**MEMORANDUM**

**To**: Crypto Task Force Meeting Log
**From**: Crypto Task Force Staff
**Re**: Meeting with Representatives of the Securities Industry and Financial Markets Association, Cahill Gordon & Reindel LLP, Citadel Securities, and JPMorgan Chase & Co.

---

On January 27, 2026, Crypto Task Force Staff met with representatives from the Securities Industry and Financial Markets Association, Cahill Gordon & Reindel LLP, Citadel Securities, and JPMorgan Chase & Co.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. The Securities Industry and Financial Markets Association, Cahill Gordon & Reindel LLP, Citadel Securities, and JPMorgan Chase & Co. representatives provided the attached documents, which were discussed during the meeting.

SIFMA would like to request a meeting to follow up on our recent letters to the Commission and the Crypto Task Force. These include our November 26, 2025 letter on exemptive relief requests and our December 16, 2025 letter to the Crypto Task Force, which outlined in detail our views on the application of core U.S. securities laws to the trading of tokenized securities in decentralized and hybrid centralized-decentralized trading environments; put forward a clear and nuanced taxonomy for digital securities; discussed regulatory recommendations linked to those taxonomy dimensions; and made detailed recommendations regarding the application of trading regulations to tokenized securities, building on prior letters to the Task Force.

We propose that the meeting cover the considerations and recommendations in both letters, as well as any other issues that the Task Force would like to raise with us.

Attendees would include:

- Ken Bentsen, SIFMA CEO and President
- Joe Seidel, COO
- Peter Ryan, Managing Director and Head of International Capital Markets and Strategic Initiatives
- Charles DeSimone, Managing Director and Deputy Head of Operations and Technology;
- Steve Byron, Managing Director, Head of Operations and Technology;
- Joe Corcoran, Managing Director, Capital Markets
- Katie Kolchin, Managing Director, Capital Markets
- Gerald O'Hara, Vice President, Capital Markets
- Kyle Brandon, Managing Director, Derivatives Policy

We would be happy to conduct the meeting in hybrid format or fully virtual, depending on the Task Force's availability and availability of any other SEC staff that the Task Force may wish to invite to join the meeting.

# Regulating Tokenized Securities: Recommendations for the SEC Crypto Task Force

PRESENTED BY

SIFMA

January 2026

# Executive Summary

- SIFMA would like to discuss four separate inputs that we have provided to the SEC and the Crypto Task Force since last November:
  - Our November 2025 letter addressing the extension of exemptive relief to tokenized securities activities.
  - Our December 2025 letter, which provided detailed input on a) lessons that could be learned from crypto market stresses; b) the application of securities rules to decentralized finance ("DeFi") and other alternative trading models; c) the need for a clear and nuanced digital securities taxonomy; and d) additional recommendations related to the trading of tokenized securities.
  - Our December 2025 draft regulatory mapping chart and rules inventory, showing how existing rulesets can be applied to different forms of tokenized equity securities (updated draft included with meeting materials).
  - Our January 2026 letter highlighting issues related to the regulation of wallet providers.

- SIFMA's recommendations in these documents reflect our strong support for both innovation in tokenized securities markets and the importance of applying long-standing investor protection and market integrity principles across all securities markets, including registration requirements for entities that engage in securities business or execute securities transactions.

# Exemptive Relief for Tokenized Securities

In SIFMA's 11/26/2025 letter, we discuss our concerns around the scope of potential exemptive relief from the securities laws for tokenized securities activities.

- ***Investor Protection and Market Integrity are Critical for Tokenization to Succeed:***
  - We strongly support innovation in the securities markets. However, the adoption and potential benefits of tokenized securities markets rests on ensuring that they are subject to the same fundamental investor protection and market integrity principles that have helped make the U.S. securities markets the largest and deepest in the world.

- ***Regulation Should be Based on Economic Characteristics and Functional Equivalence:***
  - Regulatory treatment should be based on economic characteristics, not on the technology used or categorical labels (*e.g.,* "DeFi"). This is why the same core regulatory principles must apply equally to all securities – whether in tokenized, book-entry or paper form and to all entities engaged in securities businesses or that execute securities transactions.

- ***The Risks of Broad Exemptions:***
  - Broad exemptions for tokenized trading activities could undermine investor protection and lead to market disruptions. Recent events (*e.g.,* the October flash crash and the Stream Finance collapse) illustrate the potential risks of allowing tokenized securities to trade outside of long-standing securities market protections.

- ***Carefully Designing Innovation Exemptions:***
  - A carefully designed innovation exemption framework can support the policymaking process, but it is not a substitute for comprehensive regulatory modernization via notice-and-comment rulemaking.
  - Exemptive relief involving tokenized securities should be narrowly tailored, grounded in strong economic analysis, open to all market participants, and subject to both appropriate guardrails and public notice-and-comment.

# Challenges in Applying DeFi Models to Securities Markets

In SIFMA's 12/16/2025 letter, we discuss our concerns around the application of DeFi models to tokenized securities activities.

- ***Many DeFi models perform functions that are regulated activities in the securities markets:***
  - These may include front-end interfaces, order-routing tools, liquidity providers ("LPs"), and affiliated foundations. Where they are acting as a broker, dealer, or exchange under the Exchange Act they should be regulated as such.

- ***The application of unregulated DeFi models to the securities markets would be a fundamental departure from the core frameworks of modern U.S. capital markets:***
  - DeFi trading systems differ fundamentally from the narrow peer-to-peer ("P2P") securities transfer mechanisms permitted today; large scale P2P or peer-to-crowd models do not exist in the U.S. markets today and instead, if permitted to operate outside the federal securities laws, they would resemble historic unregulated markets that lacked transparency, audit trails, and investor protections, such as those seen before modern securities regulations were introduced in the 1930s.

- ***Securities regulatory frameworks must be applied to DeFi models, yet there are critical unanswered questions in how this would be achieved:***
  - Any DeFi model in the securities markets would need consistent investor protections and market integrity regulations. However, it is uncertain how these would be applied in light of novel DeFi features like maximal extractable value ("MEV"), automated market maker ("AMM") pricing, fragmented liquidity pools, and opaque conflicts of interest among entities supporting DeFi platforms.

- ***Rigorous analysis is needed before any policy changes:***
  - The SEC should conduct rigorous economic and risk analysis before considering any exemptions or alternative regulatory treatments for decentralized trading systems.

# The Need for a Clear & Nuanced Digital Securities Taxonomy

In SIFMA's 12/16/2025 letter, we also discuss the importance of a clear, nuanced taxonomy for securities in digital form, provide recommendations for developing such a taxonomy, and identify regulatory considerations driven by different models of tokenizing securities

- ***A nuanced taxonomy of securities in digital form is critical for effective regulation:***
  - Because digital markets encompass a range of novel products and services, a nuanced taxonomy, driven by the key legal and economic features of such products and services, is necessary to clearly identify how each product and service fits into established securities regulatory frameworks.
  - This reduces investor confusion; limits market fragmentation; supports consistent prospectus, reporting, suitability, and trading obligations; clarifies how corporate actions should be processed across different tokenization models; and provides the foundation for applying securities laws to digital assets in a future-proof, technology-neutral manner.

- ***We identify three core models for tokenized securities:***
  - *Native tokenized securities*: Securities are created by issuers and their transfer agents in "natively" tokenized form, meaning that the security (*i.e.,* the equity interests or debt obligations) is considered "uncertificated" and a token is used by the transfer agent to effect transfers of the equity or debt interests or rights that comprise the security.
  - *Wrapped tokenized securities*: An arrangement in which the underlying securities are custodied and an ADR-type token is issued representing an interest in that custodied position. The wrapped tokenized security enables the token-holder to receive the stock upon the delivery of the token to the issuer.
  - *Security entitlement tokens*: An arrangement in which a security is held with a custodian and a token is simply a mechanism for the custodian to record a customer's entitlement thereto. Under such an arrangement, a transfer of the token is nothing more than the custodian recording on its books and records the transfer of the security's ownership from one of its customers to another.

- ***These core models can be further distinguished by key features:***
  - Including convertibility; the degree to which the token conveys full legal and economic rights; whether it is issued in registered or bearer form; any transfer restrictions or fees; and the holding of underlying shares.

# Application of Regulatory Frameworks to Tokenized Securities

In SIFMA's 12/16/2025 letter, we outline several recommendations and policy considerations for the application of established securities regulatory frameworks to tokenized securities.

- ***Certain regulatory recommendations are linked to taxonomy dimensions***
  - Some questions on the application of securities law to digital securities align directly with the dimensions of the taxonomy used to classify them because the process for structuring tokens introduces specific legal and operational questions.
  - These include the treatment of corporate actions, the fungibility of tokenized securities, the relationship with the underlying security, and investor disclosures, among others.

- ***Market and trading regulations will need to be consistently applied to tokenized securities***
  - Applying established regulations to the trading of tokenized securities will require addressing a number of key questions on how they intersect with the technological features of these assets.
  - These questions occur across the trade lifecycle, and including application of trade execution, pre and post-trade reporting and price transparency, and market structure rules.
  - Avoiding market fragmentation should be a key consideration.

- ***Stress scenario controls should be retained:***
  - Recent market shocks in the native digital market highlight the importance of extending existing stress scenario controls to digital securities markets, including both market-wide controls such as circuit breakers and platform-specific resiliency requirements such as Reg SCI.

# Regulatory Mapping Chart and Rules Inventory

In SIFMA's 12/22/2025 submission, we provide a *draft* regulatory mapping chart showing the application of the federal securities laws to tokenized equity securities (an updated draft is included as part of today's meeting materials). SIFMA also submitted a separate inventory of SEC rules that may be applicable to tokenized securities activities.

- The mapping chart is intended to assist the SEC in its ongoing work by:
  - Identifying key statutory & regulatory provisions that apply to the issuance and trading of securities in the U.S.;
  - Describing the key obligations & market and investor protections that flow from each statute or regulation; and
  - Analyzing the interaction of the existing regulatory framework with equity securities issued or traded via DLT, with a focus on the following types of digital securities: native tokenized securities, wrapped tokenized securities, & security entitlement tokens.

- The chart is not intended to be a catalog of all relevant provisions of the U.S. securities laws or SEC regulations, but simply a selection of notable requirements.

