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

April 25, 2025

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

Dear Ms. Piorko Mitchell,

Thank you for providing Signum Growth Capital LLC ("Signum Growth") with 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.

Signum Growth Capital LLC - An "Office" in the Metaverse

As background, after a long career in Equites and Capital Markets, and as a Series 24-registered Managing Director of UBS, Evercore Equites (now Evercore ISI), and Guggenheim Securities, we ventured out to establish Signum Growth in 2019. The original vision was a focus on gaming, entertainment, and emerging technologies, such as Web3 and AI. We also endeavored to demonstrate how a FINRA-regulated entity could operate in the "Metaverse." As the Founder and CEO of Signum Growth, I, Angela Dalton, even added "Zoom changed my life" to email signatures and bios, hoping to prompt the question, "What is Zoom?" Clearly, one year later, I removed the tag line as the world adopted Zoom en masse.

In the beginning, we would patiently explain the idea that our company was functioning well, hiring on a slow pace, and hosting multiple virtual meetings each day to create a team spirit which continues to this day. This approach also allowed us the ability to hire the best talent from around the globe, regardless of location. After 20 years on Wall Street, many expected us to hire former colleagues in New York. Instead, our second Analyst, who is now a registered Series 7, 79, and 63, and who continues to work for Signum Growth four years later, surfaced on LinkedIn due to his 99 percentile score on the CFA exam. Our first Analyst was based in San Francisco and departed Signum Growth to join an emerging tech start up.

This backdrop brought many new challenges from a securities industry perspective, such as supervision, digital communications oversight, and generally, training and onboarding. However, as we entered COVID, we saw FINRA adapt quickly to the new norm, and many broker dealers with whom we spoke, adapted to many of our processes for supervision. We completed multiple audits, including one in which a FINRA auditor came to our house. As a Series 24, we supervised two registered representatives virtually and created a weekly virtual check in, video on, with our Head of Compliance. This meeting, which continues on a weekly basis, includes a review of communications to make sure that Global Relay record keeping capturing communications, including internal slack channels. We also conducted virtual visits to each Analysts space, verifying that the work space was private and that confidential information was not in sight or being shared with others in the house. Furthermore, since we would not have been able to listen to phone conversations between Registered Representatives and clients, we made a decision to complete client calls together virtually for a longer period of time than we might have done at UBS, Evercore or Guggenheim, in closer physical proximity to be able to hear others' conversations and provide training and feedback. Effectively, we ensured that individuals were properly trained before allowing them to speak to clients alone.

Signum Growth Capital Topics of Interest Included "the Metaverse"

Before Facebook rebranded to Meta, our original website in 2019 was titled, "Into the Metaverse." The background included changing images of Bitcoin miners, video games, and a physics esports arena, where spectators watch people around the world professionally compete in video game tournaments. The point that we were trying to make was that the Metaverse would be popping up as new economies in new digital neighborhoods, and we believed that they would be built using new, often decentralized, technologies.

As a student of media evolution and often the resident expert in video games, I spent many years studying behavior change that occurred in media consumption. The clearest change was that people were leaving the living room, where they had previously huddled as a family to watch scheduled shows. They were heading to online spaces, immersing themselves as individuals in many new forms of online entertainment, such as video games, Netflix, and new web content popping up in YouTube.

One of our mantras in our quest to understand new technology consumer adoption is, "merge onto the highway of behavior that is already happening" because, even if a new technology might elegantly solve a problem, if it is not adopted by humans, it could take years to take hold, or it may never see consumer adoption.

One behavior that we were seeing in online gaming platforms like Epic's Fortnite and online creator platforms like Roblox was the concept of players purchasing "cosmetics" or "skins." Effectively, these are digital items that players wear to express their own status and identity, in the same way that people carry designer handbags in the real world.

This behavior was first seen in Phillip Rosedale's game, Second Life, which launched in 2003. Twenty years later, in 2023, Second Life's economy was generating about $650 million annually based on user transactions. Players trade items and services using the in-game currency called the Linden Dollar (L$), which is exchangeable for real money.

The growth in digital item purchases made us wonder - as people increasingly spend time online, might they eventually demand property rights, in the same way that people demand offline property rights? Given the ease of "copy paste" in digital, relative to analog, might there be a technology that will prove authenticity and provenance of online items? Around this time, we met the gentleman who finalized the ERC-721 standard for NFTs, and we thought, 'This is it!'

What ensued was not what we were expecting. From 2020 - 2022, the concept of NFT was not used to secure property rights and prove provenance of online items, but instead for speculation and trading. This is a use case that was not mentioned in the report and is one that should be considered in a discussion of new risks the Metaverse presents to the securities industry.

Many video games include the behavior of collecting, buying, selling and trading of items, and many also utilize a game currency. Even given this, traditional games typically do not involve securities from our experience. The difference between typical in-game behavior compared to what we saw during the first wave of NFTs, was the latter's propensity to use an NFT as a mechanism for speculation. The process of speculation itself could satisfy the four criteria of the Howey Test, which would classify it as a security, subject to SEC regulation and oversight.

As an example, NFTs in a game may involve an investment of money, with an NFT issued by a common enterprise, a blockchain game company. Unlike most video games which make such assets usable and playable in a game, NFTs are often purchased with a reasonable expectation of profits. Finally, the owners of the game, the common enterprise, may communicate broadly about the potential profit that can be made and the attractiveness of the NFT. In other words, the profits are derived from the efforts of others. Another way to determine whether an NFT could be deemed a security is if described in the way that one would describe a financial instrument. As an example, if an NFT that looks like a dragon in a blockchain video game is described as a "high yielding asset" or providing a "yield of X% APY" then the average person would understand this asset to provide a return, similar to a financial instrument. As digital assets proliferate, not only in games, but also as financial instruments, broker dealers have a duty to advise issuers to communicate in a way that not only explains the instrument fully, but also carefully avoids communications that promise a certain return, or that present it as a security for investment. It is important for issuers and FINRA-registered broker dealers to understand that a digital asset, even if it is wrapped in animated 3D graphics, may still be a security if it satisfies the Howey Test.

As with all emerging technologies, intended and unintended consequences must be considered. It is important for FINRA-registered firms to think through new online environments and new economies in a way that considers US federal securities laws and FINRA communications and advisory guidelines. We look forward to continued dialogue with FINRA on this exciting topic, and we hope to have the opportunity to continue to assist in honing regulatory compliance in the Metaverse. Please let us know if you have any questions or concerns with respect to our comments, and thank you for considering them.

Sincerely,

Angela Dalton, CEO
Signum Growth Capital