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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: Additional Input to the SEC Crypto Task Force on the Regulation of Tokenized Securities Markets

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, and the Commission's ongoing work to develop regulatory frameworks to accommodate digital assets in the securities markets. [4]

Executive Summary

SIFMA and its members support innovations that improve the functioning, resiliency, and efficiency of U.S. capital markets, and we recognize the substantial potential benefits associated with

[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.

tokenization—particularly regarding operational efficiency, settlement modernization, transparency, and collateral mobility. These benefits, however, must not come at the expense of the foundational safeguards that protect investors, promote fair, functioning and orderly markets, and ensure systemic stability. As we have stated previously, tokenized securities—whether natively issued or wrapped—must remain subject to the same core regulatory principles that govern conventional securities.

To aid the Commission and the Task Force in their continued work, this letter provides a detailed framework for how digital asset securities should fit within existing regulatory structures. Our recommendations build on prior SIFMA submissions and incorporate lessons from recent market events, including the October 2025 crypto flash crash and the November 2025 Stream Finance collapse, both of which underscore the risks that can arise in the absence of the core market integrity and investor protection measures that underpin the strength of the U.S. securities markets.

I. Lessons from Recent Crypto Market Events for the Regulation of Tokenized Securities Markets

- Recent market disruptions in the native crypto markets such as the October crypto "flash crash" and the collapse of Stream Finance highlight the importance of the established regulatory frameworks that preserve market quality and ensure investor protection in the U.S. securities markets.
- The October 2025 crypto "flash crash" illustrated the importance of established market stress management mechanisms that exist in the securities markets.
- The November collapse of Stream Finance highlighted a range of questions on the stability of decentralized finance ("DeFi") models, including the opacity of exposures and interrelationships among market participants and the possibilities of market contagion.
- These events also demonstrate that experiences learned through sandboxes or constrained innovation programs may not provide a robust understanding of how new operating models would perform under stressed conditions.
- We encourage the SEC to work with the industry on a range of innovative projects which apply distributed ledger-based technologies while still preserving the core protections of the securities markets, such as the recent no-action letter issued by the Commission on the DTC tokenization program. This can be supported by clarification of how registered entities, in the absence of full regulatory guidance, can reasonably and in good faith act to apply existing principles and rules to new activities.

II. Ensuring Core U.S. Securities Laws Apply to the Trading of Tokenized Securities in "DeFi" and "CeDeFi" Markets

- Tokenized securities traded through purportedly DeFi or hybrid centralized-decentralized ("CeDeFi") networks must still comply with the securities laws. "Decentralization" does not remove obligations under the Securities Exchange Act of 1934 ("Exchange Act") when intermediary functions such as routing, order handling, liquidity provision, execution control, and customer interaction are being performed, even minimally.
- There must be a clear understanding of how these models operate and the extent to which they are supported by intermediaries playing equivalent roles to brokers and exchanges today.

- There are de-facto intermediary functions performed in many, if not most, DeFi markets. These may include front-end interfaces, order-routing tools, liquidity providers ("LPs"), validators or sequencers, developers, and affiliated foundations—any of which may be acting as a broker, dealer, or exchange under the Exchange Act.
- DeFi trading systems differ fundamentally from the narrow peer-to-peer ("P2P") securities transfer mechanisms permitted today. Instead, they resemble historic unregulated markets that lacked transparency, audit trails, and investor protections, such as those seen in the U.S. capital markets before modern securities regulations were introduced in the 1930s.
- Securities regulatory frameworks must be applied to DeFi markets, and regulators should assess how this can be done effectively given the distinctive features of these markets. These include issues like maximal extractable value ("MEV"), which enables transaction reordering similar to front-running; automated market maker ("AMM") pricing that diverges from the national best bid and offer ("NBBO") and produces stale or off-market executions; fragmented liquidity pools that undermine price discovery and settlement processes; arbitrage opportunities at the expense of retail investors, particularly during off-hours; unmonitored communications channels, which impede surveillance for insider trading and market manipulation; and opaque conflicts of interest among validators, developers, LPs, and protocol sponsors.
- In evaluating any DeFi model for tokenized securities, the Commission should also address whether such markets can realistically satisfy AML / KYC obligations or whether new rules for AML / KYC are required; avoid excessive leverage and mechanically triggered liquidations that harm investors; and replicate core investor-protection and market-quality safeguards (including supervision of communications, conflict-of-interest disclosures, and anti-fraud controls).
- The SEC should conduct rigorous economic and risk analysis before considering any exemptions or alternative regulatory treatments for decentralized trading systems.
- Transfer agents operating in DeFi markets cannot replace the oversight and investor protection functions provided by broker-dealers, exchanges, or other regulated intermediaries; they lack the capabilities to perform critical functions pursuant to specific regulatory obligations such as order handling, routing, customer interaction oversight, best execution, market-making obligations, risk controls, and surveillance for fraud or market manipulation.

III. The Need for a Clear and Nuanced Digital Securities Taxonomy

- The digital asset ecosystem now contains a wide variety of structures—natively issued digital securities, wrapped representations of existing securities, hybrid and multi-layered structures, and products that economically reference securities without conveying ownership rights. A clear taxonomy is necessary to ensure consistent legal and economic rights across tokenized and non-tokenized forms of the same security; investor clarity regarding what they own, how it trades, whether it converts to non-tokenized securities, and what corporate rights it confers; regulatory clarity on how existing statutes—the Exchange Act, the Securities Act of 1933 ("Securities Act"), the Investment Company Act of 1940, the Investment Advisers Act of 1940, and the Securities Investor Protection Act ("SIPA")—apply to different digital structures; and an alignment of supervisory frameworks for trading, settlement, custody, corporate actions, and disclosures.