- Broadly, the regulatory mapping chart finds that existing securities laws and regulations can and should be applied to the issuance and trading of tokenized equity securities, with limited tailoring where unique challenges, risks, or mitigants are created using DLT.

# Wallet Providers and Broker-Dealer Registration

In SIFMA's 01/15/2026 letter, we address the regulation of wallet providers that support tokenized securities activities.

- ***Broker-Dealer Registration is Necessary to Protect Investors and Markets:***
  - Wallet providers that perform core brokerage activities (*e.g.,* order routing, soliciting trades, providing investment advice, safekeeping services) and earn transaction-based compensation must register as a broker-dealer.
  - Failure to do so would expose investors and markets to well-established risks, including potential conflicts of interest and inappropriate solicitations to customers.

- ***Distinguish Non-Custodial and Custodial Wallet Models:***
  - True non-custodial wallets enabling self-custody should be clearly distinguished from models in which wallet providers hold or control customer private keys or assets.
  - Wallet providers that assume safekeeping responsibilities functionally resemble brokers or custodians, which should trigger additional regulatory obligations.

- ***Regulatory Clarity Should Be Achieved Through Rulemaking, Not Exemptive Relief:***
  - Durable, technology-neutral clarity should be achieved through notice-and-comment rulemaking grounded in economic function and the totality of activities performed, not via ad-hoc exemptions or no-action relief.
  - Clear rules would support innovation and partnerships between wallet providers and registered broker-dealers.

This chart examines at a high level the applicability of certain provisions of the Securities Act, the Exchange Act, the Advisers Act, the Investment Company Act, the Securities Investor Protection Act and the SEC's regulations thereunder (as well as certain FINRA rules) to tokenized equity securities. It also considers whether the policy considerations motivating such provisions are implicated in the context of tokenized equity securities, whether applying the provisions to tokenized equity securities would present challenges that may require SEC action, any additional risks related to such provisions that tokenized equity securities may raise relative to traditional securities, and any inherent mitigants that tokenization provides to the risks that the provisions seek to address. This chart is by no means an exhaustive catalogue of all relevant provisions of the U.S. securities laws or the SEC's regulations thereunder. It is simply a selection of a few notable requirements, exclusion of a specific rule does not imply that it is not applicable to tokenized securities. SIFMA may supplement this chart in the future with additional provisions, as well as with additional analysis concerning other kinds of tokenized securities (*e.g.*, debt securities, security-based swaps, security futures and other derivatives involving securities), and we look forward to working with the Commission on such expansion. This chart considers the relevant provisions as they are in effect today, with the recognition that the SEC is considering certain changes (*e.g.*, to Regulation NMS). Any such changes should be considered in view of all equity securities regardless of recordkeeping methodology and may require a reassessment of these considerations.

This document is intended to be an illustrative reference providing a framing for understanding the core pillars of the US securities regulatory framework and its applicability to tokenized securities. For a more extensive list of applicable regulations, please consult the draft inventory at https://www.sec.gov/files/ctf-written-input-sifma-sec-rule-inventory-122225.xlsx.

As we have discussed in the past, individual tokenization arrangements may differ dramatically from one another. This chart examines the applicability of certain key securities laws and regulations to the following types of tokenized securities:

1. Native tokenized securities: Securities issued directly on chain, without an intermediary or wrapper, that purport to convey rights to the token-holder which are legally equivalent to the rights of a holder that is recorded directly on the issuer's or its transfer agent's books as the security holder.
2. Wrapped tokenized securities: An arrangement in which the underlying securities are custodied and an ADR-type token is issued representing an interest in that custodied position. The wrapped tokenized security enables the token-holder to receive the stock upon the delivery of the token to the issuer. These wrapped tokens constitute separate securities, and the transfer of such tokens constitutes the transfer of rights to the underlying securities.
3. Security entitlement tokens: An arrangement in which a security is held with a custodian and a token is simply a mechanism for the custodian to record a customer's entitlement thereto. Under such an arrangement, a transfer of the token is nothing more than the custodian recording on its books and records the transfer of the security's ownership from one of its customers to another. The token itself is not a security but a digital record-keeping mechanism used by the custodian to track security entitlements. Nonetheless, because any transfer of security entitlements on a custodian's books and records constitutes a transfer of the security, a transfer of the token constitutes a transfer of the security.

