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United States Senate

COMMITTEES:
ARMED SERVICES

AGRICULTURE, NUTRITION,
AND FORESTRY

HEALTH, EDUCATION,
LABOR, AND PENSIONS

VETERANS' AFFAIRS

June 5, 2023

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Mr. Robert Cook
President and CEO
Financial Industry Regulatory Authority
1735 K Street, NW
Washington, DC 20006

Dear Chair Gensler and Mr. Cook:

In recent months, Members of Congress have raised concerns about Chinese Communist Party (CCP)-tied broker-dealers operating in the United States. Given these concerns, I was shocked to see the recent announcement from Prometheus Ember Capital, LLC ("Prometheus") that it received "a first-of-its-kind approval" from the Financial Industry Regulatory Authority (FINRA) to operate as a special purpose broker-dealer ("SPBD") for digital asset securities, allowing the firm to custody digital asset securities on behalf of retail and institutional clients.¹ Prometheus boasts that, as a qualified custodian, it stands "in contrast to crypto exchanges and other trading platforms in the U.S. that operate only under state licenses," and that "custodying assets in an SEC-registered broker-dealer will provide the regulatory protections needed to re-establish investor confidence, increase institutional adoption, and allow the industry to flourish."²

While I am encouraged by this limited step to register a special purpose broker-dealer to custody digital asset securities, I am troubled that this "first-of-its-kind approval" was granted to a firm with close, publicly-disclosed ties to the CCP. More specifically, I am concerned about Prometheus's close ties to Wanxiang Group and its affiliate HashKey.³

According to its December 2018 Offering Circular on file with the SEC, Prometheus states, "[t]he Company with its strategic partners and joint venturers HashKey Digital Asset Group Limited ("HashKey") and Shanghai Wanxiang Blockchain Inc. ("Wanxiang"), an affiliate of HashKey, intends to launch blockchain technology-based platforms which we refer to as the 'Prometheus Network,' designed to (i) address the regulatory, legal, and liquidity challenges faced by issuers of crypto-securities to conduct their crypto-securities token offerings in compliance with applicable securities laws; and (ii) provide the infrastructure necessary to allow for after-market trading and processing of our SST crypto-securities within the Prometheus Network."⁴ A Global Newswire article also notes that in 2018 the company had secured "\$12mm from HashKey Digital Asset Group Limited... in the form of cash and services [to] enable Prometheus to accelerate the launch of its network."⁵

¹ <https://www.businesswire.com/news/home/20230523005313/en/Prometheus-Ember-Capital-is-the-First-SEC-Qualified-Custodian-for-Digital-Assets-Securities>

² *Ibid.*

³ The Chairman of Hashkey, Dr. Xiao Feng, also serves as the Vice Chairman and Executive Director of China Wanxiang Holdings and Chairman and CEO of Wanxiang Blockchain

⁴ <https://www.sec.gov/Archives/edgar/data/1718271/000101905619000222/offeringcircular.htm>;

https://www.sec.gov/Archives/edgar/data/1718271/000101905619000222/ex6_3.htm

⁵ <https://www.globenewswire.com/en/news-release/2018/12/19/1669595/0/en/Prometheus-Raises-12mm-From-HashKey-Digital-Asset-Group-Signs-Strategic-Partnership-with-Wanxiang-Blockchain-Labs.html>

Wanxiang Group has a long history of close ties to the CCP. The founder of Wanxiang Group, Lu Guanqiu, was elected as the 13th and 14th Representative of the Communist Party of China and as a delegate to the 9th, 10th, and 11th Chinese National People's Congress. Moreover, in 2021, the CCP Central Committee posthumously awarded Lu Guanqiu the title of "National Excellent Communist Party Member."⁶ The release from Wanxiang Group announcing this award highlights the close ties between Wanxiang Group and the CCP. The release notes that "[i]n his 55 years of entrepreneurial endeavors and 48 years of running Wanxiang, Comrade Lu Guanqiu had always listened to the Party and followed the Party."⁷ The release even includes a quote from President Xi Jinping stating that Lu Guanqiu "aligned himself with the CPC Central Committee, and has always actively accomplished all that is advocated by Party committees and governments at all levels."⁸ The release concludes by noting that the "people at Wanxiang", which is currently led by Lu Guanqiu's son, Lu Weiding, "will carry forward and practice the Lu Guanqiu spirit, always listen to the Party and follow the Party."⁹

Prometheum's ties to Wanxiang and its affiliate Hashkey raise serious concerns related to investor protection, data privacy, national security, sanctions compliance, and anti-money laundering ("AML"). I note there are responsible companies domiciled in the U.S. with no apparent ties to the CCP that provide digital asset custodial services but, notwithstanding efforts to register, have not yet been designated by the SEC and FINRA as qualified custodians for digital assets.

The SEC and FINRA's willingness to continue to allow entities with links to the CCP to operate in the United States as registered broker-dealers is a significant regulatory failure that must end.

I ask that you respond to the following questions by June 30:

1. Describe whether and how Prometheum's partnerships and joint ventures with Wanxiang and Hashkey and such firms' ties to the CCP were accounted for in FINRA's decision to approve Prometheum as an SPBD.
2. Describe any investor protection, data privacy, national security, sanctions compliance, and AML risks raised by Prometheum's SPBD application and how FINRA became comfortable with approving the application in light of those risks.
3. What role did the SEC play in reviewing or approving Prometheum's application to operate as an SPBD for digital asset securities?
4. Describe whether Prometheum has employees and/or operations domiciled in China, either directly or through strategic partners or venturers like Wanxiang and Hashkey. If such employees and/or operations exist in China, describe how FINRA and the SEC plan to supervise such employees and/or operations to ensure compliance with U.S. laws and regulations.
5. What steps has FINRA and the SEC taken to ensure that the blockchain technology-based platforms Prometheum and its Chinese partners intend to develop will be secure and compliant with U.S. laws and regulations, including AML and sanctions regulations?

⁶ <http://www.wanxiang.com.cn/en/index.php/news/info/2132>

⁷ *Ibid.*

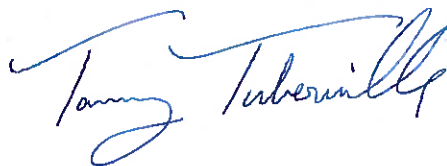
⁸ *Ibid.*

⁹ *Ibid.*

6. Chair Gensler, please produce all communications between you or any of your direct reports, including Chairman's office staff, and Prometheus, Wanxiang, and Hashkey.
7. Mr. Cook, please produce all communications between you or any of your direct reports and Prometheus, Wanxiang, and Hashkey.

I appreciate your prompt attention to my concerns.

Sincerely,

A handwritten signature in blue ink that reads "Tommy Tuberville". The signature is fluid and cursive, with the first name "Tommy" and last name "Tuberville" clearly legible.

Tommy Tuberville
United States Senator

CC: The Honorable Avril D. Haines, Director of National Intelligence
The Honorable Christopher A. Wray, Director of the Federal Bureau of Investigation