November 26, 2025

The Hon. Paul Atkins
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Requests for Exemptive Relief from the Federal Securities Laws for Tokenized Securities

Dear Chairman Atkins,

With the reopening of the U.S. federal government, the Securities Industry and Financial Markets Association ("SIFMA")[1] is writing to highlight the following critical considerations as the SEC continues its important work of fostering innovation and providing clarity and certainty in the evolving market for tokenized securities:

- ***Investor Protection and Market Integrity are Critical for Tokenization to Succeed:*** SIFMA and its members strongly support innovation in the securities markets and believe distributed ledger technology and tokenization offer the opportunity to embrace a wide range of potential benefits. The success of tokenized securities markets rests, however, 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, deepest, most liquid, most vibrant and reliable in the world.
- ***The Risks of Broad Exemptions***: Broad or categorical exemptions, including from longstanding statutory definitions risk creating parallel, but unequal trading ecosystems for substantively identical assets, resulting in weaker safeguards, fragmented liquidity, potentially inconsistent pricing, undue competitive disparities, and conflicts of interest that would harm investors and issuers. Recent stresses in the crypto markets, some of which were exacerbated by specific features of crypto market structure which create market / trading venue fragmentation in crisis conditions, highlight the risks that can materialize in the absence of these established safeguards. While the use of distributed ledger and ancillary technology may help to address certain regulatory requirements that currently apply to the trading of and investment into a tokenized

[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.

security, not all platforms, ledgers and protocols do so and not all core Commission regulatory objectives are satisfactorily addressed.[2] Thus, each such offering or service will need to be independently analyzed to ensure that such issues are evaluated, substantive market structure and investor protection safeguards are maintained, and potential risks introduced by the use of such technology are thoroughly considered and addressed as applicable.

- ***Functionally Equivalent Roles Should Be Regulated in a Similar Manner:*** Many digital asset market participants, including those in markets that are sometimes characterized as "decentralized," perform intermediary functions substantially similar to traditional regulated securities intermediaries. Under certain operating models, these market participants not only fall within the Exchange Act's definitions of "exchange," "broker," "dealer," and "clearing agency," but their activities also give rise to the same policy considerations that underlie the SEC's regulatory regime. Accordingly, these intermediaries should be subject to identical, or at least substantively similar, rules and oversight.
- ***The Innovation Exemption or Exemptions Should Be Carefully Designed:*** SIFMA believes that an "innovation exemption" framework can support a broader policymaking process, but only if carefully designed. Any innovation exemption (or exemptions) should be open to all market participants and include guardrails such as investor limits, transaction caps, duration limits, and clearly defined covered activities. The SEC should not categorically exempt segments of the U.S. securities markets from the longstanding statutory definitions of a broker, dealer, or exchange. In addition, to ensure careful consideration of the relevant Exchange Act requirements as well as transparency, any such exemption(s) should be subject to public notice-and-comment processes similar to regular-way rulemaking to allow all relevant stakeholders to express their views. It is also important that any exemption provide for a smooth exit ramp into a permanent regulatory environment, and that there is a clear understanding by regulators that the risks present in controlled or "sandbox-style" environments differ materially from those that arise in real-world, high-volume trading systems, hence why exemptions should supplement and not substitute for policymaking via notice-and-comment rulemaking.

Investor Protection and Market Integrity are Critical for Tokenized Securities Markets to Succeed

As we have noted in several submissions to the SEC Crypto Task Force, SIFMA and its members support innovations that can improve the functioning of our capital markets and see a wide range of potential benefits associated with tokenization.[3] Indeed, SIFMA members are engaged in a variety of initiatives that aim to harness blockchain technology and tokenization to improve the efficiency of the

[2] As an example, we understand that many customer liquidations during recent crypto market stresses were triggered because certain platforms used "single platform" pricing for assets, and liquidated client positions as the proprietary "on-platform" price for an asset declined rapidly even as prices on other venues were less affected.

[3] SIFMA & SIFMA Asset Management Group (AMG). *Re: Request for Comment on "There Must Be Some Way Out of Here" (May 9, 2025).* Submitted to Commissioner Hester M. Peirce and Members of the SEC Crypto Task Force. Washington, D.C. Available at: https://www.sifma.org/wp-content/uploads/2025/05/SIFMA-SEC-Crypto-RFI-Initial-Response-May-2025.pdf; SIFMA. *Re: Requests for Exemptive Relief from the Federal Securities Laws for Tokenized Equities and Other Digital Assets (Jun. 30, 2025).* Submitted to the SEC Crypto Task Force. Washington, D.C. Available at: https://www.sec.gov/about/crypto-task-force/written-submission/ctf-written-input-sifma-063025; SIFMA & SIFMA AMG. *Additional comments to Commissioner Hester M. Peirce's Statement "There Must Be Some Way Out of Here" (Aug. 7, 2025).* Submitted to the SEC Crypto Task Force. Washington, D.C. Available at: https://www.sifma.org/resources/submissions/letters/request-for-comment-on-statement-by-commissioner-hester-m-peirce-re-crypto-rfi-sifma-and-sifma-amg/.