- As outlined in the letter, a more nuanced taxonomy must reflect the materially distinct characteristics of digital instruments, including: native versus wrapped issuance; registered versus bearer structures, including the KYC, AML, tax, and ownership-tracking implications of bearer-style tokens; the role of transfer agents, custodians, and tokenization agents; convertibility between digital and traditional formats; treatment of redemption rights, transfer restrictions and associated fees; auditability and verification of underlying assets for wrapped tokens; and onshore vs. offshore issuance and trading models.
- A taxonomy of this kind 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.
- A well-defined taxonomy is also critical to distinguishing tokenized securities, which for purposes of this letter addresses only tokenized cash securities, from security-based swaps ("SBS"), which are securities subject to certain securities rules, as well as specific rules mandated by Title VII of the Dodd-Frank Act, and from other derivative-like products (such as "mirror tokens"), as well digital commodities and other non-security instruments that fall under different regulatory regimes.

IV. Regulatory Recommendations Linked to Taxonomy Dimensions

- *Fungibility and Conversion Between Digital and Traditional Forms:* Tokenized and non-tokenized versions of the same security in the same share class should be legally and economically fungible to avoid market bifurcation, price dislocations, liquidity fragmentation, and reduced investor protections. Any convertibility of natively issued digital securities for traditional securities should be supported by consistent pricing. This should be distinguished from any "unwrappability" features of wrapped tokens, which allow them to be exchanged for the underlying security in "traditional" form. Absent fungibility, broker-dealers may face operational challenges in meeting customer-protection reserve requirements under Rule 15c3-3 and ensuring accurate reconciliation of books and records across traditional and tokenized forms.
- *Issuance and Prospectus Requirements:* Clear frameworks are needed to define who is permitted to tokenize securities (issuers vs. third-party wrapping entities), what disclosures they must make, and whether wrapped structures require their own prospectuses. Key questions include whether issuers must consent to third-party tokenization, similar to practices for sponsored American Depositary Receipt ("ADR") models; how float, share counts, and ownership registries treat tokenized issuances; how debt covenants, contingent value rights, and corporate actions flow through digital wrappers; and how investor protections apply when wrappers introduce counterparty, credit, or operational risk. The letter also emphasizes the need to clarify anti-fraud obligations (including Securities Act Section 17(a) and Exchange Act Section 10(b)/Rule 10b-5) for tokenized offerings and highlights the importance of issuer coordination to avoid fragmenting equity markets with duplicative wrapped products.
- *Fixed Income Considerations:* Tokenized fixed-income instruments introduce additional issues, such as the conveyance of covenants and treatment of coupon payments. The letter

also highlights risks that multiple third-party digital wrappers on the same bond could obscure issuer disclosures or interfere with accurate covenant tracking.

- *Corporate Actions Lifecycle:* Corporate actions—dividends, voting, stock splits, mergers, and class actions—must be handled consistently for both tokenized and conventional securities (while recognizing that some models of tokenization may not offer all rights and the associated corporate actions). The roles of transfer agents, tokenization agents, custodians, and other intermediaries must be clearly delineated to prevent investor harm and ensure correct allocation of corporate-action entitlements, regardless of whether they are automatically executed via smart contracts or processed by a third party. Additional complexities arise for wrapped tokens, particularly where the tokenization agent, not the issuer, is responsible for delivering entitlements, including contingent rights and class-action recoveries. Unclear corporate actions processing in wrapped models may also call into question whether investors receive the full set of legal and economic rights that accompany conventional securities. If tokenized securities are issued on a bearer basis, there will be more disruptions in the processing of corporate actions.
- *Clarity on the Roles of Parties in Tokenization:* It will be important to provide clarity for investors on the roles and responsibilities of the token issuer and the underlying equity issuer, particularly so investors in tokenized securities that are "wrapped" issued by a third party understand the respective responsibilities of the underlying security issuer *vis a vis* the tokenization agent / token issuer.

V. Recommendations to Consistently Apply Trading Regulations to Tokenized Securities

- *Application of Tokenized Securities with Market and Trading Regulations:* Tokenized securities must integrate seamlessly with existing market-structure rules. The letter highlights the need for clarity regarding existing rules related to trading, including Regulation National Market System ("Reg NMS"), including the publicly disseminated NBBO; Regulatory Costs (Section 31 and FINRA fees); Regulation SHO on short selling (locates, close-outs, order-marking, Rule 201 price tests); wash-sale rules for transactions between tokenized and non-tokenized versions; market access controls (Rule 15c3-5) and consolidated risk limits; Consolidated Audit Trail ("CAT") reporting, Trade Reporting and Compliance Engine ("TRACE"); Trade Reporting Facility ("TRF") / Over-the-Counter Reporting Facility ("ORF") integration and cross-venue auditability; restricted list and insider-information controls; price and transaction reporting to avoid conflicting or duplicative "tape prints"; and clearinghouse membership, settlement guarantees, and margin / capital implications.
- *Fragmentation Risks*: Failure to integrate tokenized markets into the NMS would create opaque, fragmented liquidity pools with inconsistent pricing. In addition, in the absence of integrated trade reporting and surveillance, regulators and self-regulatory organizations ("SROs") would face substantial challenges detecting fraud and market manipulation.
- *Fragmentation & Multiplicity of Securities*: The SEC should carefully consider the ways in which tokenization may fragment existing securities markets, and potential mitigants. This will include examining (i) the implications of a wrapped tokenized security referencing the same underlying stock as an existing native tokenization and (ii) whether there is a "sponsored" wrapped tokenized security alongside the existence of "unsponsored" wrapped tokenized securities referencing the same underlying stock. More broadly, the SEC should consider the implications of models which break down the current assumption of a single security in a single jurisdiction's market available to the same investor (*i.e.,* in contrast to

ADRs and other products which are based on an underlying security but are divided by jurisdictions). The answers should be formulated to minimize market fragmentation as between token and non-token markets for the relevant security (and potentially between different token markets for the same reference security) to the greatest extent possible. Failure to address the impacts of fragmentation will have a range of negative impacts on market quality, such as challenges in obtaining best execution. Promoting interoperability will also help address the risks of fragmentation. The novel operational models enabled by tokenization may require a reassessment of how the challenge of market fragmentation can be addressed.