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| Securities Act § 2 – Security and Dealer Definitions<br>15 U.S.C. § 77b<br>Exchange Act § 3 – Exchange, Security, Broker, and Dealer Definitions<br>15 U.S.C. § 78c | The Securities Act and the Exchange Act define a security as including, among others, any note, stock, security future, security-based swap, bond, debenture, investment contract, as well as any put, call, straddle, option, or privilege on any security, and any certificate of interest, participation in, receipt for, or right to subscribe or purchase any of the foregoing.<br>The Securities Act and Exchange Act define dealer as any person engaged in the business of offering, buying, selling, or otherwise dealing in securities issued by another person. The Exchange Act defines broker as | **Applicable to Native Tokenized Securities:** Yes, since native tokens are securities, just in a digital form, any activities in relation to the token would constitute activities in relation to the security. Accordingly, a market participant that acts as broker, dealer, or exchange in relation to the token would qualify as a broker, dealer, or exchange.<br>**Applicable to Wrapped Tokenized Securities:** Yes, it is well established that a receipt for a security is a security. Similarly, since the token qualifies as a security, a market | The definitions of security in the Securities Act and the Exchange Act and the case law interpreting the definitions focus on economic substance, so as to ensure that substantively identical instruments and activities are treated similarly. That a security is recorded using distributed ledger technology rather than a centralized ledger does not affect its substance. There is therefore no basis for broadly treating tokenized securities and the intermediaries that engage with them differently from traditional securities and their market participants. Any different regulatory requirements should be narrowly tailored to address (i) practical challenges that may arise from subjecting tokenized securities to existing regulatory requirements (*i.e.,* square peg / round hole issues), (ii) additional risks that tokenized | Challenges that arise in applying existing requirements to tokenized securities are described with regard to the relevant statutory or regulatory provisions below. | Additional risks that tokenized securities raise, as compared to traditional ones, are addressed in relation to the relevant statutory or regulatory provisions below. | Technological mitigants that may counsel relaxing certain regulatory requirements in relation to tokenized securities are discussed in relation to the relevant statutory or regulatory provisions below. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | any person engaged in the business of effecting transactions in securities for the account of others.<br><br>The Exchange Act defines an exchange as any organization, association, or group of persons which constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities. | participant that acts as a broker, dealer, or exchange in relation to the token would qualify as a broker, dealer, or exchange.<br><br>**Applicable to Security Entitlement Tokens:** Although the token itself would not be a security since it is simply a recordkeeping mechanism, any activities in relation to the token would constitute activities in relation to the security. Accordingly, a market participant that acts as a broker, dealer, or exchange in relation to the token would qualify as a broker, dealer, or exchange. | securities present, and (iii) mitigants inherent in blockchain technology that serve to reduce the risk of tokenized securities as compared to traditional ones. | | | |
| ***Registration and Disclosure Requirements*** | | | | | | |
| Securities Act §§ 5, 6, 7, 10 – Registration Requirements<br><br>15 U.S.C. §§ 77e, 77f, 77g, 77j | Unless an exception applies, the Securities Act requires the filing of a registration statement containing certain key information about the issuer and the security to be issued and the delivery of a prospectus relating to the security. | **Applicable to Native Tokenized Securities:** Yes, the registration requirements apply to sales involving native tokens because the tokens are securities.<br><br>**Applicable to Wrapped Tokenized Securities:** Yes, because a wrapped token is a security, the registration requirements would apply to sales of the token. In addition, the issuer of the underlying security is subject to registration statement and prospectus requirements.<br><br>**Applicable to Security Entitlement Tokens:** Yes, the registration requirements apply to sales involving the tokens because the tokens represent ownership interests in the underlying securities such that a sale of the token is a sale of the security itself. | The registration statement and prospectus requirements under the Securities Act are designed to ensure that investors are provided with sufficient information regarding the risks and profile of a security so that they can make an informed decision as to whether to purchase such security. Because tokenized securities have all of the risks of the underlying security, there is no reason to apply weaker disclosure requirements.<br><br>Further, since tokenized securities may present additional risks, additional disclosure would likely be appropriate. | None. The fact that tokenized securities are recorded using distributed ledger technology rather than a centralized ledger should not make it more difficult for the issuer to provide the requisite disclosure. If anything, the greater functionality of distributed ledger technology may make delivery of prospectuses easier. | Particularly in the case of wrapped tokenized securities and native tokenized securities, a tokenized security may present not only the risks of a traditional security, but also additional risks. In order to make informed decisions about these risks, investors need clear information regarding, among other things, the legal arrangement governing the tokenization arrangement, the technological infrastructure supporting the tokenization arrangement, how, in the case of a wrapper, the underlying securities are held and how holders can redeem their tokens, the identity of the parties involved in the arrangement, and any restrictions related to transferability. This information is particularly critical since tokenization arrangements differ markedly from one another and there is a significant risk of investors conflating or misunderstanding the particular kind of token they are purchasing. | None. While blockchain technology may facilitate the delivery of prospectuses, it does not mitigate any of the risks that the securities laws' disclosure requirements aim to address. |
| Securities Act §§ 12, 13, 15, 17, 23 – | The anti-fraud provisions of the Securities Act create civil liability for untrue statements of material | **Applicable to Native Tokenized Securities:** Yes, since the token is a security | The anti-fraud provisions of the Securities Act and the Exchange Act aim to protect investors and market integrity by ensuring access to | None. Tokenization of securities does not make it more difficult for issuers, insiders, underwriters, or | Considering the additional risks tokenization presents, particularly under the wrapper model, and the variance | None. There is nothing about the fact that a security is tokenized that addresses the information |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| Liability for untrue statements, control persons, antifraud provisions<br><br>15 U.S.C. §§ 77k, 77l, 77o, 77q, 77w<br><br>Exchange Act §§ 9, 10, 20 – Manipulation of securities prices, manipulative and deceptive devices, control person liability<br><br>15 U.S.C. §§ 78i, 78j, 78t; 17 C.F.R. § 240.10b-5<br><br>Regulation M<br><br>17 C.F.R. §§ 242.100-105<br><br>FINRA Rules 2020, 2210 – Use of Manipulative, Deceptive or Other Fraudulent Devices, Communications with the Public | fact or omissions of material facts in registration statements, prospectuses, and other communications; establish control person liability; and prohibit the use of fraudulent devices, schemes, and practices in offering or selling securities.<br><br>The anti-fraud provisions of the Exchange Act prohibit manipulative practices in securities trading including matched orders, market manipulation, false statements to induce sales, paid promotions, and the use of any manipulative or deceptive device in connection with securities trading, as well as establishing control person liability.<br><br>Reg M prohibits potentially manipulative conduct during securities distributions. FINRA Rules 2020 and 2210 apply anti-fraud principles and content standards to communications with the public. | equivalent to a traditional equity security, the anti-fraud provisions apply to the registration, offering, and sale of the token and transactions involving the token. Similarly, the anti-fraud provisions apply to statements and omissions regarding the token.<br><br>**Applicable to Wrapped Tokenized Securities:** Yes. the anti-fraud provisions apply to the registration, offering, and sale of the token and transactions involving the token since it is well established that wrappers are securities. In addition, the issuer, insiders, and other relevant market participants would be subject to these requirements in relation to the underlying security.<br><br>**Applicable to Security Entitlement Tokens:** Yes, the anti-fraud provisions apply to the registration, offering, and sale of the underlying security that the token represents and transactions involving the security that the token represents. Since the token is a means of recording the security entitlement to the underlying security, the anti-fraud provisions apply to statements and omissions regarding that underlying security and its registration/offering. | truthful, material information necessary for informed investment decisions, restricting deceptive trading activity, and promoting accountability for parties with privileged access or information. The control person liability provisions incentivize oversight and accountability for parties that supervise a violation of the securities laws.<br><br>That securities may be recorded using distributed ledger technology rather than a centralized ledger does not diminish the relevance or importance of these investor protection and market integrity objectives. The policy goal of ensuring investors receive truthful, material information remains equally critical regardless of the medium used to record securities.<br><br>In addition, particularly in the case of wrapped securities, there are arguably two different issuers and groups of distribution participants. The SEC should seek notice and comment on whether additional guidance or requirements may be advisable to ensure that each issuer and set of distribution participants provides the requisite disclosure and refrains from engaging in manipulative practices. | market participants generally to avoid making untrue statements or engaging in manipulative or deceptive practices. If anything, the greater programmability that distributed ledger technology may offer may facilitate compliance (e.g., by ensuring smart contracts prohibiting trading are activated during blackout periods). | among tokenization models, tokenization may magnify the risk of investor confusion and make market participants more susceptible to deceptive schemes or fraudulent activities. Moreover, the fact that a tokenized version (or multiple tokenized versions) of a security may trade concurrently with its traditional analogue may increase the opportunity for bad actors to engage in manipulative or deceptive trading practices across multiple instruments or venues.<br><br>Prohibitions on wash sales, matched orders, and price manipulation may be more difficult to detect and prevent on decentralized finance platforms. DeFi platforms must build the necessary infrastructure to surveil for compliance with these prohibitions. | asymmetries or the potential for manipulation or deception that the securities laws were designed to address. Blockchain technology can provide transparent, publicly available audit trails with real-time surveillance of on-chain activity to detect manipulative trading patterns, but operators must actually implement these strategies to prevent fraud. |
| Disclosure Requirements – Regulations S-K/S-X and Regulation FD<br><br>17 C.F.R. § 229; 17 C.F.R. § 210 | Reg FD requires issuers to publicly disclose any material non-public information, in the event that such information is disclosed to a covered recipient, including broker-dealers, investment advisers, investment companies, and holders of the issuer's securities. | **Applicable to Native Tokenized Securities:** Yes, because the token constitutes a security, the disclosure requirements apply.<br><br>**Applicable to Wrapped Tokenized Securities:** Yes, because a wrapper is a security, the disclosure requirements would apply to | The disclosure requirements under the federal securities laws and the SEC's regulations thereunder seek to ensure fair access, avoid preferential treatment of market intermediaries, and provide investors with the information necessary to make informed decisions. The fact that tokenized securities are recorded using distributed ledger technology rather than a centralized ledger does not affect the relevance, | None. The fact that securities are recorded using distributed ledger technology rather than a centralized ledger does not make it any more difficult for issuers to comply with these requirements. | Particularly in the case of wrapped tokens and native tokenized securities, a tokenized security may present not only the risks of a traditional security, but also additional risks. In order to make informed decisions about these risks, investors need clear information regarding, among other things, the legal arrangement governing the tokenization arrangement, the technological infrastructure supporting the tokenization | None. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| 17 C.F.R. § 243.100-103 | Reg S-K establishes disclosure requirements covering the material qualitative descriptions that must be included in registration statements, periodic reports, proxy statements, and other filings.<br><br>Reg S-X establishes the form, content, and other requirements for financial statement filings. | sales of the token. In addition, the issuer of the underlying security is subject to disclosure requirements.<br><br>**Applicable toSecurity Entitlement Tokens:** Yes, the disclosure requirements apply to sales involving the tokens because the tokens represent ownership interests in the underlying securities such that a sale of the token is a sale of the security itself. | necessity, or utility of these mechanisms to achieve these objectives.<br><br>Reg S-K and Reg S-X include tailored, industry-specific provisions for certain industries. Tokenization-specific disclosures will be important to improving investor information in a new area of the securities market. The SEC should seek notice and comment on whether the creation of specific tokenization disclosure standards could address the additional risks presented by tokenizing equity securities. | | arrangement, how, in the case of a wrapper, the underlying securities are held and how holders can redeem their tokens, the identity of the parties involved in the arrangement, and any restrictions related to transferability. This information is particularly critical since tokenization arrangements differ markedly from one another and there is a significant risk of investors conflating or misunderstanding the particular kind of token they are purchasing. Reg S-K and Reg S-X's industry-specific provisions could similarly include tokenization-specific disclosures to provide the information necessary for investors to fully understand the security being purchased. | |
| ***Broker-Dealer Requirements*** | | | | | | |