settlement process, streamline recordkeeping and reconciliation, increase collateral mobility across the securities lifecycle, and boost fund liquidity.[4]

However, the use of distributed ledger technology to record an interest in a security does not change the fundamental nature of the asset as a security. We therefore welcome your recent comments that "securities, however represented, remain securities,"[5] reaffirming that the federal securities laws apply equally to tokenized securities. Similarly, we strongly agree with your statement that "economic reality trumps labels" and does not exempt a digital token "from the current securities laws if it in substance represents a claim on the profits of an enterprise and is offered with the sorts of promises based on the essential effort of others."[6] These and similar statements by Commission staff[7] are consistent with SIFMA's long-standing view that regulation should be technology neutral and continue to be based on the intrinsic economic characteristics and substance of an asset or transaction.[8]

SIFMA is concerned, however, about the potential scope of the possible innovation exemption(s) the Commission is currently assessing, specifically the inclusion of exemptions for tokenized trading activities. The strength, depth, and liquidity of the U.S. securities markets are built on broad investor confidence in their efficiency, resiliency, and integrity. This investor confidence in turn derives from the well-established investor protections, risk controls, and market-integrity guardrails that consistently apply and are built into every layer of the securities lifecycle through federal securities laws and the rules of self-regulatory organizations. Accordingly, providing broad exemptions from these guardrails could expose investors and issuers to the risks these measures seek to mitigate, which would erode confidence in U.S. capital markets more generally.

For tokenized securities markets to provide the integrity, liquidity, and investor protection for which U.S. markets are known, any entities or persons involved in the intermediation of tokenized securities, whether in centralized or purportedly decentralized trading systems, must be subject to core requirements designed to protect investors, ensure reliability and promote market quality. These include measures designed to ensure market interconnectivity, fair access, and price and market transparency; requirements that provide customers with best execution and prevent the trading ahead of customer orders; surveillance mechanisms and books and records requirements; the separation of core functions to protect investors from conflicts of interest; and robust rules related to disclosures, custody, financial

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[4] Global Financial Markets Association ("GFMA"), *The Impact of Distributed Ledger Technology in Capital Markets — Ready for Adoption, Time to Act* (Aug. 2025), available at: https://www.gfma.org/wp-content/uploads/2025/08/2.-exec-sum-impact-of-dlt-on-cap-mkts-final.pdf.

[5] Paul S. Atkins, *The SEC's Approach to Digital Assets: Inside "Project Crypto"* (speech delivered at the Federal Reserve Bank of Philadelphia, Nov. 12 2025), available at: https://www.sec.gov/newsroom/speeches-statements/atkins-111225-securities-exchange-commissions-approach-digital-assets-inside-project-crypto.

[6] *Ibid.*

[7] We would note, for example, Jamie Selway's recent remarks that the goal of the Division of Trading and Markets is "to advise the Commission on how to facilitate 'facilitate innovation without arbitrage.'" See Jamie Selway, Director of Trading and Markets, "Trust and Trustless Assets," Remarks at the SIFMA Market Structure Conference, New York (Nov. 20, 2025). Available at: https://www.sec.gov/newsroom/speeches-statements/selway-112025-trust-trustless-assets.

[8] *See e.g.,* SEC Commissioner Hester M. Peirce, *Enchanting, but Not Magical: A Statement on the Tokenization of Securities* (July 9, 2025) ("As powerful as blockchain technology is, it does not have magical abilities to transform the nature of the underlying asset. Tokenized securities are still securities. Accordingly, market participants must consider—and adhere to—the federal securities laws when transacting in these instruments.")

responsibility, and settlement requirements, among others.[9] If tokenized securities can be issued, traded and held without the full assurance of these protections, there is a significant risk that securities markets will fragment and become disorderly, that information asymmetries and conflicts of interest will arise, and that investors, issuers, markets, and other market participants will be harmed, thereby eroding trust in the securities markets. Investors and customers benefit from competition on an equal playing field that encourages innovation and high standards in access, risk management and market integrity.