- *Clearinghouse Impacts:* The impact of tokenization on clearing and the role of the clearinghouse should also be considered, including: a) impacts of self-custody models and the risks they pose, b) development of alternative clearing models and changes in the role of the clearinghouse, c) risks of broad-based changes to settlement models that undermine netting, and d) impacts on product specific regulations which assume trade lifecycle and clearinghouse roles that may change in tokenized operating models.
- *Market Scenario Stress Controls:* The 2025 crypto flash crash demonstrates the dangers of unregulated leverage combined with an absence of circuit breakers, reliance on single-venue pricing oracles, and lack of transparency into liquidation engines. For any market trading tokenized equities, the SEC must ensure that there are market-wide and single-asset circuit breakers; limit up limit down ("LULD") protections; regulated leverage and margin limits; centralized and reliable pricing sources; Principles for Financial Market Infrastructure ("PFMI") aligned stress-scenario disclosures; Regulation Systems Compliance and Integrity ("Reg SCI") technology resiliency standards; and market-maker and liquidity-provider obligations.[5] These core protections cannot be bypassed simply because a security is traded in tokenized form.
- *Cross-Border Considerations:* There are also important cross-border considerations. Policymakers must evaluate the interaction between wrapped tokenized structures and offshore issuance frameworks such as Regulation S; the implications for TRACE reporting when tokenized fixed-income instruments trade abroad; the extent to which offshore liquidity pools may influence price formation for U.S. markets; and how digital operating models—particularly those that remove assets from centralized clearing systems—may erode jurisdictional controls that currently limit cross-border flow of U.S. securities and securities placed in reliance on Regulation S. In addition, blockchain-based models may allow U.S. securities or synthetic versions of them to trade on foreign platforms in ways that bypass existing offer-and-sale restrictions, complicate issuer obligations, and reduce regulatory visibility into settlement, custody, and market-abuse risks.
- *Investor Protection and Broker-Dealer Obligations:* Regulatory frameworks must allow broker-dealers to custody and process tokenized securities in compliance with customer protection (Rule 15c3-3) and net capital treatment (Rule 15c3-1) rules. Securities Investor Protection Corporation ("SIPC") coverage should extend to registered, tokenized securities, and there should also be clarity around what products are inside and outside SIPC's scope.

[5] Some of these regulations, such as circuit breakers and limit up / limit down restrictions, apply only during regular trading hours. The impacts of this should be considered if tokenization facilitates greater volumes of trading outside of regular trading hours, particularly as the industry assesses the impacts of the move to extended hours trading more broadly.

- *Custody Rules and Good Control Locations:* SIFMA also recommends the modernization of custody rules to allow banks, transfer agents, and clearing agencies to serve as good control locations for tokenized assets and stresses the importance of portability so that tokenized securities are not trapped within proprietary platforms.

I. Lessons from Recent Crypto Market Events for the Regulation of Tokenized Securities Markets

As we noted in our recent letter to the Commission[6], the crypto markets have recently experienced several notable disruptions, among them the October crypto "flash crash" and the November collapse of the Stream Finance DeFi protocol. As policymakers consider how tokenized securities activity may operate in native crypto markets and DeFi models, these market disruptions provide a timely reminder of the importance of the established regulatory frameworks which preserve market quality and ensure investor protection in the U.S. securities markets. Indeed, this highlights the degree to which a robust regulatory framework is what makes U.S. equities markets so strong and the role that appropriate guardrails play in protecting investors, market stability and integrity, and mitigating risks.

On October 10, 2025, the crypto market experienced its most dramatic flash crash to date, triggered by an announcement of a sudden escalation in the U.S.–China trade war. Bitcoin prices declined over 14% intraday and leveraged positions worth $19 billion were liquidated almost instantly. The crash exposed the fragility of crypto's market infrastructure: market makers withdrew liquidity, exchanges suffered widespread technical failures, and the absence of circuit breakers allowed prices to spiral unchecked. So-called "altcoins" plunged even more sharply, and the chaos was amplified by glitches on major platforms, leaving traders unable to execute trades or protect their positions. In the case of at least one exchange, the decision to use only the prices offered on its own platform as the "oracle" caused many unnecessary liquidations when the price for the same asset diverged between its own platform and other markets.

The crisis was exacerbated by extreme leverage, with crypto exchanges routinely offering far higher margins than traditional brokers and accepting volatile assets as collateral. As prices fell, forced liquidations snowballed, causing platforms to draw on insurance funds and trigger auto-deleveraging mechanisms (which force traders out of in-the-money positions that are no longer supported by an adequately margined transaction on the opposite side, so that the platform does not have to incur "bad debt" due to such under-margining). This further thinned market liquidity and caused "market neutral" positions to become unbalanced, leading to more mechanical derisking. While markets eventually stabilized, many retail and institutional traders of crypto assets suffered massive losses, and the episode served as a reminder of the importance of market structure design and its effect on trading behavior in times of peak stress.

Similarly, the November 2025 Stream Finance collapse highlighted a range of issues in the native digital markets. Stream Finance experienced a $93 million asset loss triggering the collapse of its algorithmic stablecoin, xUSD, which lost over 75% of its value in one day. The root cause of the Stream Finance crisis, which resulted in a material de-peg of xUSD, was attributed by it to an "external fund manager," yet crucial information on the incident is not public, including such basic

[6] SIFMA, "Re: Requests for Exemptive Relief from the Federal Securities Laws for Tokenized Securities," (Nov. 26, 2025), available at: https://www.sifma.org/advocacy/letters/request-for-exemptive-relief.

facts as the identity of the manager, its strategies, and the exact scale and trigger of the loss.[7] This forced Stream to pause all withdrawals, and triggered a range of contagion impacts in other products and across the broader DeFi ecosystem. Impacts include a collapse in the value of Elixir's deUSD "synthetic stablecoin," backed in large part by loans to Stream Finance, which lost nearly 98% of its value in days; Stream was the largest borrower of Elixir's stablecoin and held the vast majority of its supply. There were further impacts across the vaults created through the use of DeFi protocols that were managing the collateral for deUSD. In all, the total losses were substantially larger than the direct $93 million that occurred at Stream Finance, with initial estimates putting losses across the broader ecosystem in the hundreds of millions of dollars.[8]

As the Commission and other regulators assess alternative operating models applying concepts from existing DeFi systems, it is critical to clearly understand the extent to which these models retain intermediary functions that should be regulated as established roles under securities law *(e.g.,* brokers, exchanges, custodians, clearing agencies or securities depositories) and how such intermediary functions can be regulated to maintain the same levels of investor protection and market quality.

