August 7, 2025

By electronic submission

Commissioner Hester M. Peirce and Members of the SEC Crypto Task Force
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-0213

RE: Request for Comment on *There Must Be Some Way Out of Here*

To The Crypto Task Force:

The Securities Industry and Financial Markets Association[1] and its Asset Management Group[2] (collectively, "SIFMA") are submitting additional feedback[3] in response to the statement by Commissioner Hester M. Peirce entitled "***There Must Be Some Way Out of Here***" (the "Statement") requesting information from stakeholders on activity involving blockchain-based digital assets.[4]

The U.S. securities markets are the envy of the world, being not only the largest but also the deepest, most liquid, and most efficient. Investors – both institutional and retail – enjoy narrow spreads, low transaction costs, fast execution speeds, and strong investor protections. Efficient and resilient market structure is key to sustaining investor confidence and participation underpinning our markets. The goal of regulators and market participants alike is to promote market resiliency and

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation, and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association.
[2] SIFMA AMG brings the asset management community together to provide views on policy matters and to create industry best practices. SIFMA AMG's members represent U.S. and multinational asset management firms whose combined global assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.
[3] SIFMA response to the Request for Comment on There Must Be Some Way Out of Here, May 9, 2025, available at: https://www.sifma.org/wp-content/uploads/2025/05/SIFMA-SEC-Crypto-RFI-Initial-Response-May-2025.pdf.
[4] As is our convention when commenting on these topics, we refer to "digital assets" throughout this letter; however, we recognize that the term "crypto assets" is also frequently used (including in the Statement) and for purposes of this letter intend these two terms to be viewed interchangeably.

ensure the U.S. securities markets continue to benefit investors of all types; promoting investor protections and market integrity is consistent with embracing innovation.

Our markets also play an essential role in capital formation. Going public brings added stability by providing a permanent and liquid source of capital for corporations to operate and grow their businesses. Primary and secondary markets are symbiotic in nature. Healthy, efficient, and liquid secondary markets give issuers confidence their capital needs will be met at a good price level in primary markets.

That said, one can always strive to develop new products and services as markets and technologies continue to develop. This includes adapting new technologies to achieve operational efficiencies, searching for new ways to transact and, generally, designing market structure to maximize efficiencies. Merging technological innovation with the investor protection and market integrity that exist today could benefit both investors and issuers. When considering what the landscape should look like for digital assets, regulators and market participants should ask: how would this innovation, product, or change to processes impact existing investor protections and confidence in the U.S. securities markets?

SIFMA members bring to bear decades of experience operating in highly competitive, dynamic markets and adapting to changes in technology and investor demand to successfully grow their businesses, benefit their customers, and modernize the U.S. securities markets, which are the envy of the world. As part of these efforts, over the years SIFMA and its members have regularly worked to assist regulators in designing flexible frameworks that allow for responsible innovations as markets and market conditions evolve. We continue to regularly engage in and strongly support responsible innovation in the securities markets. This perspective also applies to the digital assets sector, and we commend the SEC for its ongoing work to foster innovation and bring greater regulatory clarity to digital asset markets.

This letter focuses on the important benefits and protections current market structures provide to investors and why they should be utilized to allow new operating models to achieve the same level of success as the U.S. securities markets; puts forward a number of considerations for the design of an innovation exemption or regulatory sandbox style framework; outlines a number of opportunities for additional innovation within existing regulatory frameworks that our members are exploring; and discusses the importance for regulators to clearly define tokenization and ensure regulatory frameworks for issuance and trading of tokenized securities are appropriately tailored to facilitate investor protection, market confidence, and ultimately, broad and sustainable adoption

Since this January, the SEC has engaged in a structured process to holistically understand the implications of blockchain-based operating models and the impact of the emerging digital assets ecosystem on the regulated securities markets. SIFMA has been encouraged to see this measured, comprehensive review, covering the broad range of products and functions under the SEC's purview, which has provided a range of opportunities for engagement from market participants broadly, including a series of roundtables, industry dialogue, and the RFI process. As the SEC looks to make concrete changes in its rulesets, we encourage the Commission to continue to follow this careful approach for developing, proposing, and approving rules, which is critical in light of the importance of the U.S. securities markets and the regulatory frameworks that govern them.

Executive Summary

SIFMA advances the following considerations and recommendations in this letter:

Established Market Structures Provide Vital Benefits and Protections to Investors which the Commission Should Utilize When Exploring New Operating Models