| Exchange Act § 15 – Broker-Dealer Registration Requirements<br><br>15 U.S.C. § 78o | The Exchange Act requires brokers and dealers to register with the SEC (and become a member of at least one self-regulatory organization) and comply with certain financial responsibility, operational capacity, and other regulations. | **Applicable to Native Tokenized Securities:** Yes, since native tokens are securities, market participants acting in the capacity of a broker-dealer in relation to the token must register with the SEC and comply with appropriate regulation of broker-dealers.<br><br>**Applicable to Wrapped Tokenized Securities:** Since a wrapper is a security, market participants acting as broker-dealers must register with the SEC and comply with appropriate regulation of broker-dealers.<br><br>**Applicable to Security Entitlement Tokens:** Since the token represents a security, market participants acting in the capacity of a broker-dealer in relation to the token are effectively performing the same function with regard to the underlying security, so must register with the SEC and comply with appropriate regulation of broker-dealers. | Registration and associated regulatory requirements for broker-dealers are designed to promote orderly and robust markets, ensure fair and open access, limit the risk of systemic disruptions and dislocations, prevent undue favoritism, ensure operational capacity, and protect investors. The fact that securities may be recorded using distributed ledger technology rather than a centralized ledger does not, other than in the limited circumstances described below, affect the relevance, propriety, or necessity of these protections. Notably, the Exchange Act's definitions were not drafted based on the particular recordkeeping mechanism applicable to securities, and Congress has reaffirmed them even as the U.S. securities market shifted from one based on individual certificates to book-entry and immobilized securities. | The fact that a security is recorded using distributed ledger technology does not make it any more difficult for market intermediaries performing broker-dealer functions for such securities to register under the Exchange Act. In addition, other than in the limited circumstances discussed below, it does not preclude compliance with the Exchange Act's requirements for these intermediaries. | The fact that a security is recorded using distributed ledger technology rather than a centralized ledger is not inherently relevant to how it trades. As a result, except as described below, the mere fact that a security is tokenized should not give rise to additional risks related to the broker-dealer registration requirements or the substantive requirements applicable to broker-dealers.<br><br>However, many of the so-called "DeFi" protocols that list tokenized securities and their intermediaries have features—including pseudonymous trading, limited transparency, novel technology, opaque governance structures, distorted incentives, and conflicts of interest—that make the application of the registration and associated requirements all the more critical. | None. The fact that a security is recorded using distributed ledger technology rather than a centralized ledger does not, except as set forth below, mitigate the risks that broker-dealer registration and associated requirements are designed to address. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| Disclosure of Interests in Distributions<br>17 C.F.R. § 240.15c1-6<br>FINRA Rule 5121 | Rule 15c1-6 requires a broker-dealer acting for a customer or receiving a fee for advising a customer in a primary or secondary distribution in which the broker-dealer is interested to provide written notification of its participation or financial interest in such distribution before completing the transaction at issue. FINRA Rule 5121 specifies the manner in which members must disclose conflicts of interest in public offerings. | **Applicable to Native Tokenized Securities:** Yes, since the native token is a security, the disclosure rules apply.<br>**Applicable to Wrapped Tokenized Securities:** Yes, since a sale of the wrapped token is a sale of the beneficial interest in the underlying security, the disclosure rules apply in the same way as they would for a traditional security.<br>**Applicable to Security Entitlement Tokens:** Yes, since a sale of the security entitlement token is a sale of the beneficial interest in the underlying security, the disclosure rules apply in the same way as they would for a traditional security. | Rule 15c1-6 and FINRA Rule 5121 seek to prevent conflicts of interest from harming customers. The rules require transparent disclosure when a broker-dealer has a financial stake in the securities they are recommending, or purchasing for, a customer.<br>The fact that the securities at issue are tokenized does not affect the need for such disclosure or the potential benefits it may provide. | None. A broker-dealer with interests in a security can disclose this to customers, whether the interest concerns tokenized or traditional equity securities. | None. | None. |
| Capital Requirements for Broker Dealers<br>17 C.F.R § 240.15c3-1 | Broker-dealers must maintain net capital above certain activity-based minimum requirements. | Yes, the fact that a security a broker-dealer may be holding or financing is recorded using distributed ledger technology does not affect the asset's status as a security. Tokenization of a security should therefore not cause Rule 15c3-1 to be any less applicable to such position. | Rule 15c3-1 seeks to ensure that broker-dealers maintain levels of highly liquid assets to ensure they can meet customer and creditor obligations promptly, even if the firm fails.<br>That a security owned or financed by a broker-dealer may be in tokenized form does not inherently mitigate these considerations or make the net capital rule any less effective in addressing them.<br>However, a wrapped or native tokenized security may, depending on, among other things, the blockchain on which it is recorded or the platform on which it trades, have lower liquidity or greater credit or other risks as compared to traditionally recorded securities. The Commission may therefore need to adopt haircuts, standards, or other provisions in relation to such securities to ensure the broker-dealer duly accounts for the extent to which they would be available to facilitate liquidation in a failure scenario. | None. Tokenization of securities does not present any challenges for broker-dealers in complying with their net capital requirements. | None. However, if tokenized securities owned or financed by a broker-dealer are held on blockchains or traded on decentralized finance protocols, it may be necessary for the Commission to consider whether such protocols or blockchains must meet certain standards to ensure the securities at issue can be liquidated as promptly and easily as traditionally recorded securities.<br>It may also be necessary for the Commission to consider whether such securities require greater haircuts to reflect the additional risks they may present. | None. |
| Customer protection - reserves and custody of securities | Broker-dealers subject to the Customer Protection Rule (Rule 15c3-3) must maintain physical possession or control of all fully paid and excess margin securities | **Applicable to Native Tokenized Securities:** Yes, since the native token is a security, Rule 15c3-3 and Section 8 apply. | The Customer Protection Rule is one of the most foundational rules protecting customer assets. The fact that a security is recorded using distributed ledger technology rather than a centralized ledger does not affect the relevance | For wrapped and native tokenized securities, there is somewhat greater uncertainty as to how a market intermediary performing broker-dealer functions could | Tokenized securities present additional risks since customer protection depends not only on possession or control of the security, but also the secure maintenance of the private key | None. Regardless of how a security is recorded, it is still necessary that the security be appropriately segregated from the assets of the market |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| 15 USC §§ 78h, 78o<br>17 C.F.R. § 240.15c3-3 | carried for customer accounts. They must perform weekly calculations based on a reserve formula and deposit any net cash owed to customers in a reserve bank account.<br>Section 8 of the Exchange Act prohibits broker dealers and exchange members from hypothecating or commingling customer securities without written consent and from lending customer securities without consent or contrary to investor protection rules. | **Applicable to Wrapped Tokenized Securities:** Yes. Rule 15c3-3 and Section 8 apply to the token because the token is a security.<br>**Applicable to Security Entitlement Tokens:** Yes, Rule 15c3-3 and Section 8 apply to the security that the token represents. | or importance of rules designed to ensure that broker-dealers maintain sufficient quantity of such securities (or equivalent assets) to satisfy all customer claims.<br>Similarly, Section 8 prohibits lending or hypothecating without written consent, preventing customer securities from being exposed to broker-dealer's creditors without explicit authorization, protecting customers in the event of broker-dealer insolvency. | obtain physical possession or control (as the recent statement from the Division of Trading and Markets demonstrates). As Commissioner Peirce noted recently, if compliance with Rule 15c3-3 is not technologically feasible for wrapped tokens, regular notice-and-comment rulemaking should be used to address how to apply 15c3-3 to tokenized securities.<br>Security entitlement tokens do not present the same challenge since the security itself remains held by the custodian and the token is merely a mechanism for the custodian to record ownership. | necessary to effectuate transfers of the token. The loss of such a key could, depending on the blockchain system, result in the permanent and irreversible loss of customer securities with no ability to recover them through traditional insolvency proceedings.<br>In addition, smart contract vulnerabilities or protocol failures could result in customer assets becoming inaccessible or being transferred without proper authorization.<br>Some DeFi protocols automatically rehypothecate or commingle deposited collateral, without user consent, thus exposing customer assets in the event of insolvency. | intermediary performing broker-dealer functions to ensure it is available in the event of its failure. |
| Rule 15c3-5 – Market Access Rule<br>17 C.F.R. § 240.15c3-5 | The Market Access Rule requires broker-dealers that have market access or provide market access to others to establish risk management and supervisory procedures. Risk management controls must include credit and capital thresholds, prevention of erroneous orders, restricting access to trading systems to approved persons and accounts, and post-execution surveillance. | Yes, if a market intermediary performing broker-dealer functions has or provides market access to facilitate trading of tokenized securities, the rule applies because the trades are trades of securities. | Rule 15c3-5 requires that broker-dealers with market access implement appropriate risk management controls and supervisory procedures to prevent erroneous orders and manage credit and capital thresholds, thereby reducing systemic risk and protecting market integrity.<br>That tokenized securities may utilize distributed ledger technology rather than centralized ledgers to record transfers does not diminish the relevance or importance of these objectives. | None. Market intermediaries performing broker-dealer functions and effecting transactions in tokenized securities can comply with the Market Access Rule to the same extent as broker-dealers effecting transactions in traditional securities. If anything, the programmability that tokenization may offer may facilitate the ability of broker-dealers to comply with 15c3-5. However, the SEC should seek notice and comment on how to address the additional complexities that can arise when providing clients with access to so-called decentralized trading protocols. | The immutability of blockchain transactions makes pre-execution controls more critical to prevent erroneous orders and trades. There is little to no buffer to correct mistakes and those mistakes could be catastrophic.<br>The DeFi platforms on which certain tokenized securities may trade may utilize novel technology and processes that can make the risk of errors greater. | None. While blockchain technology could be leveraged to programmatically enforce compliance rules and provide post-trade execution reports, tokenization and blockchain technology do not in themselves guarantee compliance with the pre-trade risk control requirements and other measures under the Market Access Rule.<br>Application of a Market Access Rule framework should be integral to any comprehensive regime to address tokenization. |
| Recordkeeping Requirements<br>15 U.S.C. § 78q<br>17 C.F.R. §§ 240.17a-3, 240.17a-4<br>FINRA Rule 4511 | The recordkeeping requirements require certain broker-dealers and members of national securities exchanges to keep detailed records of a variety of items including transactions records for purchases and sales, order documentation, customer account information, bills, internal and public communications, financial statements, and written agreements. The records kept in compliance with these | Yes, since tokenized securities are themselves securities and any market participant acting as a broker-dealer in relation to any form of tokenized securities qualifies as a broker-dealer, the market participant must maintain adequate records to the extent required by the recordkeeping requirements. | The recordkeeping requirements require broker-dealers to keep extensive records to permit adequate regulatory oversight, with detailed records providing key information during regulatory examinations. Electronic recordkeeping requirements and redundancy requirements protect against data loss and protect audit trail integrity. Recordkeeping requirements protect investors, enabling detailed reconstructions of customer interactions and aiding in detection of misconduct by broker-dealers. | None. The fact that securities are recorded using distributed ledger technology does not make recordkeeping any more difficult. If anything, it may ease recordkeeping by facilitating the ability of the broker-dealer to leverage automated processes. | None. | None. While distributed ledger technology can be leveraged to automatically create some of the necessary records for the recordkeeping requirements, this does not obviate the need for the requirement in the first place and regulatory oversight is necessary to ensure the technology is being leveraged to comply with the requirements. To the extent distributed ledger technology and other forms of technology |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | requirements are available for review by the SEC, FINRA, and other regulatory agencies. | | The fact that securities are recorded using distributed ledger technology does not render recordkeeping any less useful for these purposes. | | | can affect recordkeeping methods, the SEC should consider further technological modernization of the recordkeeping requirements through notice-and-comment rulemaking. |
| Know Your Customer (KYC) and Anti-Money Laundering (AML) Requirements<br>31 C.F.R. § 1023; FINRA Rule 3310 | Regulated broker-dealers must implement an AML program to monitor compliance with the Bank Secrecy Act. The AML program must establish detection and reporting policies, establish compliance policies and procedures, include independent compliance testing, designate a responsible individual for oversight, provide ongoing training, and include risk-based procedures for customer due diligence. Broker-dealers must establish written Customer Identification Program procedures for verifying customer identities. | Yes, broker-dealers and other financial institutions that facilitate the trading of tokenized securities are subject to KYC and AML requirements. | The Bank Secrecy Act regulations and FINRA rules on broker-dealer AML programs both seek to prevent laundering of illicit proceeds and financing of illegal activities through securities markets. KYC and AML regulations recognize that broker-dealers occupy a key gatekeeping position in the financial system. The regulations require broker-dealers to collect certain customer information and make suspicious activity reports because broker-dealers are well positioned to monitor customers and their transactions for potential illegal activity.<br>That tokenized securities are recorded using blockchain technology does not diminish the importance of these AML and KYC objectives. If anything, the fact that blockchain technology may facilitate the transfer of securities without the involvement of other regulated intermediaries increases the importance that market intermediaries performing broker-dealer functions adhere to their AML/KYC obligations. | None. The fact that securities are recorded using distributed ledger technology does not limit the ability of market intermediaries performing broker-dealer functions to adhere to their AML/KYC obligations. | Blockchain technology and scramblers may allow bad actors to transfer tokens on distributed ledgers with complete anonymity and without facing other regulated entities. This makes it all the more critical that market intermediaries performing broker-dealer functions perform their AML/KYC obligations.<br>Furthermore, since tokenized securities may be used in so-called cross-border financing to sanctioned parties and other bad actors, the SEC should seek notice and comment on whether market intermediaries performing broker-dealer functions, issuers, and other parties that interact with tokenized securities must take additional steps to ensure that the policy objectives of the Bank Secrecy Act are not undermined. | None. For any financial operations, the utility of technology may facilitate AML/KYC compliance. Smart contract technology could be used to enforce AML transfer restrictions and KYC requirements programmatically, but regulation is required to enforce implementation of these requirements. |