These incidents in the native crypto market highlight the importance of an approach to fostering innovation in the tokenization of securities which preserves the frameworks for market quality and investor protection offered by the foundational and time-tested frameworks of securities regulation. While SIFMA supports innovation, we caution that approaches to regulatory modernization that bypass established regulatory frameworks can expose markets and investors to unintended risks. While a limited regulatory sandbox can provide opportunities to explore new technologies, it is unlikely to expose participants to the same types and levels of risks as actual trading at scale, particularly in stress scenarios. Behavior observed within a closely monitored regulatory sandbox is unlikely to fully reflect the dynamics of broader markets, where oversight is less concentrated and participants operate with greater autonomy. Consequently, regulators should be cautious not to derive undue reassurance from activity within the regulatory sandbox, as such behavior may not accurately reflect behavior in open markets under similar regulatory frameworks but subject to real world trading conditions.

While we call for caution and careful analysis on any potential divergence from investor protections, SIFMA supports innovation and development of new blockchain products and operating models. There are a range of new distributed ledger-based projects in the securities markets that offer capital reduction, new product development, faster settlement, collateral efficiency, and other benefits while still preserving the core protections of the securities markets. For example, we are encouraged to see the recent SEC no-action letter to The Depository Trust Company ("DTC") on a preliminary version of its voluntary securities tokenization program.[9]

Relatedly, we encourage the Commission to clarify that it is acceptable for registered entities such as broker-dealers and asset managers, in the absence of full regulatory guidance, to reasonably and in

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[7] Omkar Godbole, "Stream Finance Faces $93 Million Loss, Launches Legal Investigation," *CoinDes*k, (Nov. 4, 2025), available at: https://www.coindesk.com/markets/2025/11/04/stream-finance-faces-usd93-million-loss-launches-legal-investigation.
[8] Ryan Yoon, "Collapse of the Defi Jenga: The Stream Finance Breakdown," *Tiger Research Reports*, (Nov. 14., 2025), available at: https://reports.tiger-research.com/p/collapse-of-the-defi-jenga-the-stream-eng.
[9] Hester M. Peirce, Statement entitled "Tokenization Trending: Statement on the Division of Trading and Market's No-Action Letter Related to DTC's Development of Securities Tokenization Services," (Dec. 11, 2025), available at: https://www.sec.gov/newsroom/speeches-statements/peirce-121125-tokenization-trending-statement-division-trading-markets-no-action-letter-related-dtcs-development.

good faith apply existing principles / rules to new activity, such as by considering historical precedents and best practice in light of new technological and operational circumstances. As the SEC considers the form of any "innovation exemption" or regulatory relief it also should take into account the full range of entities participating in the market, including existing regulated entities that are engaging in new activities.

II. Core U.S. Securities Market Rules Must Apply to DeFi Protocols and Applications

The trading of tokenized equities, including through purportedly DeFi trading protocols, should not be exempt from core U.S. securities market rules that are designed to protect investors and facilitate fair and efficient markets.[10] Instead, existing decentralized trading models would need to demonstrate that they are consistently meeting the critical investor protection and market quality regulations that govern the securities markets. Absent a clear view on how these protections can be consistently applied in these markets, the SEC should not permit the trading of tokenized equities through alternative decentralized models.

Core U.S. securities market requirements that are designed to protect investors and issuers and promote efficient markets must apply across tokenized and non-tokenized securities. Service providers performing regulated functions in the blockchain ecosystem – including those engaging with so-called DeFi protocols or applications – should not be immune from these longstanding regulatory frameworks. Granting broad exemptions for these firms would undermine longstanding protections for investors and issuers, harm market integrity and efficiency, and create opportunities for regulatory arbitrage.

Robust analysis must precede any future decision to permit the trading of tokenized securities in any ostensibly decentralized trading model. This analysis should consist of:

a) *Clearly Examining So-Called "DeFi" Activity and Identifying Embedded Intermediary Functions:* There must be a clear understanding of how those models operate and the extent to which they are supported by intermediaries playing equivalent roles to brokers and exchanges today. This will allow regulators to clearly define DeFi activity in the context of the trading of tokenized securities and the extent to which ostensibly decentralized markets effectively retain intermediary functions.
b) *Recognizing That DeFi Models Are Fundamentally Distinct From Existing Peer-to-Peer ("P2P") and "Broker-Less" Operating Models:* Foundational differences exist between proposed decentralized securities markets based on DeFi operating models and the P2P and broker-less securities transfer and purchase models that exist today.
c) *Ensuring That Securities Regulatory Frameworks Are Applied to DeFi Markets:* Understand how key investor protection and market quality regulations would be applied in decentralized markets for tokenized securities and the challenges these markets' operational and technological features introduce.
d) *Conducting a Robust Economic Analysis of Investor and Market Quality Impacts:* Any regulatory changes that are needed to facilitate securities activity through decentralized markets must be preceded by an economic analysis that evaluates whether proposed alternative decentralized operating models are, in fact, no worse in terms of investor experience and market quality.

[10] While this discussion primarily focuses on DeFi models, many of the same considerations apply to hybrid centralized-decentralized ("CeDeFi") finance trading protocols.

e) *Understanding the Role of Transfer Agents and Limits on Their Ability to Protect Investors:* There must be a clear understanding of the responsibilities and capabilities of transfer agents, and a recognition of the potential inability to rely on transfer agents to exercise critical investor protection functions in proposed alternative operating models.

a) Clearly Examine so-called "DeFi" Activity and Identify Embedded Intermediary Functions

As regulators evaluate potential decentralized models in the tokenized securities context, their first priority should be to identify the extent to which ostensibly decentralized models which still retain or perform intermediary roles which should be regulated, consistent with the Exchange Act requirements for brokers and exchanges that perform similar services in established markets.

"DeFi" as a term is currently used in an overly broad and often inconsistent manner, and if not carefully circumscribed can inadvertently remove from regulation a broad range of securities markets transactions that are executed with functional intermediaries. We caution against definitions in the context of DeFi which rely too heavily on generic references to the decentralization of an underlying technological layer, while ignoring the roles of a range of centralized market participants and the specific investor protections that should be provided by these participants to the market.