- To facilitate broad investor adoption and long-term viability of new operating models and fair, efficient, and orderly overall markets, market structures for tokenized assets that comprise securities or derivatives should retain the benefits and protections provided for investors, issuers, and markets embedded in current market structures. These principles include market transparency, market linkages, customer optionality, best execution and suitability standards, disclosure requirements, customer asset safeguards, and appropriate disclosure and oversight of conflicts of interest.
- Modernization of the securities markets should reinforce and refine, not bypass, key regulatory responsibilities derived from existing regulatory frameworks. While blockchain networks can support new models for securities issuance and trading, any regulatory changes should utilize the protections provided when various specialized parties perform separate roles within the same ecosystem. Replacing, consolidating, or bypassing these roles without establishing equally rigorous and effective safeguards via other means poses significant and unnecessary risks to issuers, investors, market quality, and investor confidence.
- Custody of all types of assets must be based on the foundational principles of (1) segregation of client assets when held by a third party, (2) separation of custody from trading and asset management, and (3) proper control over transfers. Failures in these areas—seen in unregulated crypto trading platforms like FTX, which allowed management to easily access customer assets—exposes investors to significant risk, slows broader adoption and highlights the need for high custody standards.
- The existing securities regulatory framework has been thoughtfully designed over many years so that separate parties are responsible for (and also work collaboratively to facilitate) issuance, trade execution, and custody of customer assets, which, together with appropriate disclosures, mitigates the conflicts of interest that otherwise would pervade the securities markets. Allowing vertically integrated digital asset platforms in the securities and derivatives markets without appropriate controls likely will increase these risks, which could lead to diminished investor confidence and participation in these markets.
- To ensure transparency and market interconnectivity, trading venues that include tokenized equity securities should connect to established market transparency, trade reporting, disclosure requirements and surveillance systems (or new methods of providing these functions)—like Securities Information Processors ("SIP") that distribute consolidated equity market data, the FINRA Trade Reporting Facilities ("TRFs") and FINRA Over-the-Counter Reporting Facility ("ORF") for off-exchange trades, Trade Reporting and Compliance Engine ("TRACE"), and the Consolidated Audit Trail ("CAT"). These steps are critical to continue to provide investors with wide access to near real-time quote and trading information and allow

for consistent pricing across the market as well as market oversight across current securities and digital securities markets.

- Transfer agents for tokenized securities should not be assigned expanded roles (e.g., taking on broker-dealer responsibilities) unless it is as a part of a comprehensive modernization of transfer agent rules to ensure equivalent investor protections.
  The experiences of certain platforms which operated outside these regulatory constraints, seen most notably in the failure of the FTX Group, highlights a number of risks which can emerge absent robust regulatory frameworks governing the full spectrum of exchange, custodial, and brokerage functions.

The Importance of Carefully Structuring any Innovation Exemption or Regulatory Sandbox

- SIFMA recognizes that a carefully structured "regulatory sandbox" or "innovation exemption" framework could provide several benefits.
- An innovation exemption or regulatory sandbox framework can provide a channel to support, though not substitute for, a broader process of policy modernization to accommodate blockchain technology and digital assets applications.
- It is important, however, that any innovation exemption does not provide opportunities for regulatory arbitrage or create fragmentation in markets in ways that could hurt investors, and must be structured with a transparent process and clear guidelines for providing exemptive relief and soliciting public feedback.
- Both the innovation exemption itself and significant projects approved under that framework should be subject to public input, and all projects should also have to meet minimum disclosure requirements.
- Projects operating under an innovation exemption framework should be subject to appropriate guidelines, including duration limits, caps on the volume and size of transactions and clear criteria on the types of customers that can participate, though the SEC should retain some flexibility to modify these requirements as projects evolve.
- There should also be a clearly defined exit ramp into a permanent regulatory environment for projects operating under the innovation framework. Firms transitioning out of the framework must be able to demonstrate an ability to comply with core regulatory requirements designed to protect investors, support markets, and appropriately manage risks.

There are Opportunities for Innovation within Established Frameworks, supported by Targeted Changes to Existing Regulations

- SIFMA supports targeted updates to existing SEC regulations to enable blockchain-based innovation across the securities lifecycle, avoiding the risks of digital-only exemptions while preserving core investor protections.
  A list of product areas where our members see opportunities for regulatory modernization is included in this section.

There Must be a Clear Definition of Tokenization and Activities Involving Tokenized Assets

- The regulatory treatment of tokenized assets must be based on their fundamental economic characteristics, not on the technology used or the terminology chosen by market participants.
- Use of tokens does not change the legal nature of an asset. A token is merely a digital record and should not alter the legal or regulatory classification of the underlying asset; securities and

derivatives recorded through the use of tokens should still be regulated under existing securities and derivatives laws.

- To promote clarity and appropriate regulatory oversight, the SEC should adopt a standardized digital asset taxonomy based on economic features.
- Any regulatory changes or exemptions for tokenized products should be narrowly tailored, carefully considered, and not compromise core elements of existing market structure or investor protections.

I. Principles from Established Market Structures Provide Vital Benefits and Protections to Investors that Should be Utilized When Exploring New Operating Models

In SIFMA's prior letters to the Commission and the Crypto Task Force, we highlighted a number of key benefits and protections offered by the regulatory frameworks in the U.S. securities markets. In general, current market structure is intended to: link trading venues within the same asset class to reduce market fragmentation; provide transparency to investors regarding the prices and sizes available to trade at any given time; require best execution of customer orders; facilitate public disclosure of conflicts of interest; decrease concentration of market-wide financial and operational risks; facilitate customer optionality; and reduce regulatory arbitrage among products and asset classes. These principles, which have been developed and refined over many years, have allowed for competition among exchanges, broker-dealers, and other market participants resulting in securities markets that attract and retain investors and are the envy of the world.

