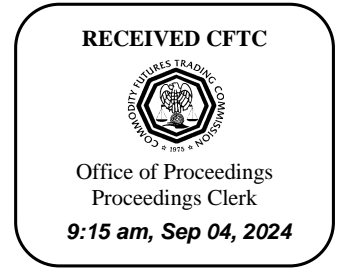


UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION



_____)
In the Matter of:)
)
Universal Navigation Inc. d/b/a)
Uniswap Labs,) CFTC Docket No. 24-25
)
Respondent.)
)
)
)
_____)

**ORDER INSTITUTING PROCEEDINGS PURSUANT TO
SECTION 6(c) AND (d) OF THE COMMODITY EXCHANGE ACT, MAKING
FINDINGS, AND IMPOSING REMEDIAL SANCTIONS**

I. INTRODUCTION

The Commodity Futures Trading Commission (“Commission”) has reason to believe that from at least March 2021 to approximately September 2023 (“Relevant Period”), Universal Navigation Inc. d/b/a Uniswap Labs (“Uniswap Labs” or “Respondent”) violated Section 4(a) of the Commodity Exchange Act (“Act”), 7 U.S.C. § 6(a). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted to determine whether Respondent engaged in the violations set forth herein and to determine whether any order should be issued imposing remedial sanctions.

In anticipation of the institution of an administrative proceeding, Respondent has submitted an Offer of Settlement (“Offer”), which the Commission has determined to accept. Without admitting or denying any of the findings or conclusions herein, Respondent consents to the entry of this Order Instituting Proceedings Pursuant to Section 6(c) and (d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions (“Order”), and acknowledges service of this Order.¹

¹ Respondent consents to the use of the findings of fact and conclusions of law in this Order in this proceeding and in any other proceeding brought by the Commission or to which the Commission is a party or claimant, and agrees that they shall be taken as true and correct and be given preclusive effect therein, without further proof. Respondent does not consent, however, to the use of this Order, or the findings or conclusions herein, as the sole basis for any other proceeding brought by the Commission or to which the Commission is a party or claimant, other than: a proceeding in bankruptcy or receivership; or a proceeding to enforce the terms of this Order. Respondent does not consent to the use of the Offer or this Order, or the findings or conclusions in this Order, by any other party in any other proceeding.

II. FINDINGS

The Commission finds the following:

A. SUMMARY

Uniswap Labs contributed to the development and, during the Relevant Period, deployed versions of a blockchain-based digital asset protocol (“Protocol”) that offered retail and institutional users in the United States and abroad the ability to trade digital assets through use of the Ethereum blockchain. More specifically, the Protocol is a decentralized digital asset trading protocol consisting of a “suite of persistent, non-upgradable smart contracts that together create an automated market maker.” The Protocol allows users to create and trade with liquidity pools, which consist of a matched pair of digital assets that are valued against each other within a bounded range. A user places both of the pair of the pool’s digital assets and receives in return a liquidity pool token, which is a receipt that the holder can redeem for the assets they have in the pool (which may have changed due to ongoing trading activity) plus trading fees the user has earned from buying and selling those assets at a price set via an automated process (i.e., the “automated market maker”) that depends on the quantity of each token within the pool. A user may also trade with the liquidity pool by exchanging one asset for another at the current price. Users interact directly with the liquidity pool rather than with orders made by other users. In order to facilitate access to the Protocol, Uniswap Labs developed a web interface (“Interface”) that it makes available to users.²

During the Relevant Period, the digital assets traded on the Protocol through the Interface included a limited number of leveraged tokens, which provided users approximately 2:1 leveraged exposure to digital assets such as ether (ETH) and bitcoin (BTC),³ both commodities in interstate commerce. As a result, Respondent violated Section 4(a) of the Act, 7 U.S.C. § 6(a), by offering to enter into, entering into, executing, confirming the execution of, or conducting an office or business anywhere in the United States, its territories or possessions, for the purpose of soliciting or accepting orders for, or otherwise dealing in, off-exchange leveraged or margined commodity transactions with customers who were not eligible contract participants or eligible commercial entities (collectively, “ECPs”).