| Exchange Act § 7– Margin requirements<br>15 U.S.C. § 78g<br>Federal Reserve Regulations T, U, and X – Margin requirement, thresholds, and customer credit limits<br>12 C.F.R. §§ 220, 221, 224<br>FINRA Rule 4210 - Margin Requirements | Section 7 of the Exchange Act and the Federal Reserve Board's margin rules thereunder, as well as FINRA's margin rules, establish minimum initial and maintenance margin requirements for financing of short and long securities positions. | **Applicable to Native Tokenized Securities:** Yes, since native tokens are securities, any extensions of credit must comply with the margin requirements.<br>**Applicable to Wrapped Tokenized Securities:** Yes, since a wrapper is a security, any extensions of credit of the token must comply with the margin requirements.<br>**Applicable to Security Entitlement Tokens:** Yes, since the token represents the security, any extension of credit related to the token is an extension of credit related to the security and the margin rules apply to the same extent. | Margin requirements seek to limit excessive leverage in the securities markets to limit market volatility and reduce systemic risk. Margin requirements prevent lenders from losses when securities collateral declines in value, reducing the risk of lender failure that could harm the financial system. These considerations are just as relevant for tokenized securities as for traditional securities, and nothing about the use of distributed ledger technology to record interests in securities limits the risk of leverage or default that the margin requirements aim to address. If anything, the fact that certain issues of tokenized securities may be subject to less liquidity means that these protections may be even more important. | None. Nothing about the fact that securities are recorded using distributed ledger technology makes it more difficult to comply with the margin requirements. | The fact that securities are recorded using distributed ledger technology should not in and of itself increase leverage or default risk. However, as a practical matter, many tokenized securities may be subject to decentralized lending protocols that can serve to increase leverage and default risk, making the application of the margin rules even more important. | None. Smart contracts could be used to continuously monitor margin requirements and liquidate positions before they fall below maintenance requirements, but regulatory oversight is necessary to ensure that this technology is properly leveraged to provide compliance monitoring and enforcement. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| Best Execution Obligations<br><br>Exchange Act § 10(b)<br><br>15 U.S.C. § 78j(b)<br><br>FINRA Rule 5310(a) | When handling customer orders involving securities, broker-dealers must use reasonable diligence to ascertain the best market for a security and buy or sell in that market, to provide the customer with a price as favorable as possible under prevailing market conditions. | Yes, market intermediaries performing broker-dealer functions that handle customer orders for securities that are or are represented by tokens are subject to best execution requirements. | Best execution obligations aim to protect investors and promote fair markets. That tokenized securities may be recorded using distributed ledger technology does not diminish the importance or relevance of best execution obligations. The fact that certain tokenized securities may trade on blockchain-based platforms that create inherent incentives to delay execution (e.g., to earn maximal extractable value) and may be uniquely susceptible to front-running, sandwich, and other attacks arguably make best execution all the more important. | None. Existing best execution obligations can be applied regardless of technology used for recording the security.<br><br>Best execution obligations are a fundamental requirement that should not be diminished in connection with any new regime for tokenized securities. | Generally none. However, tokenized securities may transact more frequently on venues that rely upon blockchains. These blockchains may create incentives for market intermediaries filling orders to delay execution, *e.g.*, so they can generate maximal extractable value. In addition, blockchains are uniquely susceptible to certain actions (*e.g.*, sandwich attacks) that serve to de-prioritize client orders. The SEC should seek notice and comment on whether these features necessitate special rules or guidance. | None. |
| Regulation Best Interest and Suitability Requirements<br><br>17 C.F.R § 240.15l-1<br><br>FINRA Rule 2111 | Regulation Best Interest ("Reg BI") requires broker-dealers to act in the best interest of the retail customer when making recommendations on securities transactions and investment strategies, without placing the broker-dealer's financial or other interests ahead of the interests of a retail customer. Reg BI requires broker dealers to provide full and fair disclosure; exercise reasonable diligence to understand risks, rewards, and costs in light of the customer's investment profile; and establish policies and procedures to identify conflicts of interest and disclose, mitigate, or eliminate the conflicts. FINRA Rule 2111 requires members to have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer. | Yes, Reg BI applies to broker-dealers in relation to tokenized securities, regardless of the method of tokenization, because recommendations of transactions in tokenized securities or investment strategies involving tokenized securities are transactions and investment strategies involving securities. Similarly, FINRA Rule 2111 applies to member broker-dealers making recommendations regarding tokenized securities, since such recommendations involve securities. | Reg BI requires disclosure of information to retail customers and mitigation of conflicts of interest to improve investment recommendation quality and limit the harm from conflicting incentives that broker-dealers face. FINRA Rule 2111 requires broker-dealers to consider suitability in making investment recommendations to improve investment recommendation quality and protect investors from unsuitable investment advice.<br><br>The fact that securities may be recorded using distributed ledger technology does not in any way diminish the benefit of providing customers with appropriate disclosure, conducting suitability assessments, mitigating conflicts of interest, or conducting diligence in relation to such securities. | None. A broker-dealer making investment recommendations regarding tokenized securities can just as easily comply with Reg BI or FINRA Rule 2111 as it could with regard to traditional equity securities. | Generally none. However, considering the variety of tokenization models and the risks they create, customers may be more likely to be confused or unaware as to relevant risks. This makes full and fair disclosure, diligence, suitability assessments, and elimination of conflicts of interest even more important in the case of tokenized securities. | None. There is nothing inherent in distributed ledger technology that would obviate the need for compliance with Reg BI or FINRA Rule 2111. |
| Frontrunning Prohibitions / Customer Order Protection<br><br>FINRA Rule 5270, FINRA Rule 5320 | Regulated broker-dealers are prohibited from trading a security on the same side of the market for their own accounts when they have accepted and are holding a customer order for the same security, unless they immediately execute the customer order at the same or better price. | Yes, market intermediaries performing broker-dealer functions must comply with the frontrunning prohibitions and customer order protection requirements for all tokenized equity securities, since the tokens either are or are representing securities. | The prohibitions on frontrunning require broker-dealers prevent exploitation of advance knowledge of customer trades. The prohibitions minimize potential harm to the investor from the intermediary's conflict of interest, promoting investor confidence and market fairness. The fact that securities may be recorded using distributed ledger technology doesn't make these considerations any less relevant. | None. The prohibitions on frontrunning can be applied regardless of the technology used for recording a security. | The fact that tokenized securities may trade on market centers reliant on blockchain creates additional risks of market intermediaries prioritizing their own interests at the expense of their customers. In particular, market intermediaries performing broker-dealer functions may delay client execution in order to extract maximal extractable value. In addition, blockchain raises the | None. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | Regulated broker-dealers are prohibited from placing orders based on material non-public information about an imminent block transaction in that security or related instruments. | | Furthermore, the fact that tokenized securities may trade on protocols that rely upon blockchain arguably increases the risk of market intermediaries prioritizing their own interests above those of customers (*e.g.*, to extract maximal extractable value). In addition, blockchain trading is exposed to certain types of practices (*e.g.*, sandwich attacks) that can have a similar effect as traditional frontrunning. The SEC should consider what additional rules may be necessary to address these types of risks before protocols that give rise to them can register and begin operating. | | risk of "sandwich attacks" in addition to traditional frontrunning. | |
| Securities Investor Protection Act<br>15 U.S.C. § 78aaa-78lll | SIPA is a comprehensive liquidation regime for broker-dealers that includes various provisions to facilitate the return of customer securities and associated cash. SIPA establishes the Securities Investor Protection Corporation, whose members are registered broker-dealers, to facilitate the liquidation of a member in financial difficulty and provide advances and insurance in relation to their "net equity" claims up to specified limits. | Yes, since tokenized securities are securities, such securities would generally constitute securities under SIPA. Although SIPA does not apply to unregistered investment contracts, this table is limited to tokenized equity securities. | SIPA seeks to protect customers of broker-dealers from losses due to broker-dealer insolvency or financial difficulty. SIPA facilitates the ability of customers to recover securities and cash held by their broker-dealer in the event of a failure. SIPA's insurance of customer assets provides protection to investors, especially retail investors without the capabilities to monitor the financial conditions of their broker-dealer, and increases investor confidence.<br>The fact that customer assets held by a broker-dealer may be recorded using distributed ledger technology rather than traditional technology does not make these protections any less relevant or important. | None. Market participants acting as broker-dealers with respect to tokenized securities can comply with SIPA's requirements. | None. | None. |
| ***Market Center and Trading Requirements*** | | | | | | |
| Exchange Act § 6 – Exchange Registration Requirements<br>15 U.S.C. §§ 78f | Parties operating as exchanges are (unless registered as ATSs) required to register as national securities exchanges and abide by operational capacity, compliance rules, and other requirements. Registered national securities exchanges also function as self-regulatory organizations. | **Applicable to Native Tokenized Securities:** Yes, since native tokens are securities, market participants acting in the capacity of an exchange in relation to the token must register with the SEC and comply with appropriate regulation of exchanges.<br>**Applicable to Wrapped Tokenized Securities:** Since a wrapper is a security, market participants acting as exchanges must register with the SEC and comply with appropriate regulation of exchanges. | Registration and associated regulatory requirements for exchanges are designed to promote orderly and robust markets, ensure fair and open access, limit the risk of systemic disruptions and dislocations, prevent undue favoritism, ensure operational capacity, and protect investors. The fact that securities may be recorded using distributed ledger technology rather than a centralized ledger does not, other than in the limited circumstances described below, affect the relevance, propriety, or necessity of these protections. Notably, the Exchange Act's definitions were not drafted based on the particular recordkeeping mechanism applicable to securities, and Congress has reaffirmed them even as the U.S. securities market shifted from one based on individual certificates to book-entry and immobilized securities. | The fact that a security is recorded using distributed ledger technology does not make it any more difficult for market participants acting as exchanges for such securities to register under the Exchange Act. In addition, other than in the limited circumstances discussed below, it does not preclude compliance with the Exchange Act's requirements for these intermediaries.<br>Some venues that list tokenized securities may claim that registration presents insurmountable challenges as these venues lack a centralized operator. However, as a practical matter, there is sufficient | The fact that a security is recorded using distributed ledger technology rather than a centralized ledger is not inherently relevant to how it trades. As a result, except as described below, the mere fact that a security is tokenized should not give rise to additional risks related to the exchange registration requirements or the substantive requirements applicable to such entities.<br>However, many of the so-called "DeFi" protocols that list tokenized securities and their intermediaries have features—including pseudonymous trading, limited transparency, novel technology, opaque governance structures, distorted incentives, and conflicts of interest—that make the application of the registration | None. The fact that a security is recorded using distributed ledger technology rather than a centralized ledger does not, except as set forth below, mitigate the risks that exchange registration and associated requirements are designed to address. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | | **Applicable to Security Entitlement Tokens:** Since the token represents a security, market participants acting in the capacity of an exchange in relation to the token must register with the SEC and comply with appropriate regulation of exchanges. | | corporate structure, centralization, staffing and governance to allow these entities to register. | and associated requirements all the more critical. | |
| Regulation NMS<br>17 C.F.R. §§ 242.600-242.614 | Regulation NMS (Reg NMS) sets forth various rules concerning display, access, and execution of orders in the U.S. listed equity markets. | **Applicable to Native Tokenized Securities:** Yes, if the native token qualifies as an NMS stock, Reg NMS applies to any purchase or sale of the token.<br>**Applicable to Wrapped Tokenized Securities:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, Reg NMS applies to any purchase or sale of tokenized NMS stock.<br>**Applicable to Security Entitlement Tokens:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, Reg NMS applies to any purchase or sale of tokenized NMS stock. | Reg NMS provides the overarching framework that currently governs order handling and trading activity in NMS stocks. The fact that an NMS stock may be recorded using distributed ledger technology rather than a centralized ledger should have no bearing on how the stock trades or the rules applicable to that trading. There is therefore no reason for the rules applicable to trading tokenized NMS stock to differ from those applicable to trading the traditional NMS stock. | None. The fact that an interest in a token is recorded using distributed ledger technology rather than a centralized ledger does not make it any more difficult or complex for a trading center or broker-dealer to satisfy Reg NMS's requirements.<br>Some trading venues that call themselves "DeFi protocols" may use blockchain technology to bring together buyers and sellers of tokenized shares. That usage does not limit the venue's ability to maintain the requisite policies and procedures under Reg NMS. Moreover, if only some venues are subject to Reg NMS while others are not, there will be undue competitive disparity and more fragmented liquidity. Furthermore, despite calling themselves "decentralized," DeFi protocols have decision-making bodies and processes that can ensure compliance. | None. The fact that a security is recorded using distributed ledger technology rather than a centralized ledger does not in and of itself implicate the risks that Reg NMS is designed to address.<br>However, if tokenized NMS stock end up being traded on DeFi protocols, the limited liquidity and transparency of these venues may exacerbate the concerns Reg NMS aims to address. In particular, such limited liquidity and transparency may give rise to greater risk of poor execution quality and siloed access to information in the absence of Reg NMS's protections.<br>Moreover, if these venues were permitted to facilitate trading in NMS stock without complying with Reg NMS, significant regulatory arbitrage could emerge. Trading platforms might migrate NMS trading activity to distributed ledger technology platforms precisely to avoid Reg NMS's protections, undermining fair access, transparency, and best-execution principles. | None. While blockchain technology can be leveraged to enhance compliance with Reg NMS, the technology itself does not inherently promote best execution, transparency, fair access, or investor protection.<br>There should be no relaxation of Reg NMS requirements associated with trading tokenized securities. |