We recommend that the Commission utilize the same general principles in designing regulatory frameworks for any new blockchain-based operating models to ensure that innovative products and operating models continue to offer the same high standards of investor protection and market confidence. New markets that lack these benefits and protections—principles that encourage and support market transparency, market interconnectivity, investor protection, and customer experience—likely will be unable to achieve the same long-term success as the dynamic U.S. securities markets. Additionally, as new digital asset securities markets develop, the goal of the Commission should be updating existing regulations to avoid fragmented markets and integrating any new digital securities and derivatives platforms into the updated market structure, not developing parallel market structures for linked products or assets that operate in separate regulatory silos. To the extent digital asset operating models become a "one-stop-shop," it may inhibit investor choice, limit market transparency, eliminate best execution protections, and increase the potential for conflicts of interest if those customers are not able to obtain pricing information or access order flow on other venues. This would have significant adverse consequences for investors and the markets.[5]

There are a range of opportunities to modernize regulatory frameworks applicable to the securities industry to support and encourage both blockchain-based operating models and current securities market participants, reflecting the novel capabilities of blockchain networks. We would support these updates, recognizing that any changes should include the "load-bearing" features of existing market structure so that financial, operational, and default risks are not concentrated in one or a few market participants. These features are the foundation of investor protection and issuers' interactions with the capital markets. Targeted and thoughtful changes to regulations can unlock

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[5] See, e.g., Alexander Osipovich and Vicky Ge Huang, *Want to Trade Amazon on Crypto Exchange? The Price Might Be Off by 300%*, Wall St. Journal (July 15, 2025), available here.

innovative operating models and new tokenized products and services, but sudden moves away from these core regulatory principles without offering any replacement likely would remove their benefits and protections, putting investors and market integrity at risk.

These frameworks have provided a robust baseline of investor protections which have driven widespread confidence in the U.S. capital markets, making them the safest, broadest and most liquid markets in the world. They have promoted confidence in the reliability of U.S. capital markets across the securities lifecycle – from investor confidence that their assets will be securely held, that markets will operate transparently and fairly, and in the resiliency of post-trade processes. The confidence these protections offer has promoted widespread participation in the U.S. securities markets not only from institutional investors, but U.S. retail investors and foreign investors. While we support ongoing innovation, we caution against abrupt changes which could undermine these protections and weaken the confidence investors broadly have in the U.S. capital markets.

Function: Regulatory Responsibilities

The regulatory frameworks established by the Securities Act of 1933 and the Securities Exchange Act of 1934 and expanded by nearly a century of rulemaking place broker-dealers as the central intermediary - on one side for interactions with issuers through distribution and creation of securities and on the other side in their interactions with investors purchasing securities. Each of these relationships is framed by an ever-evolving body of regulations and established market practices which define the responsibilities of broker-dealers to their clients.

The regulatory responsibilities of broker-dealers in relation to their customers broadly establish a framework—including standards of best execution and appropriate disclosures about investment risks and conflicts of interest—which give customers sufficient information to confidently make choices about how to direct their investments, typically at the touch of a button and for very little, if any transaction fees. In practice, these obligations, which have been refined and tailored through the years as market conditions change, result in fair and efficient handling of customer orders, central clearing of most customer transactions, and a settlement timeline that continues to decrease. For example, retail customers in the equity markets always know in real-time the prices and volumes available to buy or sell and in most instances their orders are executed at prices within the spread and with very little transaction costs. In addition, customers who turn over their assets to broker-dealers have no doubt about the security of their funds because there are a range of customer protection and safekeeping rules governing everything from the safe handling of client assets, client information, and the cyber and operational resiliency of the systems that support them. Furthermore, client interactions with financial markets are overseen by financial crimes compliance structures. By facilitating transparency, positive customer experience, and investor protection, this regulatory framework ultimately enhances participation and confidence in the U.S. securities markets.

Broker-dealers provide protections to issuers in the capital markets, meeting standards of due diligence and offering conduct, standards defining their underwriting and distribution responsibilities, ongoing responsibilities for secondary market facilitation, and providing frameworks for conflicts management to ensure fair treatment for individual issuer and investor clients. More broadly, participation of issuers in capital markets is supported by a range of established requirements governing their ongoing interactions with investors to manage the appropriate communications and timely, accurate distribution of information.

Broadly, these regulatory requirements have created a baseline understanding and confidence on the part of investors that they clearly understand what they are buying when they enter into a securities transaction. This should be contrasted with the potential ambiguity seen in certain models of tokenized securities, where the relationship between the digital asset being offered and the underlying economic rights is not certain or clearly and consistently defined.

These frameworks have also established clear frameworks to deter bad actors, across the securities lifecycle, including issuance of securities, trading, and transfer of customer assets. Regulatory changes and exemptions to accommodate new technological models need to be carefully vetted to ensure they do not inadvertently open loopholes which bad actors can exploit.