In accepting the Offer, the Commission recognizes Respondent’s substantial cooperation with the Commission’s Division of Enforcement. The Commission also acknowledges Respondent’s representations concerning its remediation in connection with this matter. The Commission’s recognition of Respondent’s substantial cooperation and remediation is reflected in the form of a reduced civil monetary penalty.

² The Protocol is also accessible through other means, including third party interfaces unaffiliated with Uniswap Labs.

³ A leveraged token allows the holder to multiply gains (or losses) associated with the price movement of the underlying digital asset—that is, it increases the holder’s exposure to that price movement.

B. RESPONDENT

Universal Navigation Inc. d/b/a Uniswap Labs is a Delaware corporation with its principal place of business in New York, New York. Universal Navigation Inc. has never been registered with the Commission.

C. FACTS

During the Relevant Period, the Protocol was a collection of smart contracts on the Ethereum blockchain that functioned as a blockchain-based digital asset trading protocol.⁴ Uniswap Labs was a major contributor to the development of the Protocol and during the Relevant Period deployed versions of the Protocol to the Ethereum blockchain. Uniswap Labs also created and maintained the Interface that facilitated access to the Protocol.

Through the Interface, users could trade in hundreds of liquidity pools on the Protocol, each representing a pair of underlying digital assets. Among the digital assets that users of the Interface traded on the Protocol were certain leveraged digital assets (“Leveraged Tokens”) developed and issued by a third party unaffiliated with Uniswap Labs (“Issuer 1”): BTC 2x Flexible Leverage Index token (BTC2XFLI); ETH 2x Flexible Leverage Index token (ETH2XFLI); ETH 2x Flexible Leverage Index token-Polygon (ETH2XFLI-P); and BTC 2x Flexible Leverage Index token-Polygon (BTC2xFLI-P); as well as an ERC-20 token whose value was based on an index that tracked the price of ETH squared (oSQTH).

By purchasing the Leveraged Tokens through the Interface, users could obtain a fungible token that provided leveraged exposure of approximately 2:1 on, respectively, the price of bitcoin and ether.⁵ For example, buying ETH2XFLI would allow a purchaser to gain approximately a 20% return if the price of ETH (relative to USDC, a stablecoin) rose by 10%. Purchases and sales of the Leveraged Tokens contained no restrictions that would result in, and generally did not result in, actual delivery of the underlying commodities (i.e., bitcoin and ether) within 28 days. The Interface did not restrict access to the Leveraged Tokens to users who were not ECPs, and thus each offer to or purchase or sale by a non-ECP met the criteria of Section 2(c)(2)(D)(iii) of the Act, 7 U.S.C. § 2(c)(2)(D)(iii), as described in more detail below.

⁴ A blockchain is a distributed, shared, immutable ledger that facilitates the process of recording transactions and tracking digital assets in a consensus-based network. A smart contract is a piece of computer code that is deployed on a blockchain to automatically execute pre-programmed actions when predetermined conditions are met, and is often intended to contain all terms of a contract—meaning the software can execute the agreement contained in the contract without additional input from the parties.

A digital asset is anything that can be stored and transmitted electronically and has associated ownership or use rights. Digital assets include virtual currencies, which are digital representations of value that function as mediums of exchange, units of account, and/or stores of value. Ether (“ETH”) is the Ethereum blockchain’s native virtual currency. In addition, Ethereum’s ERC-20 technical standard allows any individual to develop new digital asset tokens that can be traded on the Ethereum blockchain.

⁵ To generate the approximately 2:1 leverage for the Leveraged Tokens, Issuer 1 deployed smart contracts that were designed to automatically borrow stablecoins from third-party blockchain-based lending platforms and then utilize those borrowed stablecoins to engage in automated trading on other third-party decentralized exchanges. The Leveraged Tokens each targeted a leverage ratio of 2x (i.e. 200%) leverage. However, the actual leverage ratio was designed to fluctuate from 1.8x to 2.2x (180% to 220%) for BTC2XFLI and BTC2XFLI-P, and designed to fluctuate between 1.7x to 2.3x (170% to 230%) for ETH2XFLI and ETH2XFLI-P.

