

As Lido continues to innovate, and liquid staking becomes popular across networks, we must ensure that the ecosystem can continue to thrive in the United States and globally.

About POSA:

Since 2019, the [Proof of Stake Alliance \(POSA\)](#) has sought to create conditions that allow staking to flourish through wider adoption. To date, we've:

- Pushed back on the notion that newly created tokens should be treated as income by bringing the first lawsuit on crypto taxation against the IRS and engaging top legal experts to educate many others on the [proper taxation of staking rewards](#).
- Worked (and are still working) to remove almost overlooked [onerous reporting requirements on peer-to-peer crypto transactions in the Senate Infrastructure Bill](#).
- Collaborated with FinCEN/OFAC to facilitate the commercial development of staking as a service ("StaaS"), with the goal of ensuring that validators are not treated as financial entities.
- Worked with the [SEC](#) to ensure that staking service providers were not viewed as offering investment contracts

And we're now dedicating our resources to address regulatory, policy, and tax concerns surrounding liquid staking, as we believe its success is crucial for the future of Proof of Stake (PoS) networks.

Context:

To date, most regulators have not provided specific guidance with regard to PoS; instead, they've focused (somewhat minimally) on addressing basic issues surrounding Proof of Work (PoW) networks. This has resulted in a regulatory and legal gray area that is even more pronounced for PoS networks. As liquid staking involves the creation of complex primitives on top of these PoS networks, there is even more complexity and legal uncertainty surrounding how various tokens and smart contracts in these ecosystems should be understood, taxed, and regulated.

To ensure that Congress, Regulatory Agencies (CFTC, SEC and FinCEN) and the broader public are educated on these issues, and that these ecosystems can continue to flourish, we propose working with a top law firm to develop two white papers.

Deliverables:

The first will center on tax issues that might arise from interacting in liquid staking ecosystems (ensuring, for instance, that transitioning between stETH and ETH is not a taxable event) and rewards for participating in liquid staking ecosystems.

The second will focus on regulatory issues surrounding liquid staking, which may include, but are not limited to the legal classification of the underlying staking token and exploring regulatory uncertainty with Commodities and Securities Regulations (it may also be prudent to explore potential Banking Regulations issues that may be relevant).

We will also:

1. Form a liquid staking working group focused on the US regulatory environment with an expert group of industry and ecosystem players. We will discuss these and other issues to ensure that we are addressing the most pertinent issues on a go forward basis.
2. Collaborate to develop industry-driven principles for liquid staking and develop shared messaging that the industry can rally behind.

POSA has previous success working with top tier law firms to produce legal backed white papers, similar to what we did on initial staking issues presented to the SEC and FinCEN.

Ask:

We have already engaged and negotiated a fee structure with a top law firm, Perkins Coie, who is excited to partner with us. We are requesting \$150,000 to cover the cost of this work, which should begin imminently. There is much to be done, and we hope to follow on with additional advocacy as new and more pertinent issues arise.