While there have been discussions that existing regulatory models should not be leveraged for distributed models seen in the native crypto markets, these proposals fail to establish how the critical benefits and protections offered by current market structures—which have facilitated decades of successful market performance and customer participation and experience—would be replicated. Failing to offer digital asset investors the same benefits and protections as those established for current securities markets raises serious questions regarding whether new digital asset offerings would be able to achieve long-term viability because the principles of the existing regulatory framework support the quality and global confidence in our securities markets.

Indeed, there are a number of areas where translating these requirements to tokenized security models presents challenges which will require careful review and regulatory modernization even within the regulatory frameworks governing broker-dealer's responsibilities. Among the broad range of challenges the industry and the SEC will need to address include gatekeeping receipt of assets in digital wallets, updating eligibility rules for products, and managing the responsibilities and liabilities associated with the creation of tokens between issuers and broker-dealers.

Function: Custody

Modern custody banking services have been offered for 80+ years, with enormous success and are crucial in:

- Managing conflicts of interest;
- Ensuring high levels of investor protection; and
- Promoting the efficiency and stability of the financial markets;

There are three principles that define the proper organization of the custody function in order to protect client assets when they are held by a third party:

- *Segregation of Client Assets*: Client assets, other than cash, must be segregated from the custodian's proprietary assets and the assets of other clients at all times;
- *Separation of Financial Activities*: Safekeeping function must be separately maintained and operated from trading, asset management and other similar market facing activities;
- *Proper Control*: The custodian must have control over the assets of its clients and the ability to transfer assets held for its clients based on the receipt of proper instructions;

Importantly, these principles are entity and technology agnostic. While they define the responsibilities of a custodian, they do not preclude the existence of new entities offering these services or new business models providing custody. Indeed, the landscape of custody providers and the services they offer has evolved as market structure and technology have developed, yet these principles have remained constant in ensuring investor assets are protected. While the custody landscape will continue to evolve, it is critical that these principles continue to be abided by, otherwise investor protection would be compromised.

Any custody offering that does not incorporate these three principles is unlikely to ensure the proper protection of client assets and therefore promote the long-term stability of the market. By contrast, there have been several high-profile instances of client asset losses in the crypto asset space where these structural protections are not in place (e.g., FTX, Voyager), which demonstrate weaknesses in existing controls that need to be considered and addressed when regulated securities intermediaries, like broker-dealers or registered investment advisors, handle digital assets for their customers or clients.

Importance of Separation of Functions and Avoidance of Risks Posed by Vertical Integration

Separation of functions is critical to a range of customer protection, risk management, conflict management and market quality issues. The current separation of roles and responsibilities amongst regulated securities institutions creates an ecosystem that supports customer protection and financial stability through checks and balances and mitigation of conflicts of interest. The regulatory frameworks which establish distinct roles for broker-dealers, exchanges, custodians, and clearinghouses in the securities markets effectively disperse financial, operational, and default risks and mitigates the risks presented by conflicts of interest. Separating these functions ultimately creates the necessary trust and certainty in the system that allows issuers, investors, and market participants to drive growth. Implicit in these detailed regulatory frameworks governing the securities markets is the assumption of separation of core functions at the entity level in the majority of cases. As we discuss below, while there are some markets and functions that see integration of functions, they are regulated by a range of rules which recognize and control conflicts of interest.

Utilizing these core protections of established securities regulatory frameworks while allowing vertical integration in markets in which regulated securities intermediaries participate would not be possible without substantial redesign of the corpus of issuance, trading, and customer protection regulations, since some of the most critical risks to investors and market quality are already covered via separation of functions and so do not explicitly needed to be addressed; weakening the prohibitions on vertical integration would reintroduce these major risks.

While there are limited cases in the securities markets in which there is adjacency between broker-dealer and trading venue functions (such as in the case of broker-dealer affiliated ATSs), the potential conflicts of interest are explicitly addressed in regulation; these controls would be absent if vertical integration were to be permitted for other functions. Past examples of the result of the integration of exchange, dealer, and custodian functionality in the native digital asset markets, such as FTX, raise significant concerns regarding customer protection and conflicts of interest management when securities investors or intermediaries are involved which ultimately will undermine trust at a systemic level. Proposals to break down existing separation of functions would need to replicate these protections with an entirely new set of controls, which would be challenging to establish while also accommodating the impacts of a novel technological environment.

We recognize there are existing operating models which do not feature strict separation of the roles of all intermediaries (issuance, trading and custody), however the protections provided by those intermediaries should be replicated in new operating models. Still, the trading and issuance frameworks associated with these markets have other protections to manage the risks which would otherwise be created by removal of intermediaries (i.e. through limitations to certain classes of investors, restrictions on volume, disclosure requirements, etc.). Potentially expanding programs for trading and issuance of tokenized securities to allow market participants to take advantage of the technical efficiencies allowed by DLT is better than creating entirely new broad exemptions.