Even in a broadly decentralized market, there are a range of possible roles (such as certain models of "front ends" or access points) which, from an investor point of view, are effectively serving as intermediaries, and should be regulated as such. However, given the range of DeFi operating models, we recognized that it is not straightforward to identify a single category of organizations who are serving as functional intermediaries. A nuanced approach may be needed to effectively and consistently identify the roles of these participants, and to ensure that those who are acting as functional intermediaries are subject to appropriate regulations and provide clarity to investors who are buying under these structures so that they fully understand the protections or lack thereof that they are subject to.

While we expect that in many cases there will be participants who perform intermediary or semi-intermediary functions, there is the possibility that these functions may not exist in all market configurations. In this case, regulators will need to determine how to apply investor protection and market quality regulations. It is critical to preserve the integrity of our regulated markets with consistent regulatory treatment of all market participants eligible to trade tokenized securities.

It is critical to embed this review within a broader analysis and understanding of the roles of various intermediaries which support proposed DeFi operating models in the tokenized securities market. This analysis provides a foundation to understand when and how they would be subject to securities regulatory frameworks appropriate to their market roles, such as brokers or exchanges under the Exchange Act. Clearly defining the role played by market participants and their relationships with clients, counterparties, and market operations will ensure that entities playing equivalent roles in the market are subject to the same regulatory treatment to maintain the same levels of market quality and investor protection outcomes. It should also look beyond just the software itself which supports these markets to assess the roles of those who play administrative functions in them and any transaction-based compensation they may receive.

This analysis should evaluate how decentralized exchanges, wallets / apps, liquidity pools, and others would be treated under the relevant provisions of the Exchange Act, and ground that analysis

in a review of the services they provide, how they obtain compensation from users, and the extent to which those services align them with roles as defined under the Exchange Act and other regulatory frameworks. Any analysis should also consider how to treat emerging CeDeFi models that combine features of both centralized and decentralized trading. These models have a platform operated by a central entity which can "route" orders across smart contracts on one or more DeFi platforms, while in some cases also offering the option of execution on the platform itself. This combination of centralized and decentralized functions should be assessed to understand the duties the "referring" platform owes to its client.[11]

At a minimum, it should be recognized that entities that carry out one or more prescribed set of activities should be recognized as operating in an intermediary or quasi-intermediary role (whether as broker, exchange or clearing agency) even if they utilize a blockchain-based network which itself is, to some degree, decentralized. We expect that these functions will likely include:[12]

- Maintaining a facility (which, in certain circumstances, may include a centrally managed access point or "front end") which brings together buyers and sellers to transact in securities;
- Discretion over the routing or execution of customer orders of securities (note that even when ultimately executed by smart contract or algorithm, their programming and integration into the overall trading model was designed by humans);
- Access to confidential customer information;
- Control over customer funds[13] or interactions with customers that support funds transfers even when they do not have direct control;
- Solicitation and acceptance of money for investment purposes;
- Receipt of compensation based on effecting transactions or providing investment advice; and / or[14]
- Depositing assets into automated market maker liquidity pools as part of providing liquidity to others as a service in a manner that satisfies the broker or dealer definitions.[15]

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.

b) DeFi Models are Fundamentally Distinct from Existing P2P Securities Transfer Models

[11] See, for example, Star Xu, "CeDeFi Trading is Now Live – A Step Toward a Unified Market Infrastructure," *OKX*, (Nov. 25, 2025), available at: https://www.okx.com/en-us/learn/crypto/okx-cedefi.
[12] For more, see GFMA and GBBC Digital Finance, Public Comment on IOSCO's Consultation Report on Policy Recommendations for Decentralized Finance (DeFi), (Oct. 19, 2024), available at: https://www.gfma.org/correspondence/gfma-and-gbbc-submit-joint-response-to-iosco-defi-consult/.
[13] This may extend beyond direct control of customer funds to operating models where intermediaries direct or manage customer funds transfer even when they do not have direct control.
[14] Regulators should be aware of the different responsibilities among multiple parties involved which may be in the flow of executing client transactions (*e.g.,* the different roles of front ends versus users' wallet software). Further review will also be needed to define what constitutes "investment advice" in the context of a "front end" provider."
[15] The types of tokenized securities activities that would cause a market participant to become a broker or dealer would likely need to be clarified by the SEC.

As regulators assess the roles of participants in ostensibly decentralized trading markets, they should also remain conscious of the extent to which they represent a fundamental structural departure from established securities trading models. In contrast to the promise of DeFi models, which allow "peer to crowd" or "crowd to crowd" securities trading, in many cases enabled by intermediary functions, existing securities P2P models are far more limited, allowing known individuals to transfer securities with each other, and constrained by a range of limits on the scale of participation.

Broadly speaking, "peer to crowd" or "crowd to crowd" trading of securities does not exist in the U.S. today; while there are limited number of current securities purchase and transfer models which do not rely on brokers, substantial constraints and limitations exist on the scope of this activity. Additionally, these models effectively exclude any degree of market making, client advisory, or dealing functions and instead simply offer a mechanism for clients who already know each other or the issuer to bilaterally transfer assets; this is fundamentally different from DeFi models, which instead create a marketplace for a large numbers of individuals with no prior connection to one another to trade assets and to provide a range of support functions necessary to enable those markets.

Although several securities purchase and transfer models exist today that do not involve brokers, and while there are some SEC-registered tokenized securities that may be transferred through blockchain platforms, they have a range of controls that limit both the types of investors who can participate, the types of securities involved, and the scale of those transactions. Critically, none of them establish broad-based securities trading markets.

Direct Stock Purchase Plans ("DSPPs"): DSPPs are operated by issuers and their transfer agents, where companies offer DSPPs or dividend reinvestment plans ("DRIPs") that allow investors to buy shares directly from the issuer through their transfer agent without a broker. These are non-public market transactions directly between the issuer and participants and the shares are typically registered under a prospectus. Were the buyer to eventually resell later, this would be done subject to typical public market requirements. So, while this program provides opportunities for limited direct purchase of securities, once issued they would be traded within the public securities market infrastructure and subject to its securities trading safeguards.