Uniswap Labs did not collect trading fees on transactions in Leveraged Tokens. During the Relevant Period, Interface users transacted a notional value of approximately \$21.5 million in trades involving Leveraged Tokens.⁶

III. LEGAL DISCUSSION

A. Bitcoin and Ether are Commodities Subject to the Act

Digital assets include virtual currencies, such as bitcoin and ether, which are digital representations of value that function as mediums of exchange, units of account, and/or stores of value. Certain virtual currencies, including bitcoin and ether, are “commodities” under the Act. As defined under Section 1a(9) of the Act, 7 U.S.C. § 1a(9), “commodities” include various specifically enumerated agricultural products as well as, with limited exceptions, “all other goods and articles . . . , and all services rights and interests . . . in which contracts for futures delivery are presently or in the future dealt in.” That definition encompasses goods, articles, services, rights, and interests which are the subject of futures contracts, as well as other goods, articles, services, rights or interests in the same category or class, *see CFTC v. My Big Coin Pay, Inc.*, 334 F. Supp. 3d 492, 498 (D. Mass. 2018). Bitcoin and ether are thus encompassed in the definition of “commodity” under the Act, and subject to the applicable provisions of the Act and Regulations. *See, e.g., United States v. Reed*, No. 20-cr-500 (JGK), 2022 WL 597180, at *3-5 (S.D.N.Y. Feb. 28, 2022); *CFTC v. McDonnell*, 287 F. Supp. 3d 213, 228-29 (E.D.N.Y. 2018); *In re Tether Holdings Limited*, 2021 WL 8322874, at *7-*8 CFTC No. 22-04 (Oct. 15, 2021) (consent order); *In re Coinflip, Inc.*, CFTC No. 15-29, 2015 WL 5535736, at *2 (Sept. 17, 2015) (consent order); *see also* Retail Commodity Transactions Involving Certain Digital Assets, 85 FR 37734-01 at 37741 (June 24, 2020) (“As a commodity, virtual currency is subject to applicable provisions of the CEA and Commission regulations, including CEA section 2(c)(2)(D).”)

B. Uniswap Labs Violated Section 4(a) of the Act with Respect to the Leveraged Token Transactions

Section 2(c)(2)(D), 7 U.S.C. § 2(c)(2)(D), applies to certain retail commodity transactions. Pursuant to Section 2(c)(2)(D)(iii) of the Act, any agreement, contract, or transaction in any commodity that is entered into with or offered to (even if not entered into with) non-ECPs on a leveraged or margined basis, or financed by the offeror, counterparty, or a person acting in concert with the offeror or counterparty is, with certain exceptions, subject to Section 4(a) of the Act, 7 U.S.C. § 6(a), “as if the agreement, contract, or transaction was a contract of sale of a commodity for future delivery.”

Section 4(a) of the Act makes it unlawful for any person to offer to enter into, enter into, execute, confirm the execution of, or conduct an office or business in the United States for the purpose of soliciting, or accepting any order for, or otherwise dealing in any transaction in, or in connection with, a commodity futures contract, unless such transaction is made on or subject to

⁶ During the Relevant Period, this accounted for less than 0.25% of total volume traded through the Interface.

the rules of a board of trade that has been designated or registered by the CFTC as a contract market for the specific commodity.

The Leveraged Tokens, which provided exposure to bitcoin and ether, were offered to non-ECPs on a leveraged basis by Issuer 1 (and other issuers), and subsequently could be traded using the Interface.⁷ These Leveraged Token transactions did not result in actual delivery within twenty-eight days and did not otherwise fall within exceptions set forth in Section 2(c)(2)(D)(iii) of the Act.⁸ Thus, the offering or entering into of such transactions is subject Section 4(a) of the Act pursuant to Section 2(c)(2)(D)(iii) of the Act. Moreover, during the Relevant Period, Respondent, through the use of the Interface and the Protocol, offered to enter into, entered into, executed, confirmed the execution of, or conducted an office or business anywhere in the United States, its territories or possessions, for the purpose of soliciting or accepting orders for, or otherwise dealt in, these Leveraged Token transactions with customers who were not ECPs. However, the transactions were not, as required by the Act, conducted on or subject to the rules of a board of trade that has been designated or registered by the CFTC. By this conduct, Uniswap Labs violated Section 4(a) of the Act.