The Need to Utilize Core Principles and Protections in the Issuance and Trading Regulatory Frameworks

SIFMA has outlined in our prior letters our support for utilizing the established frameworks which broadly govern the securities markets in the regulation of digital assets within the SEC's jurisdiction.[6] In our view, the pillars of securities regulation – issuance, trading, interactions with clients, custody, etc. – can successfully be applied to the digital asset securities models, allowing the benefits and protections these principles offer to facilitate broader investor adoption and market confidence in digital assets products.

We also recognize that the corpus of securities law that has developed in each of these areas over the decades reflects historical operating models and contains opportunities for updates and modernizations even independent of the need to adopt it to blockchain-based markets. The focus of the SEC should be on identifying the key benefits and protections offered by established regulatory frameworks and applying them to digital asset securities markets.

Utilizing these principles for digital operating models does not necessarily mean that all elements of the established trading frameworks would be applied to tokenized securities in their exact form. However, there are aspects and principles of the current frameworks that should not be abandoned without Commission deliberation and explanation (and public input) and any exemptions for novel operating models should demonstrate that fundamental protections are still being provided. Failure to do so creates the real risk of regulatory arbitrage, and risks to investors. It can also result in fragmentation of markets, as true interoperability between digital and current markets requires aligned standards of compliance, particularly around unregistered distributions of control and/or restricted securities, as well as trading by corporate insiders more generally.

Preserving the foundational protections of the established broker-based infrastructure and associated market regulations is not a defense of any particular operating model or business type. These core regulatory frameworks have seen continued evolution of both the institutional and retail securities models. In particular, the last 40 years have seen dramatic evolution of the securities markets landscape. These changes have been supported by targeted reforms to accommodate new operating models and technologies, but the fundamental expectations of the responsibilities of brokers vis-à-vis investors and issuers have remained constant, coupled with high standards for market quality and institutional governance and risk management.

We expect that new broker-dealer operating models will continue to evolve, supported by new types of ancillary services, new types of market structure, and innovative products. However, these future operating models must continue to offer the foundational protections provided by the core elements of the securities regulatory framework. If not, there are significant risks – including market manipulation, losses of client assets, and conflicts of interest – that can occur absent robust regulatory control frameworks. Nor have these risks been entirely eliminated by technological

[6] See https://www.sec.gov/files/sifma-sec-crypto-rfi-initial-response-050925.pdf; https://www.sec.gov/files/ctf-written-input-sifma-061125.pdf; https://www.sec.gov/files/ctf-written-input-sifma-063025.pdf.

solutions, even when new technology allows for new types of transparency and direct investor participation in markets. While blockchain-based operating models offer a range of novel technological features, these technologies do not in-and-of themselves replace the critical investor protection and market quality provided by core securities regulatory frameworks.

We recognize that there are opportunities for improvement in the existing market regulations consistent with past Commission practice over more than 90 years. This should lead to a process of reviewing and updating regulations as they apply to markets as they operate today, not just exempting one type of emerging technology from complying with them.

At a high level, we view the core elements of the established securities regulatory framework as covering the following broad themes, which should be applied to digital assets to achieve the same levels of customer protection and investor confidence. All of these would need to be carried over with equivalent levels of protection to any digital asset markets to which securities intermediaries and their customers, including broker-dealers and registered investment advisors, have access for the benefit of investors.

- Investor protection (best execution, suitability, fraud prevention and redress, regulation of distributions, segregation of customer assets) should not be sacrificed for innovation.
- Full and fair disclosure (whitepapers/token disclosures, ongoing disclosures, and tokenomics transparency).
- Fair and orderly markets (market surveillance, best execution, pricing transparency)
  - Transparency in trade reporting is of foundational importance in this area, as it drives execution quality analysis and supports a range of industry practices which customers expect.
- Issuer accountability (registration or exemption, disclosure of principals and conflicts, enforcement reach).
- Prudential oversight/controls (capital, liquidity, custody rules, resilience of smart contracts and validators, interoperability).
- Custody and safekeeping (qualified custodian standards, self-custody and staking guidance, SEC 15c3-3 application).
- Market Access and fair dealing (fair access rules for token listings, trading platforms and staking, oversight of tokenization platforms and compliance with ATS rules).
- Regulatory clarity and technology neutrality (jurisdictional boundary coordination).

There are particular benefits in ensuring that any new digital asset security trading platforms are integrated into common trade reporting infrastructure alongside current markets in those assets. At a minimum, integration of new platforms into the established infrastructure for collecting and disseminating information on securities will drive substantial benefits in terms of transparency of execution. This includes integration into existing price transparency infrastructure or new channels to provide that connectivity (*e.g*. the SIP, TRF, ORF, TRACE, and CAT as well as conflict of interest disclosure mechanisms (*e.g*. Rule 605 and Rule 606 reports), given the central importance of real time post-trade price transparency. Failure to integrate raises serious concerns of the developments in different models for price discovery across markets and platforms, which are ultimately harmful to investors and overall market quality. New operating models should also be connected to the established models for funding the regulation and oversight of securities markets (*e.g.* transaction fees established under Section 31 of the Securities Exchange Act of 1934).