| Pre-trade Quote Transparency<br>17 C.F.R. §§ 242.602, 603, 610 | The pre-trade quote transparency rules require national securities exchanges and associations to establish procedures for collecting bids, offers, quotation sizes, and aggregate quotation sizes from broker-dealers. The rules also require processors of information to distribute the information on fair, reasonable, and non-discriminatory terms. Exchanges must also refrain from imposing unfairly discriminatory terms of | **Applicable to Native Tokenized Securities:** Yes, if the native token qualifies as an NMS stock, Reg NMS should apply to quote transparency regarding the tokenized NMS stock.<br>**Applicable to Wrapped Tokenized Securities:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, Reg NMS applies | Pre-trade quote transparency requirements are meant to ensure that bids, offers, and quotation sizes are transparently displayed and market participants are able to identify the best available prices. The requirements focus on preventing selective disclosure of quotation information, providing fair and non-discriminatory access to information, and preventing excessive barriers to market participation. The fact that a security is recorded using distributed ledger technology does not affect the relevance of these requirements. | None. Tokenization and blockchain-based trading does not prevent compliance with pre-trade transparency requirements. | To the extent that blockchains create additional and fragmented venues for trading tokenized securities, the need for national standards to ensure quote transparency may be heightened. | None. Technology can be leveraged to automate consolidation of quotation information, but this does not replace the policy imperatives or need for uniform compliance with the transparency regulations. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | access to quotations in NMS stock. | to quote transparency regarding the tokenized NMS stock.<br><br>**Applicable to Security Entitlement Tokens:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, Reg NMS applies to quote transparency regarding the tokenized NMS stock. | | | | |
| Execution Quality and Order Routing Disclosures<br><br>17 C.F.R. §§ 242.605, 606 | Rules 605 and 606 require certain market centers and broker-dealers to provide certain information regarding the quality of order executions in NMS stock as well as the routing of non-directed orders. | **Applicable to Native Tokenized Securities:** Yes, if the native token qualifies as an NMS stock, Reg NMS applies to execution quality and order routing disclosures regarding the tokenized NMS stock.<br><br>**Applicable to Wrapped Tokenized Securities:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, Reg NMS applies to execution quality and order routing disclosures regarding the tokenized NMS stock.<br><br>**Applicable to Security Entitlement Tokens:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, Reg NMS applies to execution quality and order routing disclosures regarding the tokenized NMS stock. | Rules 605 and 606 under Reg NMS seek to promote visibility of execution quality and competition among market centers and broker-dealers, especially in respect of execution price and speed. The fact that securities may be recorded using distributed ledger technology does not diminish the relevance or effectiveness of these requirements. Furthermore, considering that trading protocols reliant on blockchain may create incentives and opportunities to reduce execution quality (*e.g.*, in order to obtain maximal extractable value), disclosure is arguably more relevant. | None. The fact that securities may be recorded using distributed ledger technology does not make it any more difficult for trading venues and broker-dealers providing services in relation to those securities to comply with the disclosure requirements under Rules 605 and 606. | Because tokenized securities may transact on protocols reliant on blockchains, there may be greater incentives for a broker-dealer or market participant center to de-prioritize execution. In particular, an intermediary looking to extract maximal extractable value may be incentivized to delay execution until it has the largest possible block. In addition, market participants may seek to hold open block space for affiliated or favored client trades, and blockchains are uniquely exposed to certain frontrunning and "sandwich attack" behavior. As a result, disclosure may be all the more important for tokenized securities and the SEC should seek notice and comment on additional disclosure to address the unique execution quality risks blockchain presents. | None. The fact that securities are recorded using distributed ledger technology does not serve to provide greater disclosure regarding execution quality or order routing. |
| Consolidated Audit Trail Reporting & Fees<br><br>17 C.F.R. § 242.613 | Rule 613 requires national securities exchanges and securities associations to create, implement, and maintain a consolidated audit trail (CAT) and central repository with an accurate, time-sequenced record of orders documenting origination, routing, modification, cancellation, and execution of the order, as well as information about the customer. | **Applicable to Native Tokenized Securities:** Yes, if the native token qualifies as an NMS stock, Reg NMS applies to transactions in the tokenized NMS stock.<br><br>**Applicable to Wrapped Tokenized Securities:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, Reg NMS applies | The CAT requirement makes data available to regulators to perform surveillance and oversight responsibilities. The CAT creates a single, comprehensive audit trail allowing regulators to track orders and trades across multiple venues and reconstruct market events, overcoming the fragmentation of equity markets. The fact that a security is recorded using distributed ledger technology does not affect the relevance of these requirements. If CAT requirements were not applied to tokenized versions of NMS stock, it would create an opportunity for regulatory arbitrage and encourage malfeasance by | None. The fact that securities are recorded using distributed ledger technology does not make it any more difficult to comply with the CAT requirement. | If tokenized securities ultimately trade on different venues from existing exchanges and ATSs, that could increase fragmentation, which would make the CAT requirement all the more relevant. Moreover, allowing tokenized versions of NMS stocks to trade outside of CAT reporting requirements would create a gap in the audit trail information for bad actors to exploit since that trading information would not be integrated into the CAT. | None. The fact that securities may be recorded using distributed ledger technology does not inherently serve to provide the information required under Rule 613. If these securities trade on venues that use public blockchains which serve to display the information required by CAT, that may facilitate compliance, but does not obviate the need for the requirement. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | | to transactions in the tokenized NMS stock.<br><br>**Applicable to Security Entitlement Tokens:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, Reg NMS applies to transactions in the tokenized NMS stock. | permitting platforms to operate with less regulatory oversight. | | | |
| Regulation SCI<br><br>17 C.F.R. §§ 242.1000-242.1007 | Reg SCI applies to national securities exchanges, certain alternative trading systems, certain clearing agencies, and other entities. As new market centers, including trading protocols, reach certain benchmarks related to their share of NMS stock trades or market data, these entities can become SCI entities. Reg SCI requires SCI entities to establish written policies and procedures to ensure SCI systems have sufficient capacity, integrity, resiliency, availability, and security. Under the regulation, SCI entities must undergo regular reviews and testing, comply with incident notification and reporting requirements, maintain business continuity plans, take corrective action in response to SCI events, and keep detailed records. | Yes, since the token represents a security, a national securities exchange, SCI ATS, or SCI clearing agency that lists the security that is or is represented by the token or facilitates trading or settlement of transactions involving the token would need to comply with Reg SCI. This could include the blockchain on which the token is recorded. | Reg SCI requires SCI entities to have adequate levels of capacity, resiliency, and security for computer, network, electronic, technical, automated, or similar systems that support trading, clearance and settlement, and order routing activities, among others. Reg SCI's requirements are meant to maintain operational capabilities and promote the maintenance of fair and orderly markets. Reg SCI provides investor protection through requirements that SCI entities take corrective actions to mitigate potential harm to investors and market integrity, after the occurrence of an SCI event. Reg SCI is a broad regulation, meant to cover new technologies and entities as they are deployed and developed into the national market system. Reg SCI's thresholds for ATS regulation recognize that as new venues, like distributed ledger technology protocols, capture larger market shares in the trade of NMS stock or market data, protection of their SCI systems become far more critical. For Reg SCI to serve its investor protection functions, it must apply equally to new and old SCI systems and SCI entities. Systems continuity is just as important for tokenized securities as it is for traditional securities to provide investor protection and promote market integrity. If anything, the novelty of tokenization may make Reg SCI more important. | SCI entities may not be able to satisfy Reg SCI in relation to certain SCI systems necessary for trading or settling tokenized securities transactions. For example, an SCI entity may not be able to subject public permissionless ledgers on which certain security tokens may be recorded to business continuity plans. To address this potential challenge, the SEC should seek notice and comment on (i) the particular systems for which the requirements of Reg SCI may not be feasible, (ii) the particular requirements that may present such challenges for such systems, and (iii) the particular mechanisms that could provide equivalent protections. | In certain cases, blockchains or other systems necessary for the trading or settlement of transactions involving tokenized securities may present unique risks (*e.g.*, 51% attacks) that do not arise with traditional systems and that Reg SCI's existing requirements may not fully address. The extent to which tokenized securities rely on SCI systems, above and beyond traditional equity securities, may present additional risks that require higher standards and more stringent requirements than provided for under Reg SCI. The SEC should seek notice and comment on what these risks may be and how SCI entities can ensure they are mitigated. | Depending on the system at issue, blockchains or other systems necessary or useful for the trading and settlement of tokenized securities transactions may have features that may mitigate the risks that Reg SCI seeks to address. For example, the use of consensus mechanisms may serve to diminish the need for other resiliency requirements. However, blockchains and consensus mechanisms differ dramatically from one to another, and careful study is required to identify what mitigants the technology may provide and the strength and risks of those mitigants. The SEC should therefore seek notice and comment on (i) the particular mitigants of distributed ledger technology that may limit the risk of system disruption, (ii) the specific provisions of Reg SCI that may not be fully necessary in light of such mitigants, and (iii) the requirements that the mitigant would need to satisfy in order to displace the need for the relevant SCI requirement. |
| Regulation SHO<br><br>17 C.F.R. §§ 242.200-204 | Reg SHO establishes requirements for marking orders, restricting short sales during price declines, and ensuring delivery of securities. A short sale is defined as any sale of a security which the seller does not own or any sale which is consummated by the | Yes, since tokens are or represent securities, sales involving such tokens are sales of securities subject to Reg SHO. | The purpose of Reg SHO is to limit settlement failures and market dislocation that can arise from short selling. The fact that a given security is recorded using distributed ledger technology rather than a centralized ledger does not in and of itself diminish the possibility of settlement failures or disruption that Reg SHO seeks to address. While blockchain technology has been | None. The fact that securities are recorded using distributed ledger technology should not inhibit the ability of intermediaries to comply with their obligations under Reg SHO. If anything, the programmability of the token could help facilitate order marking | None. However, the programmability of tokenized securities and the ability to use smart contracts or other programs on DeFi protocols that operate using distributed ledger technology may heighten the risk of automated selling that could exacerbate the risks Reg SHO's circuit breakers and other | None. Although some DeFi platforms may require pre-positioning of cash and securities in order to facilitate settlement shortly after execution, the fact that the securities are recorded using distributed ledger technology |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | delivery of a security borrowed by, or for the account of, the seller. | | touted as a mechanism to facilitate atomic, DVP settlement, it does not in and of itself ensure settlement will occur when and as required under the transaction. Accordingly, Reg SHO is just as relevant for tokenized securities as for securities recorded on centralized ledgers. | and that short sales are only executed when there is a locate (or an appropriate exception therefrom). | provisions seek to address. In addition, if tokenized securities are permitted to be traded without Reg SHO compliance, regulatory arbitrage could emerge, with market participants routing short sale activity to decentralized platforms specifically to avoid locate requirements and price restrictions, undermining market stability during periods of significant price decline. | does not necessitate such atomic settlement or pre-positioning. And in any event, any such pre-positioning should serve to satisfy the locate requirements under Reg SHO. |
| Regulation ATS<br><br>17 C.F.R. §§ 242.300-242.304 | Regulation ATS (Reg ATS) requires exchanges that do not wish to register as national securities exchanges to register with the SEC as broker-dealers and file a Form ATS/Form ATS-N to provide information about the ATS's operations, services, and subscribers. ATSs are required to keep this information current and, in some cases, provide regulators with advance notice of certain changes. ATSs exceeding certain volume thresholds must comply with requirements for fair access and display of orders. ATSs meeting the definition of an SCI ATS must comply with certain Regulation SCI and recordkeeping and reporting requirements. | **Applicable to Native Tokenized Securities:** Yes, since native tokens are securities, Reg ATS would still apply.<br><br>**Applicable to Wrapped Tokenized Securities:** Yes, since wrapped tokens are securities, Reg ATS would still apply.<br><br>**Applicable to Security Entitlement Tokens:** Yes, if an ATS facilitates the trading of tokens representing security entitlements to NMS stock, it would be facilitating the trading of NMS stock itself and would need to comply with Reg ATS. | Reg ATS provides an alternative regulatory framework under which exchanges can operate without being required to register as national securities exchanges and operate as self-regulatory organizations. To accomplish this, Reg ATS establishes important transparency, information protection, and operational requirements intended to ensure ATSs operate in compliance with key regulatory objectives. The fact that a security is recorded using distributed ledger technology rather than a centralized ledger has no bearing on the operation of an alternative trading system or the rules that apply to it. There is therefore no basis for applying a different regulatory framework to the trading of tokenized securities on an ATS than to the trading of traditional securities on an ATS. | None. The fact that an interest in a token is recorded using distributed ledger technology rather than a centralized ledger does not make it any more difficult or complex for an ATS to satisfy Reg ATS's requirements.<br><br>Some trading venues that call themselves "DeFi protocols" may use blockchain technology to bring together buyers and sellers of tokenized shares. That usage does not limit the venue's ability to establish and maintain the policies and procedures required under Reg ATS, including those relating to system operations, disclosure obligations, and the safeguarding of confidential trading information. Furthermore, despite calling themselves "decentralized," DeFi protocols have decision-making bodies and processes that can ensure compliance. | None. The fact that a security is recorded using blockchain technology rather than a centralized ledger does not in and of itself implicate the risks that Reg ATS is designed to address.<br><br>However, supposedly "decentralized" DeFi protocols that list tokenized securities may have greater ability to use blockchain, smart contracts, and other mechanisms to limit transparency and prioritize certain favored actors.<br><br>Allowing such venues to operate outside of Reg ATS would also create opportunities for regulatory arbitrage, enabling market participants to route trading in securities—potentially including NMS stock—to distributed ledger technology systems specifically to avoid Reg ATS's requirements. Such arbitrage would undermine the regulatory framework's objective of ensuring fair access, protecting confidential trading information, and maintaining orderly trading systems across all ATSs. | None. |