***Direct Sales of Securities*:** Direct sales of traditional (*i.e.*, physically certificated) securities allow for the securities to be sold without a broker, generally by the buyer and seller working directly with the company's transfer agent. However, this requires the seller to individually identify a buyer, to possess a physical security certificate, to work with the issuer's transfer agent (to the extent that the buyer seeks to be recognized by the issuer as an owner), and to work through the process of exchanging (or having the issuer or its agent reissue) the security. The automated market maker functions offered by professional liquidity providers on digitally decentralized trading platforms are likely fundamentally different than these small scale, person-to-person direct sales.

***Rule 144A*:** Rule 144A is an SEC safe harbor exemption that allows the resale of restricted securities to Qualified Institutional Buyers ("QIBs") without registering with the SEC, creating a liquid secondary market for privately placed securities among sophisticated institutions. QIBs are entities such as investment companies, insurance firms, and pension plans that own at least $100 million in securities of unaffiliated issuers (or $10 million for broker-dealers). Unlike Rule 144, which applies to public resales by affiliates and non-affiliates, Rule 144A permits immediate resale among QIBs with

no holding period, provided the buyer is informed the sale relies on Rule 144A and can request issuer information. These offerings typically involve debt or equity from private placements or foreign issuers seeking U.S. capital, but retail investors cannot participate, and transactions must remain within the QIB network.

This mechanism enhances liquidity for issuers while maintaining restrictions to ensure only sophisticated parties are involved. In contrast to proposed P2P trading models, Rule 144A transactions are closely restricted in terms of both the types of entities which can take part - they are limited to large, sophisticated institutions and explicitly exclude retail participation - while also preserving anti-fraud provisions such as Rule 10b-5 in communications associated with these sales.

We caution against treating any of these examples as precedents for large-scale decentralized trading models. The P2P transfers of securities which exist off-chain are highly constrained in scope. While there are examples of P2P digital transfers occurring through platforms, these feature embedded controls such as white-listing and clear distinctions between those transfers and general securities trading, including clear delineation that the platform serves only as a technological vehicle to execute the transfer and is not carrying out a market function or connecting parties to the transfer.[16] As discussed below, these constraints and protections are critical to investor protection and maintaining market integrity.

State-Level Blue Sky Laws: U.S. securities laws have not traditionally permitted peer-to-crowd or crowd-to-crowd trading models, as distinct from the limited transfer models discussed above. State-level blue sky laws have similarly constrained P2P or peer-to-crowd distributions of securities. As an example, Texas state law requires registration as a dealer for any sales of securities, unless they meet a set of narrowly defined criteria for exemptions – criteria which large scale DeFi trading models would almost certainly not meet.[17] To continue with the example of Texas securities laws, these exemptions can be used provided either “sales by an issuer made without public solicitation or advertisements so long as the total number of security holders, regardless of where they live, does not exceed 35” or “sales to 15 persons in a 12-month period, made without public solicitation or advertisements,” in both cases requiring that purchasers are "sophisticated" and "well-informed," or "well-informed" with a relationship to the issuer.[18] Other state level blue sky laws have similar constraints on P2P securities trades that are fundamentally different from large scale platform based DeFi trading models.

Market Integrity and Investor Protection Risks of P2P Markets and Regulatory Responses in the Securities Markets: In contrast to these restrictions in the securities markets, unregulated digital asset markets have seen repeated examples of market misconduct in P2P markets (*e.g.,* undisclosed conflicts of interest, price manipulation via washing, layering, and oracle manipulation, front running and sandwich attacks, etc.), underscoring the risk that the economic incentives for these types of misconduct cannot be obviated only by technology solutions. Allowing broker-less

[16] *See*, for example, the terms for on-chain P2P transfers in Franklin Templeton, “Franklin’s Onchain US. Government Money Fund, Franklin Templeton Trust Prospectus,” (Aug. 1, 2025), available at: https://www.franklintempleton.com/tools-and-resources/lit-preview/29386/SINGLCLASS/franklin-on-chain-u-s-government-money-fund#prospectus.
[17] *See* Texas State Securities Board, “Texas Securities Act (2017), available at: https://www.ssb.texas.gov/texas-securities-act-2017.
[18] *See* Texas State Securities Board, “Exemptions from Registration,” available at: https://www.ssb.texas.gov/securities-professionals/regulation-securities/exemptions-registration.

and P2P models to move beyond their current restricted scope and trade NMS securities to large user bases would replicate these types of market integrity and investor protection risks.

The SEC was formed in the 1930s for this reason. Before the 1930s, the U.S. securities markets were largely unregulated and decentralized. Shares were often unregistered and exchanged in bucket shops directly between investors. These market models fostered fraud and manipulation that led to systemic failures. The Securities Act and Exchange Act made those and other related practices illegal. The rules-based regulatory framework that emerged from the SEC provided for transparency, licensed intermediaries, and clearing and settlement through regulated utilities, as well as audit trails and books and records.

In the 1990s, market maker quoting and trading practices on NASDAQ and the Instinet electronic communications network ("ECN") were effectively operating as quasi-P2P trading networks because each had discriminatory membership rules and Instinet was not required to, and did not report transactions, to Securities Information Processors ("SIPs"). The two-tiered market was a repeat of the opaque broker-less pricing of the 1920's over-the-counter markets. The Order Handling Rules (1997), Regulation ATS (1999) and Regulation NMS (2006) forced electronic venues to comply with the bid/ offer / trade reporting transparency framework, with obligations to provide fair access and fair-dealing requirements.

c) Securities Regulatory Frameworks Which Must Be Applied to DeFi Markets

More broadly, there are a range of critical established investor protection and market quality regulations that define established securities markets which must be applied to any proposed DeFi technological and operating models. Ensuring these frameworks are consistently applied to any alternative trading model is critical in preventing the emergence of parallel securities markets that lack the critical protections offered to investors today, and which could operate disconnected from broader securities markets.