We recognize that there are opportunities for continued improvement regarding the operation of many of the infrastructure venues which support dissemination of pricing and trade execution information, as well as substantial concerns regarding the CAT, and have commented on them separately. However, allowing new markets and their supporting infrastructure to operate outside of these platforms is more harmful, raising the risk to decoupled markets. Instead, the solution should be to continue to work to improve these platforms so they can best support both established and emerging digital asset models.

Function: Transfer Agents

We recognize some proposed models for digital asset securities envision transfer agents performing functions which are currently handled primarily by other intermediaries, primarily broker-dealers. In reviewing these proposals, we encourage the SEC to consider whether a greater reliance on transfer agents would deliver a quality of investor protection on par with what that currently offered by broker-dealers, particularly as current transfer agent regulations were not designed with an expectation of these entities playing such an expanded role in the securities markets. Indeed, the regulatory gaps identified in the SEC's 2015 Concept Release on Transfer Agents should be addressed before allocating increased responsibilities to transfer agents.[7] Given that current SEC guidance states that broker-dealers cannot simply rely on transfer agent or issuer information—or the absence of a legend—as evidence that a security is freely tradable, we question the degree to which digital asset security operating models should place greater reliance on transfer agents. Any work in this area needs to occur in conjunction with modernization of rules in these areas and ensuring they are enforced equally across digital and current markets to avoid regulatory arbitrage.

FTX Failure Highlights the Risks of Moving away from Robust Control Frameworks

The failure of the FTX Group highlights a number of risks which can emerge absent robust regulatory frameworks governing the full spectrum of exchange, custodial, and brokerage functions. While the collapse of FTX combined a range of factors, including criminal activities which were contrary to those limited U.S. regulations that governed FTX Group entities, a range of its challenges can be directly attributed to the absence of oversight, control, and separation of functions requirements which are established in the U.S. securities markets. The integration of exchange, trading platform and custodial functions created opportunities and incentives for misappropriation of client assets to cover trading losses, and the absence of robust custodial, disclosure, and audit requirements enabled widespread misappropriation of funds.

Notably, while clients of FTX in many markets saw major losses, FTX Japan customers' assets were largely protected because Japan's Financial Services Agency (FSA) had previously implemented regulations which blocked the co-mingling of client assets seen in many other markets. FTX Japan was required to comply with regulations requiring separation of customer assets (both fiat and crypto) from the exchange's own funds, and that customer fiat balances be held in trust by a third-party Japanese trust company or bank, with customers as beneficiaries, shielding funds from being used improperly or lost in bankruptcy. These controls were supplemented with audit, disclosure and technological controls.

[7] See https://www.sec.gov/newsroom/press-releases/2015-288.

II. The Importance of Carefully Structuring any Innovation Exemption or Regulatory Sandbox

SIFMA recognizes that a carefully structured "regulatory sandbox" or "innovation exemption" framework could provide several benefits. Properly constructed, it would provide innovators with the opportunity to test novel digital asset products, services, and business models in a flexible but controlled environment. It could provide the SEC with real-time visibility into the operation of these products and services, providing valuable information to the Commission that can be used to design appropriately tailored regulatory regimes while also protecting investors and market integrity. Moreover, it could act as an important driver of innovation, ensuring that the United States remains the world's leader in applying blockchain solutions across a wide range of capital markets use cases.

It is crucial, however, that any innovation exemption framework does not inadvertently create opportunities for regulatory arbitrage or lesser protections for investors and consumers that could unintentionally have widespread implications for market integrity and stability. Without the appropriate guardrails, an innovation exemption could enable platforms to issue and trade tokenized securities without the robust protections of existing securities law, broker-dealer registration and exchange supervision. This could expose investors to fraud, market manipulation and conflicts of interest, especially if issuance, trading and settlement functions were to be vertically integrated within a single digital securities asset intermediary.

Similarly, a poorly designed framework that allowed tokenized securities to operate outside the established regulatory framework could lead to market fragmentation and harm to issuers and investors, with similar financial products being traded on disparate platforms under uneven rules. This could undermine investor and issuer protections, price discovery, transparency, and execution quality, particularly if these new venues lack the robust oversight and investor protections currently afforded by trading on national exchanges. This could, in turn, negatively impact overall market liquidity, as trading becomes split across incompatible venues, leading to inefficiencies and increased risks for investors.

It is also important that any innovation exemption framework be a *supplement* to a broader process of modernizing regulation instead of a back-door mechanism for rewriting key elements of the existing market structure regime. Major changes in market structure regulation need to occur through a transparent, notice-and-comment process that provides for broad and meaningful engagement with a wide variety of stakeholders and a thorough analysis of potential costs and benefits, not through approvals of specific projects or activities under an exemptive framework. This will ensure that major policy reforms are focused on fostering strong current and digital securities markets instead of making potentially destabilizing changes to 'load-bearing' regulations simply to accommodate specific digital business models.