| Venue Transparency and Fair Access Requirements<br><br>Exchange Act §§ 6(b)(4) and (5); Reg. ATS §§ 301, 304<br><br>15 U.S.C. §§ 78f; 17 C.F.R. §§ 242.301, 304 | The transparency and fair access requirements of the Exchange Act require national securities exchanges to provide equitable allocation of dues, fees, and other charges among members and establish rules designed to promote just and equitable trading principles, remove impediments to free and open markets, and protect investors and the public interest. Reg ATS requires NMS ATSs to file Form ATS-N in order to disclose information about their manner of operations, broker- | Yes, exchanges and ATSs trading in tokenized securities are subject to the venue transparency requirements. | Venue transparency and fair access requirements are meant to promote fair access and market integrity by prohibiting discriminatory practices, requiring reasonable fees, and requiring certain disclosures. The fact that securities are recorded using distributed ledger technology does not diminish the relevance or importance of these investor protections.<br><br>Some of the so-called "decentralized" venues that may list these securities may use order matching processes that give rise to fees, distorted incentives, or opportunities for discriminatory practices that are not present in | None. Tokenization does not prevent entities transacting in tokenized securities from complying with the venue transparency and fair access requirements. | Generally none. However, the venues on which tokenized securities may be traded may utilize order matching processes that give rise to additional fees, distorted incentives, and opportunities for discrimination that are not present on traditional venues. For example, validators on venues that rely upon blockchain technology may have incentives to de-prioritize client orders in order to extract maximal extractable value. The SEC should seek notice and comment on whether additional measures are necessary to address | None. The use of blockchain technology to tokenize securities does not in any way ensure that venues that list these securities facilitate fair access and transparency. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | dealer operator, and the ATS-related activities of the broker-dealer operator and its affiliates. In addition, Reg ATS requires certain ATSs to take steps to promote fair access, including limits on fees that are inconsistent with equivalent access, and to provide information to national securities exchanges and national securities associations. | | traditional venues. These additional risks make the venue transparency requirements even more relevant and necessary. | | these and other risks arising from these venues. | |
| Volatility Controls / Trading Halts<br><br>17 C.F.R. § 242.608;<br>Extraordinary Market Volatility Plan<br>FINRA Rule 6190 | Exchanges and ATSs must enforce limit-up and limit-down risk controls that establish collars to protect against drastic swings in short succession and trading halts in the event of major market events. All trading centers must establish policies and procedures to prevent trades at prices outside the price band and enforce limit states and trading pauses. | **Applicable to Native Tokenized Securities:** Yes, if the native token qualifies as an NMS stock, exchanges and ATSs must comply with the Reg NMS limit-up limit-down plan regarding the tokenized NMS stock.<br><br>**Applicable to Wrapped Tokenized Securities:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, exchanges and ATSs must comply with the Reg NMS limit-up limit-down plan regarding the tokenized NMS stock.<br><br>**Applicable to Security Entitlement Tokens:** Yes. Because a token representing an NMS stock is a means of recording ownership of the security itself, exchanges and ATSs must comply with the Reg NMS limit-up limit-down plan regarding the tokenized NMS stock. | The plan requirements are designed to protect investors and to promote fair and orderly markets, by preventing trades at prices that are either erroneous or reflect temporary liquidity disruptions. The price bands and limit states provide time for investors to evaluate whether price movements reflect genuine information and liquidity providers to enter the market. The coordination provided by the national plan ensures that compliance with limits and trading pauses occurs across fragmented venues. The fact that securities are recorded using distributed ledger technology does not make these requirements any less relevant. | None. Blockchain operators can comply with the plan's requirements and limit trading accordingly. If anything, smart contract technology may make it easier to halt trading. | The fact that securities are recorded using distributed ledger technology does not inherently give rise to additional risks in this regard. However, if tokenized securities trade on additional venues, it will be important that they enforce the same circuit breakers as traditional venues. Otherwise, it would undermine the purpose of the circuit breakers and provide market participants that trade on these venues with unfair access. | None. The fact that securities are recorded using distributed ledger technology does not limit the risks that the circuit breakers aim to address. Recent disruptions and failures in digital asset markets without these limits make that clear. |
| Section 31 Fees<br><br>15 U.S.C. § 78ee; 17 C.F.R. § 240.31 | Section 31 requires regulatory fees to be imposed on securities transactions to fund the operations of the SEC. Covered self-regulatory organizations must pay fees on covered sales of securities. | Yes, since tokenized securities are or represent securities, transactions involving tokenized securities should be executed on exchanges or subject to trade reporting requirements and should similarly be covered by the fee provision. | The purpose of Section 31 fees is to ensure that market participants benefiting from SEC regulation and oversight contribute to the costs of that regulation. The alignment between fees and sales volume also ensures that as market activity increases, the funding for the SEC increases as well to expand oversight, and ensures that market participants pay in proportion to their market activity. If market participants trading in tokenized securities were | None. The fact that securities are recorded using distributed ledger technology does not limit the ability of venues listing such securities to pay Section 31 fees. | None. | None. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | | | not charged Section 31 fees, it would result in a free rider problem whereby these participants benefit from SEC oversight while not being responsible for funding the SEC's regulatory budget. | | | |
| ***Other Registrant Requirements*** | | | | | | |
| Exchange Act Rules 17Ad-2, 17Ad-3, 17Ad-10 – Transfer Agent Requirements<br><br>17 C.F.R. §§ 240.17Ad-2, 240.17Ad-3, 240.17Ad-10 | Registered transfer agents must turn around at least 90% of routine items received for transfer within three business days. Transfer agents that fail to comply in any month must file written notice with the SEC or the transfer agent's appropriate regulatory agency. Transfer agents that file notices for three consecutive months may not offer transfer agent services for items that they do not currently cover. Transfer agents must promptly and accurately post debits and credits for every security transferred, purchased, redeemed, or issued. | Yes, a transfer agent for a security recorded using a token is just as much a transfer agent subject to the transfer agent rules as any other transfer agent. | Transfer agent standards seek to improve market confidence, by providing reliable transfer of securities for investors, reducing settlement and counterparty risk, and preventing investor harm from transfer delays. The restrictions on business expansion that apply to underperforming transfer agents incentivize addressing operational problems and seek to limit potential harm to investors until transfer agents have demonstrated adequate capacity. The recordkeeping requirements permit adequate regulatory oversight and aid in identification of potential errors or malfeasance.<br><br>While the use of blockchain technology may make it easier for transfer agents to process transfers quickly and accurately, there is no reason why holders of tokenized securities should be entitled to diminished protections as compared to holders of traditional ones. | None. Blockchain technology has been touted as dramatically reducing transfer timing, complexities, and risks. If those claims are accurate, the technology should readily facilitate compliance with Rules 17Ad-2 and 17Ad-3. If not, a transfer agent should not be excused from providing investors with the protections afforded to other security holders simply because they choose to use novel technology.<br><br>While some have argued that blockchains do not have sufficient centralization to provide the requisite reporting (or even register with the SEC), that concern is often overstated, as there is often a centralized operator acting as a transfer agent and simply utilizing blockchain technology in connection with that role or the blockchain at issue has sufficient centralization to comply with its reporting and registration requirements. To address the limited instances in which a security's actual transfer agent is a public, permissionless operator without any actual operator capable of facilitating compliance with transfer agent registration and reporting requirements, the SEC should seek notice and comment on a narrowly tailored exception with appropriate safeguards to ensure equivalent protections, accountability, and competitive parity. | Generally none. However, if a transfer agent is truly a fully decentralized public permissionless blockchain, it would likely be more difficult to address erroneous entries. Accordingly, the SEC should seek notice and comment on how such risk may be managed. | None. While blockchain technology has been touted as facilitating rapid and seamless settlement, nothing about the technology in and of itself diminishes the need to ensure that it promptly and accurately effectuates transfers. If anything, the supposed benefits of the technology suggest that for blockchain-enabled transfer agents, the standards should be higher. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| Clearing agency standards<br>17 C.F.R. § 240.17ad-22 | Clearing agencies must satisfy a number of standards, including well-founded legal frameworks, transparent governance procedures that facilitate fair access, robust risk management policies and procedures, including for legal, settlement, operational, credit, and liquidity risk, and mechanisms to reduce the risk of losing client assets. | Yes, the fact that settlement of a securities transaction may involve the movement of tokens through a blockchain rather than debits and credits on a centralized ledger does not change the applicability of 17ad-22; it may simply render the blockchain a clearing agency. | Rule 17ad-22 is designed to ensure that market participants that perform critical functions during the lifecycle of a securities transaction have appropriate risk management, transparency, and fair access procedures and policies in place. That a given securities transaction may involve the use of the blockchain rather than a centralized ledger does not diminish the relevance or importance of these policy objectives, but it may render some mechanisms to achieve these goals inappropriate and/or unnecessary. | As a general matter, a market participant's use of a blockchain technology to record ownership or facilitate settlement of a securities transaction should not impede its ability to satisfy the requirements of Rule 17ad-22. However, in the case of certain decentralized blockchains, it may not be possible to have in place certain policies and procedures, including business recovery plans, that necessarily require the use of a central operator. | Blockchains on which tokenized securities may be recorded may be exposed to certain risks (*e.g.*, 51% attacks, bad actors operating nodes, irreversible transfers) that traditional ledgers do not present. | Certain features of blockchain technology—*e.g.*, the need for validation of blocks—may eliminate the need for some of the operational requirements (*e.g.*, business continuity plans) that are applicable to clearing agencies. However, analysis is needed on a particular blockchain's validation mechanism and methodology for resolving bugs and consensus failures to determine the extent to which the technology mitigates the needs for clearing agency standards. |
| Advisers Act § 2 – Definition of Adviser<br>15 U.S.C. § 80b-2 | The Advisers Act defines an investment adviser as any person who, for compensation, engages in the business of advising others as to the value of securities or the advisability of investing in, purchasing, or selling securities; or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities. | **Applicable to Native Tokenized Securities:** Yes, since native tokens are securities, just in a digital form, any activities in relation to the token would constitute activities in relation to the security. Accordingly, a market participant that advises others regarding native tokenized securities for compensation would qualify as an investment adviser.<br><br>**Applicable to Wrapped Tokenized Securities:** Yes, it is well established that a receipt for a security is a security. Accordingly, since the token qualifies as a security, a market participant that advises others regarding wrapped tokenized securities for compensation would qualify as an investment adviser.<br><br>**Applicable to Security Entitlement Tokens:** Although the token itself would not be a security since it is simply a recordkeeping mechanism, any activities in relation to the token would constitute activities in relation to the security. Accordingly, a market participant that advises others | The definition of "investment adviser" aims to capture a person that a customer has hired or otherwise engaged for compensation to advise it on whether to buy, sell, or hold securities. Congress determined that such persons must be subject to fiduciary duties and other requirements to mitigate possible conflicts of interest. Whether a security on which a person provides investment advice is recorded using distributed ledger technology does not affect these considerations. The possibility of conflicts of interest, deceptive practices, or malfeasance is no less simply on account of how a security is recorded. | None. An investment adviser advising on tokenized securities can generally comply with the requirements of the Advisers Act, to the same extent as an investment adviser with respect to traditional securities. The Custody Rule under the Advisers Act may have been drafted in contemplation of traditional financial intermediaries. However, such intermediaries are able to provide custody and other services in relation to tokenized securities. Moreover, the Commission can address any perceived interpretive ambiguities or other limitations of such rule through a concept release, followed by notice and comment rulemaking. | None. However, a number of intermediaries operating in decentralized finance ecosystems on which tokenized securities trade often provide investment advice in novel ways that present unique risks. For example, so-called automated market makers and yield farming applications purport to provide customers with investment advice using distributed ledger systems and applications. The Commission should analyze the conflict-of-interest and other risks of these systems and identify any additional steps that may be necessary to mitigate them. | None. Distributed ledger technology does not eliminate the conflict-of-interest and other risks that the Advisers Act aims to address. |