Any effort to limit or exempt certain market participants from any of these or other fundamental protections that would otherwise apply to them should be undertaken only after the most careful consideration, including by evaluating whether exempting such market participants from these protections is consistent with the public interest and the protection of investors, and fair competition across both tokenized and conventional securities markets. As part of any such evaluation process, the SEC should subject any proposed exemptions to public review through a robust notice and comment process. These procedural steps are fundamental to maintaining the confidence, strength, and stability of U.S. securities markets, as the agency has long recognized and courts have upheld.

Factors to Consider When Evaluating Exemptive Relief Requests for Tokenized Securities Market Participants

Before turning to exemptive relief requests from participants operating in decentralized type trading environments, it is important to emphasize that a centrally controlled platform engaged in relevant activities involving tokenized securities would be considered a broker-dealer or other registered intermediary under federal securities laws. Moreover, a centrally controlled platform that facilitates the routing of certain trading or liquidity functions to a "DeFi" protocol while retaining centralized control over some or all onboarding, platform management and promotion, fees, order handling, or settlement processes, is also likely still acting in an intermediary-like capacity and would need to be registered as such under the securities laws. Any exemptions granted to centralized platforms engaged in the trading of tokenized securities should be narrowly drawn and subject to the processes described in this letter.

We remain particularly concerned that certain exemptive relief submissions to the SEC and the Crypto Task Force understate the extent to which some digital asset market participants perform functions that are substantively identical to those of comprehensively regulated intermediaries in conventional securities markets. Despite characterizing their activities as "protocol functions" or "decentralized matching," these entities may exercise ongoing control over various aspects of the securities transaction lifecycle, including order flow, trading logic and sequencing, access and governance parameters, routing, fee schedules, settlement instructions, and custody arrangements. As a result, these intermediaries, their behavior and the manner in which they evaluate and mitigate risks would be just as critical to the functioning of the markets they seek to serve as traditional brokers, dealers, exchanges, and clearing agencies are to off-chain markets. The resulting integration of functions pursued by some of these digital asset market participants would create an approach to market functions where conflicts will be inherently difficult to manage and points of potential failure would create new and concentrated areas of vulnerability.

Indeed, given their activities or proposed activities, many of these intermediaries likely fall within established registration categories and longstanding regulatory requirements under the federal securities laws. This includes the requirement that entities acting as brokers dealing with customers be members of

[9] *See* more detailed discussion of this in SIFMA blog "Modern Markets, Enduring Protections: Protecting Investors in Tokenized Securities," September 3, 2025. Available at: https://www.sifma.org/resources/news/blog/modern-markets-enduring-protections-protecting-investors-in-tokenized-securities/.

FINRA and subject to FINRA's investor protection rules as well as the investor protection rules under the federal securities laws. Where the existing securities laws apply to participants engaging in tokenized securities activity on behalf of customers or other "users," granting these entities broad exemptions from registration or the substantive provisions applicable to entities that serve the same functions threatens to expose market participants to risks they expect to be mitigated when dealing in U.S. securities. Moreover, relaxing AML/KYC requirements for, or exempting from AML/KYC requirements, entities that facilitate customer or user transactions in tokenized securities would undermine the policy purposes of those requirements, which are critical to combatting money laundering and other illicit finance activities, and could create opportunities for bad actors.

Broad exemptions for tokenized securities market participants also would create opportunities for regulatory arbitrage and undue competitive disparities since some intermediaries would be subject to those requirements while others engaging in the same functions would be exempted. We note in this respect that many of the submissions made to the Crypto Task Force by promoters of crypto-native firms tend to understate the economic incentives (and potential conflicts) associated with their proposed activities, functions, and roles. Regardless of the underlying technology, entities that facilitate order matching, internalization, smart-contract based routing, or custody of client assets frequently earn fees and transaction-based compensation analogous to commissions, maker-taker rebates, spread capture, custody charges, or financing charges. That fee-generating activity is directly tied to core intermediation functions that has historically required registration and corresponding supervision, financial-responsibility, and comprehensive books-and-records obligations. It would be inconsistent with fundamental principles of U.S. securities regulation—and with decades of Commission precedent—to allow functionally identical activities to operate outside the federal securities laws simply because they are facilitated through elements of distributed ledger technology.

Such regulatory bifurcation could, for example, create isolated liquidity pools and reduce depth of order books, thereby increasing the costs and risks to trade for investors. Prices of tokenized equities could diverge from their underlying stocks due to differences in trading practices or different rights associated with such tokenized equities, hindering price discovery and best execution. The price of the tokenized equity – or multiple prices in various separate liquidity pools of different tokenized equities representing the same underlying security – might not accurately reflect the real-time price of the underlying asset, the actual stock, confusing investors. In short, this would lead to market fragmentation and an erosion of investor confidence in the broader securities markets. Significantly, this divergence in pricing of tokenized equities could harm both investors in the token and issuers of such equities and their ability to raise capital, which could potentially further disincentivize companies from going and remaining public, undermining the supremacy of the U.S. capital markets.