Setting Up an Innovation Exemption Framework: Key Considerations

SIFMA has previously stated its opposition to any process that would grant broad and immediate exemptive or no-action relief from the federal securities laws to a specific firm or group of firms without public consultation.[8] SIFMA instead recommends that the creation of any innovation

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[8] See https://www.sifma.org/wp-content/uploads/2025/07/SIFMA-Letter-Digital-Asset-Exemptive-Relief-Requests-6.30.25.pdf.

exemption framework occur through a transparent, substantive notice-and-comment process that allows for broad industry input and engagement on its design and operation.

SIFMA also recommends that significant project applications under this framework also be subject to public input prior to being approved, recognizing that a desire to go to market quickly should not impede a substantive regulatory review process. In order to promote transparency, any project seeking approval under a future Innovation Exemption framework (whether it had been subject to prior public input or not) should be required to disclose information on the identity of the issuer of any securities issued in connection with the project, key structural characteristics of the project, the venue where tokenized securities will be traded, and the types of disclosures that will be available to investors, amongst other details. Similarly, we caution that potential projects which could affect major structural changes to the markets or alter core investor protections be addressed through a broader rule change process as opposed to via an innovation exemption.

Allowing public input on both the innovation exemption framework itself and specific project applications, as well as requiring minimum public disclosures by project developers, will result in better policymaking and ensure an appropriate level of transparency in the process. We also fully agree with Commissioner Peirce that any exemptive framework should be open to all market participants,[9] and that no single institution or group of firms should have a monopoly on developing an innovative use case.

It is also important to note how projects focused on different parts of the securities lifecycle taking place under an innovation exemption may have different impacts on the broader securities markets even while the project remains in pilot form. Projects focused on post-trade, clearance and settlement applications would not disrupt broader markets; similarly, projects focused on issuance of new securities within a sandbox environment can target their impacts on the pools of investors who choose to work with those newly-issued assets. Projects involving trading of already issued securities in tokenized form need to be reviewed with an eye towards their effects on the broader markets for those securities in their un-tokenized form. The many ways of tokenizing and trading digital asset securities can have different economic implications, which coupled with the potential for digital trading venues unconnected to broader markets can result in fragmented markets and different prices for the same underlying asset.

Designing Project Guardrails and Exit Ramps from the Innovation Exemption

Any project operating under a framework that lacks the full range of existing investor protections should be open to a limited pool of investors at first, with an initial emphasis on institutional or accredited investors that have a better understanding of the risks involved relative to retail investors. The activities permitted under an innovation exemption should be subject to maximum duration limits, as well as reasonable caps on the size / volume of transactions and number and types of customers that can participate, to mitigate against the possibility of regulatory arbitrage and protect investors. Duration limits are essential to avoid firms operating outside of the normal securities law framework for indefinite periods and reflect the fact that these projects are designed to test novel products and business models in temporary, controlled environments. Restrictions on the volume and size of transactions are equally important in the testing phase to avoid potential negative externalities for broader markets. Review of proposed projects should also

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[9] See https://www.sec.gov/newsroom/speeches-statements/peirce-old-flames-071625.

consider how they address core features of market structure and investor protection which need to be utilized in new operating models (*e.g.* dissemination of real-time post trade information, best execution, fair access, investor protection and suitability requirements, etc.). Review could also include analysis and disclosure of the costs and benefits to end investors of proposed new operating models (*e.g.* transaction costs, execution quality, etc.)

The SEC should, of course, retain some flexibility to revise these limits as projects develop and it gains a better understanding of the relevant market and policy implications. For example, customer participation and transaction limits could be expanded in a phased way as systems prove their resilience and ability to comply with important investor safeguards *e.g.,* around best execution and real-time surveillance. While projects operating with an Innovation Exemption should be subject to a maximum duration limit, extensions (*e.g.,* from 12 to 24 months) will invariably be necessary as firms explore new products and business applications.

In establishing these guardrails, the SEC should adopt lessons from other major jurisdictions that have implemented regulatory sandboxes, such as the UK and the EU. These include the importance of limiting scope, providing clear entry and exit criteria and ensuing equal access for both incumbents and new entrants.

SIFMA also agrees with Commissioner Peirce that any framework must provide a "smooth exit ramp that takes the participant into a workable permanent regulatory environment."[10] Any transition must be based on evidence that the project and / or operating entity is capable of complying with a full range of regulatory requirements, including those related to investor protection, market operations, and risk management. And while some tailoring of regulatory requirements may be appropriate given the SEC's experience monitoring the project, any permanent regulatory environment should require the firm to comply with the same core investor protections that apply to other market participants that issue and trade securities.

III. There are Opportunities for Innovation within Established Frameworks, supported by Targeted Changes to Existing Regulations

SIFMA is strongly supportive of continued innovation in the securities markets and believes there are a broad range of opportunities for transformative change in the application of blockchain networks to the full spectrum of the securities lifecycle, across a broad range of SEC-regulated products. We believe that targeted changes to established regulatory frameworks will allow market participants to rapidly develop new blockchain-based products, services, and operating models; while remaining compliant with the broader issuance, trading, and investor protection frameworks which govern securities markets. Removing these impediments to innovation through targeted regulatory modernization reduces the risk of regulatory arbitrage seen in creating digital-only exemptions.