| Rule | Rule Summary | Applicable to Tokenized Securities? | Policy Considerations | Challenges in Application to Tokenized Securities | Additional Risks Arising from Tokenized Securities | Technological Mitigants of Tokenized Securities |
|---|---|---|---|---|---|---|
| | | regarding security entitlement tokens for compensation would qualify as an investment adviser. | | | | |
| Investment Company Act § 3 – Definition of Investment Company<br>15 U.S.C. § 80a-3 | The Investment Company Act regulates any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting, or trading in securities; engaged in issuing face-amount certificates; or is engaged in investing in securities and owns or proposes to acquire investment securities exceeding 40% of the value of its total assets. | **Applicable to Native Tokenized Securities:** Yes, since native tokens are securities, just in a digital form, any activities in relation to the token would constitute activities in relation to the security. Accordingly, a market participant that satisfies the definition of investment company in relation to native tokenized securities would qualify.<br>**Applicable to Wrapped Tokenized Securities:** Yes, it is well established that a receipt for a security is a security. Accordingly, since the token qualifies as a security, a market participant that satisfies the definition of investment company in relation to wrapped tokenized securities would qualify.<br>**Applicable to Security Entitlement Tokens:** Although the token itself would not be a security since it is simply a recordkeeping mechanism, any activities in relation to the token would constitute activities in relation to the security. Accordingly, a market participant that satisfies the definition of investment company in relation to security entitlement tokens would qualify. | The Investment Company Act seeks to protect investors in pooled investment vehicles, by requiring registration, governance standards, disclosure obligations, and restrictions on capital structure and affiliate transactions.<br>The fact that an investment company may invest in securities that are recorded using distributed ledger technology rather than traditional technology does not make these protections any less relevant or important. | None. An investment company investing in tokenized securities can comply with the requirements of the Investment Company Act. Section 17(f) and certain Commission regulations thereunder may have been drafted in contemplation of traditional financial intermediaries. However, such intermediaries are able to provide custody and other services in relation to tokenized securities. Moreover, the Commission can address any perceived interpretive ambiguities or other limitations of such rule through a concept release, followed by notice and comment rulemaking. | Generally none. However, the use of tokenization may heighten the concerns around investor protection, as some investors may not understand the additional risks associated with tokenized securities. | None. |

In light of the Securities and Exchange Commission's Regulatory Flexibility agenda, some of the requirements noted above may be subject to change.