The Commission should exercise great caution to ensure that innovation supports rather than undermines the regulatory architecture that tens of millions of American families rely on to save for retirement, purchase homes, fund education, and achieve long-term financial security, and that issuers rely on to raise capital. As with any other securities market participant seeking exemptive or no action relief, the burden should rest squarely on such applicants to clearly and convincingly demonstrate why existing requirements are inappropriate or unnecessary when applied to specific business models, or why compliance would be inconsistent or unnecessary to achieve the Commission's capital formation, market quality and investor protection mandates. A request for relief should not simply assert that a specific type of asset or technology application is "novel" or "decentralized" without a convincing argument for why such relief would not derogate from the statutory mandates the Commission must consider when evaluating any proposed market innovation.

Instead, applicants must provide detailed, technical explanations of their system's role at each step in the securities transaction lifecycle, the specific regulatory provisions at issue, why compliance is infeasible, and how any proposed alternative guardrails would achieve outcomes that are equivalent to those provided under the current regulatory framework. As has long been embraced by the Commission, proposed market innovations must be subject to (and tested against theories) of rigorous cost-benefit analysis. To ensure exemptions are appropriately tailored to meet the intended objective, the Commission should publish each such proposal for notice and comment with sufficient time to obtain thoughtful responses so that it can review and carefully consider a broad range of views before proceeding. It is critical that the Commission consider these substantive and procedural issues as it contemplates proposing any package of innovation exemptions or further rulemaking regarding tokenized securities.

Carefully Consider the Role of an Innovation Exemption Framework in Policy Development

As SIFMA noted in its August 7th submission to the Crypto Task Force, a carefully structured innovation exemption framework could offer important benefits to U.S. markets and market participants.[10] A properly designed framework would allow firms and other innovators to test novel digital-asset products and business models in a flexible yet controlled environment, giving the SEC real-time visibility into these products and services. These insights could, in turn, be used to better design tailored regulatory regimes that foster innovation while maintaining core investor protections and market integrity principles.

However, it is critical that any innovation exemption or exemptions should be a *supplement* to a broader process of regulatory modernization that involves notice-and-comment rulemaking across a range of stakeholders rather than a *substitute* for that process. The risks present in controlled or "sandbox-style" environments differ materially from those that arise in real-world, high-volume trading systems that handle diverse investor flows, varying market conditions including periods of market stress, and complex cross-market interactions. This is why market-wide policy changes must ultimately be developed through notice-and-comment rulemaking, rather than through exemptions that only apply to a class of market participants or to a particular technology or group of technologies.

Importantly, the focus of an innovation exemption or exemptions should be on "square pegs" and "round holes," i.e., clerical or administrative provisions of the securities laws that are inappropriate or unnecessary when applied to tokenized assets or distributed ledger technology, or provisions that are arguably less necessary to protect investors, promote capital formation, and secure orderly markets in the context of tokenization.[11] The Commission should not provide exemptions from provisions that are just as applicable and relevant for tokenized assets as traditional ones, and should not categorically exempt segments of the U.S. securities markets from the longstanding statutory definitions of a broker, dealer, or exchange. Any innovation project should have associated with it a plan for a rapid, but orderly wind-down if it fails to abide by objective standards or other considerations under the federal securities laws, including antifraud provisions.

As discussed in our August 7th letter, any innovation exemption or exemptions should be subject to public notice-and-comment. Moreover, all exemptions approved under an innovation exemption should be subject to three fundamental guardrails, albeit ones that can be modified as projects demonstrate resilience. These guardrails include (1) carefully calibrated limitations on the pool of investors that may participate in any innovation project, with an initial focus on more sophisticated investors in order to limit

[10] SIFMA and SIFMA AMG Submission (Aug. 7, 2025)

[11] Paul S. Atkins, Chairman, *Keynote Address at the Crypto Task Force Roundtable on Tokenization* (May 12, 2025), available at: https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-crypto-roundtable-tokenization-051225-keynote-address-crypto-task-force-roundtable-tokenization.

potential harms to retail investors; (2) caps on the size and volume of transactions and the number of customers that can participate in any such innovation project in order to mitigate against the possibility of regulatory arbitrage or market fragmentation; and (3) duration limits for such innovation projects, which are essential to avoiding firms operating outside of the normal securities law framework for indefinite periods and ensuring that any permanent new measures have the benefit of proceeding under regular-order, notice-and-comment rulemaking. The SEC should also clearly define which activities are covered by the exemption.