IV. FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that, during the Relevant Period, Respondent violated Section 4(a) of the Act, 7 U.S.C. § 6(a).

V. OFFER OF SETTLEMENT

Respondent has submitted the Offer in which it knowingly and voluntarily:

- A. Consents to the resolution of this matter in an administrative proceeding;
- B. Acknowledges service of this Order;

⁷ As the Commission has explained, the term “offeror” in the context of Section 2(c)(2)(D) includes persons or entities that present, solicit, or facilitate the use of margin, leverage, or financing arrangements. *See* Retail Commodity Transactions Involving Certain Digital Assets (“2020 Interpretive Guidance”), 85 Fed. Reg. 37,734-01, at 37,737 n.63, 37,742 n.164 (June 24, 2020). Section 2(c)(2)(D) encompasses, *inter alia*, any such retail transaction entered into or financed by the offeror or a person acting in concert with the offeror. *Id.* at 37,737 n.63, 37,742 n.164, 37,743 n.165. By operating a front-end user interface (the Interface) that “facilitated” and “provide[d] a purchaser with the ability to source financing or leverage from other users or third parties,” Respondent’s conduct met this standard. *Id.* at 37,742 n.152, 37,743 n.165.

⁸ Section 2(c)(2)(D)(ii)(III)(aa) of the Act, 7 U.S.C. § 2(c)(2)(D)(ii)(III)(aa), provides an exception for contracts of sale that result in actual delivery within 28 days. That exception is inapplicable to transactions involving Leveraged Tokens on the Interface, because: (i) the Leveraged Token positions were not physically settled contracts of sale that required delivery of the underlying commodities within 28 days, but rather the positions could exist perpetually; and (ii) the positions were subject to the potential of forced liquidation. *See* 2020 Interpretive Guidance, 85 Fed. Reg. at 37,741, 37,743-44.

- C. Admits the jurisdiction of the Commission with respect to all matters set forth in this Order and for any action or proceeding brought or authorized by the Commission based on violation of or enforcement of this Order;
- D. Waives:
1. The filing and service of a complaint and notice of hearing;
 2. A hearing;
 3. All post-hearing procedures;
 4. Any and all rights or defenses that Respondent has or might have for the matter to be adjudicated in a federal district court in the first instance, including any associated right to a jury trial;
 5. Judicial review by any court;
 6. Any and all objections to the participation by any member of the Commission's staff in the Commission's consideration of the Offer;
 7. Any and all claims that it may possess under the Equal Access to Justice Act, 5 U.S.C. § 504, and 28 U.S.C. § 2412, and/or the rules promulgated by the Commission in conformity therewith, Part 148 of the Regulations, 17 C.F.R. pt. 148 (2023), relating to, or arising from, this proceeding;
 8. Any and all claims that it may possess under the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, tit. II, §§ 201–253, 110 Stat. 847, 857–74 (codified as amended at 28 U.S.C. § 2412 and in scattered sections of 5 U.S.C. and 15 U.S.C.), relating to, or arising from, this proceeding; and
 9. Any claims of Double Jeopardy based on the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief, including this Order;
- E. Acknowledges that the Commission is the prevailing party in this action for purposes of the waiver of any and all rights under the Equal Access to Justice Act in subpart 7 of Paragraph D of this Section;
- F. Stipulates that the record basis on which this Order is entered shall consist solely of the findings contained in this Order to which Respondent has consented in the Offer;
- G. Consents, solely on the basis of the Offer, to the Commission's entry of this Order that:
1. Makes findings by the Commission that Respondent violated Section 4(a) of the Act, 7 U.S.C. § 6(a);

2. Orders Respondent to cease and desist from violating Section 4(a) of the Act, 7 U.S.C. § 6(a);
3. Orders Respondent to pay a civil monetary penalty in the amount of one-hundred seventy-five thousand US dollars (\$175,000), plus post-judgment interest within fourteen days of the date of entry of this Order; and
4. Orders Respondent and its successors and assigns to comply with the conditions and undertakings consented to in the Offer and as set forth in Part VI of this Order; and

Upon consideration, the Commission has determined to accept the Offer.