At a high level SIFMA members have identified a range of opportunities for regulatory modernization across different product areas. These are outlined below, we would be pleased to provide additional detail on any of them and specifics on where changes are needed to accommodate DLT operating models:

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[10] Id.

Fixed Income Post-Trade	***Equity Issuance***	***Equity Trading***
Settlement finality	Classification	Exchange vs ATS rules
Custody rules	Tokenized shareholder rights	Custody risks
DTCC integration	Transfer restrictions	Cross-chain execution
Regulatory perimeter	Disclosure requirements	Best execution summary standards
Books and records	Intermediary rules	Manipulation detection
Tax lot and identity tracking	Form S-1 compatibility	Pricing transparency
		Market Data

Alternatives
Accreditation and eligibility
Fund tokenization compliance
Valuation and NAV
Secondary liquidity
Jurisdictional conflict
Smart contract enforcement and auditability

IV. There Must be a Clear Definition of Tokenization and Activities Involving Tokenized Assets

In light of recent proposals for new products and services offering “tokenized” assets constituting securities to investors, we feel it is important to reiterate SIFMA’s comments from our May 9, 2025 response to the Crypto Task Force in which we discussed the importance of clear taxonomy of digital assets, and that definitions of digital asset types and their regulatory treatment should be based on the fundamental legal and economic characteristics of the asset in question. Indeed, it is critically important that the regulatory treatment of innovative products across a broad range of regulatory issues (not least the types of investor which they can be offered to) be aligned with the economic characteristics of the asset rather than its technology features or terminology which its promoters may adopt.

Although market participants have been using differing nomenclature to-date to describe different types of tokens, tokens themselves are fundamentally records and, like all digital records, can be used to represent a variety of legal relationships, including securities, derivatives and other bespoke arrangements. The use of a token, as opposed to any other digital record, should not result in a different legal treatment with respect to the underlying legal relationships. A security whose ownership is recorded using a blockchain-based token should be regulated on a basis consistent with that applicable to other securities; similarly, a derivative that is recorded with a blockchain-based token should be regulated consistently with other derivatives.

If there are aspects of existing rules or regulations that are not practical in the context of tokenized securities and that the Commission feels are stifling innovation in this space, any changes to, or exemptions from, those rules or regulations should be narrowly tailored and carefully considered in the context of the core features of market structure identified in Section 3 below.

We recognize that there will be a range of innovative products and services using tokens and blockchain technology, but these need to be governed by the appropriate regulatory frameworks.

Given that blockchain technology allows for a range of new products whose economic features may not cleanly align with existing products, we encourage the Commission to look to adopt standard industry taxonomies which can help clearly and consistently identify a broad range of innovative ledger-based products according to their underlying economic characteristics and so provide them with the appropriate regulatory treatment. As discussed in our May letter, we recommend the taxonomy originally developed by SIFMA's global affiliate, the Global Financial Markets Association ("GFMA"),[11] which was subsequently adopted as a recommendation by the Commodity Futures Trading Commission's Global Markets Advisory Committee's Digital Asset Markets ("CFTC GMAC DAM") Subcommittee.[12]

We support Commissioner Peirce's July 9, 2025 statement entitled "Enchanting but Not Magical: A Statement on the Tokenization of Securities."[13] We agree that while blockchains have great potential, they do not have magical abilities to transform the nature of the underlying assets that they record, and existing laws should continue to apply to all assets, regardless of whether they are recorded using blockchains or any other digital ledger system. We support the Commission's focus on ensuring that tokenized products broadly are treated in accordance with the appropriate securities laws.

Coupling this clear taxonomy with targeted modernization of the securities regulatory framework to account for the novel features of tokenized securities will allow market participants to clearly establish when digital assets are securities, and then move forward with their issuance and trading in a regulatory framework that builds on the robust investor protections and market standards of the established securities regulatory framework.

SIFMA appreciates the Task Force's consideration of these comments and looks forward to further engagement on these and other issues. Please contact Charles De Simone (cdesimone@sifma.org) and Peter Ryan (pryan@sifma.org) if you wish to discuss the points raised in this letter further or have any questions.

Sincerely,

Kenneth E. Bentsen, Jr.
President and CEO
Securities Industry and Financial Markets Association (SIFMA)

[11] GFMA Response re: International Regulation of Crypto-Asset Activities: a Proposed Framework (December 15, 2022), available at https://www.gfma.org/wp-content/uploads/2022/12/gfma-response-to-fsb-crypto-asset-consult-15-december-2022.pdf.
[12] CFTC Global Markets Advisory Committee, Digital Asset Markets Subcommittee, Digital Assets Classification Approach and Taxonomy (March 6, 2024), available at https://www.cftc.gov/media/10321/CFTC_GMAC_DAM_Classification_Approach_and_Taxonomy_for_Digital_Assets_030624/download.
[13] See https://www.sec.gov/newsroom/speeches-statements/peirce-statement-tokenized-securities-070925.