Wolters Kluwer

Vital Briefing

SEC crypto interpretation: wrapping and airdrops

By Mark S. Nelson, J.D.

The Commission issued its crypto interpretation in March 2026, thus putting a more formal stamp on what for the past year was merely a growing collection of non-binding guidance on a variety of crypto topics. Much of the informal guidance remains, although some topics previously addressed have been subsumed into the crypto interpretation. This Vital Briefing, the third and final in a three-part series, takes a closer look at the practice of wrapping and the use of airdrops.

I. Introduction

The Commission's crypto interpretation ended with two sections that focus on issues of interoperability among blockchains and interest generation among potential users of a blockchain. The first, wrapping, addresses concerns about using one blockchain's crypto asset as currency on another blockchain. The second, airdrops, addresses issues about getting potential users of a blockchain interested in engaging with that platform. Both wrapping and airdrops raise questions about what precisely the various actors are doing and whether those activities implicate the federal securities laws.

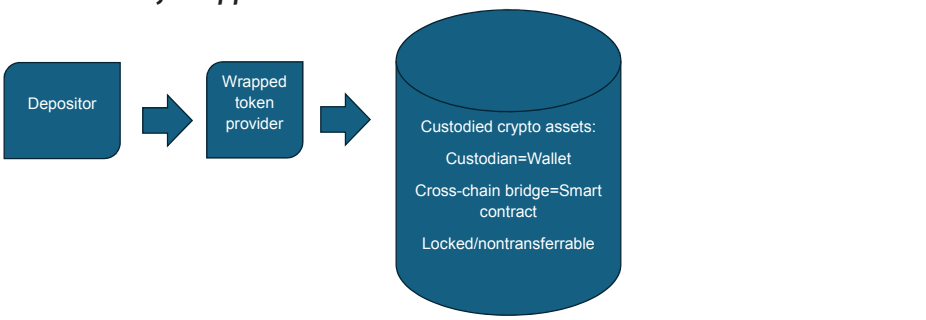
II. Wrapping

The Commission's crypto interpretation addresses the securities law consequences of the practice of "wrapping" deposited crypto assets for the purposes of overcoming interoperability issues and differing token standards that may apply between incompatible crypto networks. The result of the wrapping process (interoperability between blockchains) is fairly straight forward, but the internal mechanics of how wrapping achieves that result can be somewhat complex and may involve varied actors and activities.

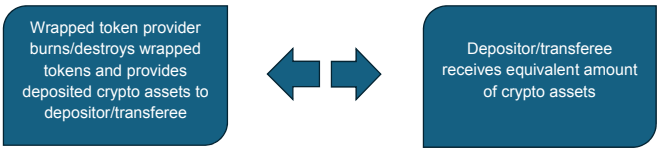
The Commission's interpretation of the legal status of wrapping generally follows the same pattern and reasoning as its analysis of staking receipt tokens. The key questions

The wrapping process

Generation of wrapped tokens



Redemption of deposited crypto assets



Source: Application of the Federal Securities Laws to Certain Types of Crypto Assets and Certain Transactions Involving Crypto Assets, Release No. 33-11412 (Mar. 17, 2026), 91 F.R. 13714, 13729 (Mar. 23, 2026).

©2026 CCH Incorporated and its affiliates. All rights reserved. Reprinted with permission from CCH Incorporated.

Redeemable wrapped token receipts and investment contracts

Is there a redeemable wrapped token?	*Is there a receipt for an asset?*	*What kind of asset is the receipt for?*	*Is the asset subject to an investment contract?*	*Interpretation*	*Commission analysis*
Y	Y	Non-security crypto asset	N	Under these circumstances, a non-security crypto asset not subject to an investment contract would not involve an offer or sale of a security.	(1) This scenario does not invoke any enumerated instruments in the definition of "security" (i.e., lacks economic characteristics of a security). (2) The receipt is merely evidence of the ownership of the deposited crypto asset without any change in rights, obligations, or benefits.
Y	Y	Digital security	N/A	Under these circumstances a digital security or a non-security crypto asset subject to an investment contract would involve an offer or sale of a security.	
		Non-security crypto asset	Y		
Y	Y	Non-security crypto asset	N	Question: Is a redeemable wrapped token itself, under these facts, potentially offered and sold subject to an investment contract? Answer: No.	(1) No investment in an enterprise (holders' funds are not pooled and their fortunes are not tied to a promoter) (2) Value of redeemable wrapped token derived from value of deposited crypto asset, not the essential managerial efforts of a third party (3) Wrapping process is administrative or ministerial in nature (4) Redemption on fixed, one-to-one basis negates any possible financial incentive