Maximal Extractable Value ("MEV")*:* Because certain blockchains aggregate transactions for confirmation within the next block, "pending" transactions awaiting confirmation are frequently both not finalized and publicly visible. This creates opportunities for "maximal extractable value", where "searchers" may scan pending transactions and "tip" blockchain validators with higher transaction fees to prioritize their own transactions or rearrange transactions in the way most profitable to the searcher, causing "organic" transactions to receive worse executions. This type of extractive transaction reordering is not authorized in the public equities markets today where frontrunning of customers is strictly prohibited. We believe allowing DeFi market participants to engage in MEV extraction for equities trading, solely because such equities are "tokenized" and trading via DeFi, would be a material step backward for investor protection.

Automated Market Maker ("AMM") Mechanics and Price Disparities: If a typical DeFi exchange or AMM were used to trade tokenized securities, a liquidity pool would be formed by "liquidity providers" who would deposit a trading asset (*e.g.,* a tokenized equity) and a corresponding number of fiat analogues such as stablecoins (*e.g.,* USDC). Unlike public equities trading, where prices are set by reference to collections of firm quotes, limit orders and executions, the price of a trading asset in an AMM moves mechanically. Due to the design of AMMs, the price for a trading asset that is a tokenized security on an AMM is not likely to match the prevailing price of the non-tokenized version

of that asset on a national securities exchange at the exact moment of transacting. Accordingly, the price of that asset on one AMM at any given point in time may not match the price on a different AMM at that time, and the price impact or "slippage" suffered by a customer may vary from AMM to AMM for trades in the same asset (or when trading in a DeFi market versus the NMS).

Permitting tokenized equities to trade on AMMs subject to these shortcomings would fragment the equities market and cause harm to investors and issuers. Some may argue that this price difference will be mitigated through arbitrage as traders go back and forth between AMMs and traditional markets (which, because DeFi transactions run at a slower "block" timescale than continuous traditional trading, will be an attractive opportunity). It should be noted, however, that any profits for these trades to close the pricing difference would likely be absorbed by professional traders at the expense of retail investors, who may receive less favorable execution prices as a result. Also, it should be noted that such arbitrage trades may not operate 24 hours, 7 days a week, 365 days a year, providing for at least some dislocation in prices between traditional and tokenized markets. In short, fragmenting the equity market into traditional and decentralized "token" markets in a way that creates such an arbitrage opportunity would likely harm unsophisticated market participants and could undermine broader investor confidence.

Additionally, analysis of the role of the participants engaging with an AMM protocol in many operating models suggests that these participants (*i.e.*, the "liquidity providers") are effectively carrying out dealing activity, and as such core Exchange Act requirements should apply to those participants that meet these established criteria. As discussed above, there needs to be concrete analysis of the extent to which entities supporting decentralized market models are meeting the definition of broker or dealer under the Exchange Act.

Any expansion of equities trading activity to AMMs will also need to anticipate how AMMs will function when traditional securities markets are closed.

Price Discovery and Post-Trade Price Transparency*:* AMMs are typically used to determine asset prices formulaically based on the desired trading activity and the ratio of assets in a trading pair in the relevant liquidity pools. If trades are executed without reference to the prevailing NBBO, retail investors may receive prices that do not reflect the market value of the security being transacted on traditional exchanges at the same time, making it uncertain that trades would be executed in line with best execution requirements. Furthermore, because blockchain transactions are often processed in discrete batches rather than continuously, this mechanism diverges from traditional markets where prices are updated in real time. As a result, investors may inadvertently transact at outdated prices, exposing them to the risk of trading on stale quotes. The extent to which any price discovery would be addressed through arbitrage should also be considered, and the impact of this process on investors in these markets.

To the degree these price disparities are a feature of DeFi (or CeDeFi) settings, there needs to be clear and mandated disclosures by those facilitating access to AMMs of the potential for price disparities so investors can make informed decisions. Additionally, market structures which are more likely to feature these price disparities (even if disclosed) should be assessed in light of the SEC's mandate to maintain efficient markets. The impact of these price disparities on retail investors should also be considered, particularly if they are accessing markets through apps or other platforms which may not be an effective way to receive and understand these disclosures and their impact.

These models would also need to demonstrate that they are able to meet the same standards for post-trade price transparency, and deliver timely information of the price, volume, and time of executed trades to the public in a structured way. This supports the critical function of providing clients with execution quality disclosures.

Market Fragmentation: Tokenized equities traded on alternative operating models disconnected from established market structure would create new liquidity pools and drive liquidity away from traditional U.S. equity markets. This fragmentation could hamper pricing for either market. Further, clearinghouses will need to contend with potential price dislocations as it relates to their settlement price methodologies which seek to apply prevailing prices when settling transactions. The Commission should also explore whether a lack of interoperability between markets offering the decentralized trading of tokenized assets and the underlying securities (***e.g.,*** equities, Treasuries, etc.) could reduce the supply of shares available for securities lending and result in a distortive or manipulative impact on security prices. To the extent tokenized instruments have algorithmic smart contracts generating transactions off-exchange or via DeFi platforms, visibility into these algorithms may be necessary by clearinghouses to set appropriate limits and margin requirements for the on-exchange activity.

Access to Trading*:* Some of these alternative trading models may not be accessible to many equity market participants (***e.g.,*** pensions, endowments, insurance companies, banks, and other institutional investors) who by regulation, prudential or fiduciary obligations, or internal risk policies cannot own tokenized U.S. equities which trade outside the established NMS market structure or maintain assets at a digital asset trading venue. However, they may be available to other pools of capital that are not currently trading in U.S. markets.

Inability to Properly Supervise Communications: Securities markets are governed by strict requirements around the appropriate channels and methods for communication with clients. In contrast, crypto trading often relies on messages disseminated across a variety of social media platforms, with actual trading occurring on crypto exchanges or DeFi applications. Failure to extend equivalent controls over regulated participants (or those that should be subject to regulation) to alternative market models in the tokenized securities markets would pose significant challenges for regulators, making it difficult to effectively detect and oversee prohibited insider trading or market manipulation without coordinated access to all relevant communications and the ability to track messaging and the relevant trades they relate to.

