and Guidance Approach

As broker-dealers experiment with metaverse technologies, TDC emphasizes the need for FINRA’s staff to recognize the novelty of these use cases and their potential to create customer experiences that may be unfamiliar to FINRA staff. Virtual branches, immersive data tools, and gamified education platforms represent innovative departures from traditional models, and their uniqueness could lead to misinterpretations during exams or other communications with FINRA staff. We urge FINRA to direct its staff to focus on whether firms have adopted a reasonable process to apply existing rules to these novel contexts, rather than judging outcomes against conventional standards. This approach would reinforce FINRA’s technology-neutral stance and encourage responsible innovation.

Furthermore, FINRA staff must exercise reasonable caution in offering informal guidance or suggesting changes during examinations that could stifle innovation. The metaverse is evolving rapidly, and off-the-cuff feedback risks discouraging firms from implementing legitimate use cases before their benefits and challenges are fully understood. To the extent FINRA determines that guidance is needed to address particular issues, TDC and its members are happy to assist FINRA as it develops such guidance. A structured, well-conceived, formal approach will ensure that firms can confidently navigate the metaverse while adhering to FINRA’s standards.

To enhance its understanding of the metaverse, TDC suggests that FINRA expand the scope of its Crypto Hub to include metaverse and other technological advancements. The Crypto Hub has successfully centralized FINRA’s efforts to address digital assets, fostering a generally consistent and informed approach across departments. Broadening its mandate to cover metaverse technology would enable FINRA to apply similar rigor and coordination

to this emerging technology and its many use cases. This step would also promote knowledge-sharing among staff, align examination and policy efforts, and ultimately strengthen FINRA's oversight and support for the industry as it embraces future innovations.

Conclusion

TDC stands ready to serve as a resource to FINRA as it continues to deepen its understanding of the metaverse, underlying technologies, and potential use cases for the securities industry. Our members bring a wealth of practical insights about the metaverse that can inform FINRA's efforts. We are equally committed to working collaboratively with FINRA to identify and evaluate any existing rules or guidance—or gaps therein—that may inadvertently inhibit innovation in this space. By addressing these barriers, we can collectively develop solutions that unlock the metaverse's benefits while ensuring FINRA carries out its mission to ensure investor protection and market integrity.

We look forward to continued dialogue with FINRA on this dynamic and evolving topic. Thank you for considering our comments. Please do not hesitate to contact us if you have questions or require additional insights from our membership.

Sincerely,

Cody Carbone

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The Digital Chamber

Cc:

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