It is also crucial that there be a "smooth exit ramp" into a permanent regulatory environment once an innovation project proves it can meet core investor-protection and market-operations requirements. While some form of continued exemptive relief may be appropriate for certain innovation projects that exit an innovation exemption framework, such relief should be limited and phased out as quickly as possible.

Recent Stresses in Cryptoasset Markets Highlight the Importance of Maintaining Core Market Protections

Finally, we would note that there is a recent real-world example of the harm to market participants and orderliness that can arise when investor protection and market integrity guardrails do *not* exist. On October 10th of this year, following the announcement of tariffs on Chinese imports, there was a global sell-off across multiple markets. However, the impact on the (non-security) crypto markets was much more severe, with over $660 billion in value reportedly erased at one point over the course of the day, with insurance funds depleted, automated deleveraging triggered, and massive cross-venue feedback loops that amplified rather than dampened shocks. Reportedly, over 1.6 million traders experienced a market collapse, ultimately losing around $19 billion in leveraged positions. That day, Bitcoin fell 7.7% intraday and closed down 8.7% relative to the earlier October high, while Ethereum fell 12.3% and 17.5% respectively to these dates (with declines in less liquid crypto markets being more severe).

By contrast, the S&P 500 fared much better on October 10th, declining 3.1% intraday and 2.8% versus the same day high. Equity volatility did increase on the tariff news event, as it had throughout the year with tariff announcements and other macroeconomic events: 27.7% intraday and slightly elevated to earlier trends in October. Despite the increase, equity markets operated normally, and trading remained orderly on that day.

Market structure protections in SEC-regulated markets help explain why equity trading remained orderly even though there was significant dislocation in crypto trading on that day. Given that there is limited interoperability across platforms and liquidity pools, crypto markets do not have market-wide or product-specific volatility mechanisms to moderate and manage price dislocations. They also lack market makers with affirmative obligations to provide liquidity, particularly in periods of stress. Further, investors may not be aware of the protocols crypto venues use to involuntarily liquidate "in the money" customer positions, such as automatic deleveraging, which likely caused certain "delta-neutral" market participants to become mis-hedged, accelerating downward momentum as such participants then derisked.[12] This results in market moves of greater magnitude and disorderly trading, which harms investor confidence. These markets also have much higher leverage than equity markets and lack "best price" requirements, which drives idiosyncratic liquidations due to off market prices on single platform.

[12] Auto-deleveraging automatically reduces/closes traders' profitable positions when the exchange cannot fully absorb losses from liquidated positions. See generally, Suvashree Ghosh, *Crypto's Biggest Crash Reveals a Market Littered With Pitfalls*, BLOOMBERG LAW, Oct. 13, 2025.

In the U.S. equities markets, by contrast, there are various complementary measures in place to prevent and address these scenarios, including pre-trade risk controls under Rule 15c3-5, Reg SHO short selling requirements, Reg T margin limits, operational resiliency mandates, LULD bands and market-wide circuit breakers, and coordinated auction-based re-openings. Those guardrails, directed at different participants in the U.S. equity market ecosystem, are the reason these markets remain resilient in times of stress and heightened volatility, and they likely would have prevented or at least mitigated the types of cascading deleveraging events that took place on October 10th in the crypto markets. However, if tokenized stocks were allowed to trade without being subject to these and similar protections and market features, then this kind of episode could be replicated in tokenized stock markets and liquidity pools - with potential spillover effects on the prices of shares in conventional markets - thus creating significant damage to investor confidence in the U.S. securities markets and harming issuers' ability to rely on these markets to raise capital.

Conclusion

SIFMA appreciates the Commission's continued leadership in evaluating how best to support responsible innovation while preserving the core protections that have long underpinned the strength and credibility of U.S. capital markets. As the SEC considers requests for exemptive relief and the potential design of any innovation-exemption framework, we respectfully urge the Commission to proceed with a careful, deliberate, and investor-focused approach. Ensuring that tokenized securities and their intermediaries operate within a regulatory environment that maintains market integrity and protects investors is essential to sustaining confidence in U.S. markets and supporting healthy, long-term capital formation. SIFMA and its members look forward to continued engagement with the Commission on these issues as it continues its important work.

Sincerely,

Kenneth E. Bentsen Jr.
President & CEO

Cc:
Hon. Caroline A. Crenshaw, Commissioner
Hon. Hester M Peirce, Commissioner
Hon. Mark T. Uyeda, Commissioner
Jamie Selway, Director of Division of Trading and Markets
Taylor Asher, Chief Policy Advisor, Crypto Task Force
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