VI. ORDER

Accordingly, IT IS HEREBY ORDERED THAT:

- A. Uniswap Labs and its successors and assigns shall cease and desist from violating Section 4(a) of the Act, 7 U.S.C. § 6(a).
- B. Respondent shall pay a civil monetary penalty in the amount of one-hundred seventy-five thousand US dollars (\$175,000) (“CMP Obligation”), within fourteen days of the date of the entry of this Order. If the CMP Obligation is not paid in full within fourteen days of the date of entry of this Order, then post-judgment interest shall accrue on the CMP Obligation beginning on the date of entry of this Order and shall be determined by using the Treasury Bill rate prevailing on the date of entry of this Order pursuant to 28 U.S.C. § 1961.

Respondent shall pay the CMP Obligation and any post-judgment interest by electronic funds transfer, U.S. postal money order, certified check, bank cashier’s check, or bank money order. If payment is to be made other than by electronic funds transfer, then the payment shall be made payable to the Commodity Futures Trading Commission and sent to the address below:

MMAC/ESC/AMK326
Commodity Futures Trading Commission
6500 S. MacArthur Blvd.
HQ Room 266
Oklahoma City, OK 73169
9-AMC-AR-CFTC@faa.gov

If payment is to be made by electronic funds transfer, Uniswap Labs shall contact the Federal Aviation Administration at the above email address to receive payment instructions and shall fully comply with those instructions. Respondent shall accompany payment of the CMP Obligation with a cover letter that identifies the paying Respondent and the name and docket number of this proceeding. The paying Respondent shall simultaneously transmit copies of the cover letter and the form of payment to the Chief

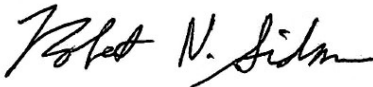
Financial Officer, Commodity Futures Trading Commission, Three Lafayette Centre, 1155 21st Street, NW, Washington, D.C. 20581.

C. Respondent and its successors and assigns shall comply with the following conditions and undertakings set forth in the Offer:

1. Public Statements: Respondent agrees that neither it nor any of its successors and assigns, agents or employees under its authority or control shall take any action or make any public statement denying, directly or indirectly, any findings or conclusions in this Order or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect Respondent's: (1) testimonial obligations; or (2) right to take legal positions in other proceedings to which the Commission is not a party. Respondent and its successors and assigns shall comply with this agreement, and shall undertake all steps necessary to ensure that all of its agents and/or employees under its authority or control understand and comply with this agreement.
2. Cooperation, in General: Respondent shall cooperate fully and expeditiously with the Commission, including the Commission's Division of Enforcement, in this action, and in any current or future Commission investigation or action related thereto. Respondent shall also cooperate in any investigation, civil litigation, or administrative matter related to, or arising from, the subject matter of this action.
3. Partial Satisfaction: Respondent understands and agrees that any acceptance by the Commission of any partial payment of Respondent's CMP Obligation shall not be deemed a waiver of its obligation to make further payments pursuant to this Order, or a waiver of the Commission's right to seek to compel payment of any remaining balance.
4. Change of Address/Phone: Until such time as Respondent satisfies in full its CMP Obligation as set forth in this Order, Respondent shall provide written notice to the Commission by certified mail of any change to its telephone numbers and mailing addresses within ten calendar days of the change.

The provisions of this Order shall be effective as of this date.

By the Commission.



Robert N. Sidman
Deputy Secretary of the Commission
Commodity Futures Trading Commission

Dated: September 4, 2024