Source: Application of the Federal Securities Laws to Certain Types of Crypto Assets and Certain Transactions Involving Crypto Assets, Release No. 33-11412 (Mar. 17, 2026), 91 F.R. 13714 (Mar. 23, 2026).

©2026 CCH Incorporated and its affiliates. All rights reserved. Reprinted with permission from CCH Incorporated.

the Commission sought to answer are also nearly identical, albeit modified slightly for the specific context:

- Whether a redeemable wrapped token that is a receipt for a non-security crypto asset that is not subject to an investment contract involves a security (No—As a result, there is no need to register the instrument or assert a registration exemption).
- Whether a redeemable wrapped token that is a receipt for a digital security or non-security crypto asset that is subject to an investment contract involves a security (Yes—this arrangement involves a security).

Moreover, the answer to the question of whether a redeemable wrapped token that is a receipt for a non-security crypto asset that is not subject to an investment contract *itself* may be offered and sold subject to an investment contract involves a security is identical to that for a similar staked token receipt (i.e., not a security).

III. Airdrops

Lastly, the Commission's crypto interpretation addresses airdrops. The interpretation defines "airdrop" to mean "the dissemin[ation] of [] crypto assets in exchange for no or nominal consideration." The interpretation also acknowledges the many, varied reasons that issuers of crypto assets might engage in airdrops; these purposes include:

- Generate interest
- Expand ownership/use of a crypto asset
- Reward early users or reward loyal users of a crypto asset
- Promote a software application
- Build a community
- Aid the development of a decentralized, open-source crypto system
- Reward video game players who achieve high scores

An airdrop typically would involve the issuer of a crypto asset transferring the airdropped crypto asset into specific crypto accounts. The recipient account may have one or more of several characteristics in common, including that the system on which the accounts exists facilitates airdrops, the accounts hold a minimum amount of a crypto asset, or the account holders provided a service such as bug identification or promotion of the crypto asset on social or other media.

Important caveat: The airdrop section of the Commission's crypto interpretation, however, unlike many of the other topics covered by the interpretation, is significantly limited in its scope. Specifically, the Commission's interpretation regarding airdrops applies only to airdrops of non-security crypto assets where the recipients of the airdropped crypto asset do not provide the issuer with money, goods, services, or other consideration in exchange for the airdropped non-security crypto asset. As a result, the Commission's crypto interpretation:

- DOES NOT apply to airdrops of non-security crypto assets where the recipient provides the issuer with money, goods, services, or other consideration in exchange for the airdropped non-security crypto asset.
- DOES apply to airdrops of non-security crypto assets where the recipient provides the issuer with money, goods, services, or other consideration that is NOT in exchange for the airdropped non-security crypto asset. The Commission indicated that it is the bargained for nature of the consideration that matters. The Commission suggested that, as an example, in a scenario in which a recipient provides an issuer with consideration before the issuer announced an airdrop, and the recipient need not provide more consideration thereafter, the consideration given before the announcement would not be given in exchange for the airdropped non-security crypto asset.
- DOES NOT apply to airdrops of digital securities.
- DOES NOT change the Commission's view of "sale" under the Securities Act and the Exchange Act. The Commission also noted that these Acts would not apply to airdrops of non-security crypto asses that are not subject to an investment contract.

IV. Looking ahead

And that brings to an end this three-part series examining the SEC's crypto interpretation. Wrapping and airdrops have significant implications for the usability of blockchains—both from the standpoint of generating interest in blockchains and allowing cross-functionality between blockchains. Wrapping, in particular, may be critical to the blockchain industry's larger goal of bringing a more fully decentralized crypto experience to fruition. But industry participants must remain attuned to the myriad issues that can still arise under the federal securities laws.

©2026 CCH Incorporated and its affiliates. All rights reserved. Reprinted with permission from CCH Incorporated.