Disclosure of Conflicts: It is not certain how conflicts would be disclosed to investors in alternative decentralized models. The application of interest disclosure rules (Rule 15c1-6 and Reg BI) occurs for example, through broker-dealers. Which entities would provide similar disclosures to end investors in a decentralized model? This question is particularly germane given the potential for conflicts of interest in DeFi models where the overlapping roles and interests of software developers, platform operators, and associated investors and foundations may not be fully transparent.

Investor Protections*:* As in many other areas of the securities lifecycle, investor protections and anti-fraud controls are expressed through entity-level regulation of brokers, exchanges, and investment advisors, among others, and alternative models need to present convincing ways in which they would replicate these protections.

***Excess Leverage**:* Traditionally, lending against equities is subject to margin limits enforced by regulated institutions (pursuant to Regulations T, U, X, FINRA 4210, etc.). These limits reflect a policy concern that excessive securities credit would encourage speculation and exacerbate procyclical price movements. If DeFi lending protocols are not consistent with established regulatory margin limits based on the underlying security, but instead permit borrowing against tokenized equities in amounts that exceed established limits as they do today for native digital non-security products, such excess leverage will amplify volatility in securities markets, as failure to meet margin calls (which may be set at tighter trigger levels due to a higher upfront loan-to-value or "LTV" ratio) would lead to more frequent mechanical liquidation of such shares, potentially causing cascading liquidations as the share price declines.

Furthermore, in a situation where a borrower fails to meet a margin call or has otherwise defaulted on a margin loan, regulated lenders may strategically dispose of collateral in ways that mitigate loss of value for both the borrower and the lender, or engage in a workout process with the borrower to restructure the credit arrangement, whereas hard-wired DeFi liquidation mechanisms may lack such flexibility. We also note that, because (i) any alteration to a DeFi loan secured by tokenized equities, such as depositing additional collateral to avoid a liquidation, requires a blockchain transaction for such an alteration to be confirmed, and (ii) blockchain congestion and transaction failures become more likely, and network transaction fees increase, during times of market stress, which correspond to larger numbers of trades and other on-chain transactions, such attempted on-chain transactions to avoid collateral liquidations may fail when they are most necessary.

***Public Visibility of Stop Loss Levels**:* The liquidation or "stop loss" levels for assets that secure DeFi loans are publicly visible.[19] Market participants have observed that certain DeFi traders engage in "stop hunting," where they attempt to move asset prices below levels with large stop loss liquidations, in order to profit from short exposure. This market feature harms investors and should not be extended to trading in equities.

Regulatory Assessments: DeFi models would need to ensure regulatory assessments are paid on trades they facilitate, such as Section 31 fees, FINRA Trading Activities Fees and FINRA Regulatory Transaction Fees.

***Impact on Capital Formation and Initial Public Offerings ("IPOs")**:* Providing broad exemptions for tokenized equities would distort the incentive for how private companies choose to go public. If there is an exemption which lowers disclosure requirements, for example, it could potentially divert investment from the public market and dilute the overall IPO market. In contrast, a well-designed structure for native token securities issuance which alleviates the pain points that impede IPOs and public capital formation today, while preserving equivalent disclosure standards, can promote more public markets activities.

Cybersecurity and Technical Vulnerabilities: Some application configurations can be susceptible to smart contract flaws and platform breaches. Loss of private keys can also result in the permanent loss of a tokenized equity. In certain cases, blockchain networks themselves can be compromised by "51% attacks" where a group of bad actors obtains the majority of the hash power backing the

[19] *See*, for example, liquidation levels for ETH at various prices: https://defillama.com/liquidations/eth.

network's security.[20] While blockchain networks may offer certain advantages in terms of security and resiliency, a holistic review is necessary to ensure new operating models are equally robust.

***Unauthorized Minting**:* Incidents in the unregulated DeFi markets illustrate the risks of hacks allowing for unauthorized minting of tokens and then their distribution across other networks. Cases such as the Yearn Finance DeFi Project[21] and Binance Smart Chain[22] show the potential disruptions caused when technical exploits allow bad actors to carry out unauthorized minting of tokens, and then the use of those tokens to either drain funds from the pool or facilitate secondary trading. Were such attacks to occur in DeFi markets handling tokenized securities, an exploiter could mint "unbacked" securities tokens and sell them on DeFi platforms. In such circumstances, it is not clear if or how an "unwind" would be effectuated.

Fraud and Misrepresentation: Fraud and misrepresentation risks in token offerings are a significant concern particularly where regulatory safeguards are absent. In contrast, the relative absence of such issues in tokenized securities offerings by regulated capital markets participants seeking to make registered securities offerings highlights the need to ensure offerings are held to the same high standards as for traditional securities. Failure to do so could undermine investor confidence and market stability. The decentralized and anonymous nature of some offerings also complicates identifying, tracking, and prosecuting fraudsters. Markets which offer securities trading without application of established investor protections and market quality requirements can provide an ideal venue for bad actors to operate at the expense of investors.

***Meeting AML / KYC Requirements and the Responsibilities of Intermediaries**:* It is unclear how AML and KYC requirements would be met in decentralized markets. The inability to provide clear frameworks to meet these requirements could effectively prevent regulated entities from taking part in these markets, since doing so would expose them to substantial regulatory risk in inadvertently transacting with non-compliant parties.

d) The Need for a Robust Economic Analysis of Investor and Market Quality Impacts

In advance of any rulemaking or exemptive relief that would permit the trading of tokenized securities in ostensibly decentralized trading models, the SEC needs to conduct an economic study on the degree to which proposed alternative operating models are, in fact, no worse for investor experience and market quality. The SEC should examine the degree to which alternative operating models offer an improved experience to users, and the degree to which novel product features may be counterbalanced by increased costs, risks, and impacts on market quality and investor protection.

The capital markets offer a range of different products with different pricing and features, and it is natural that new operating models may see different pricing models which investors have the option to pay for if they wish. However, some proposed models seem to offer higher fees than investors are charged today in traditional securities markets. This is true across the securities lifecycle (*e.g.,* fees

[20] See, for example, Rob Behnke, "Explained: The Mondero 51% Attack (August 2025)," (Aug. 12, 2025), available at: https://www.halborn.com/blog/post/explained-the-monero-51-percent-attack-august-2025.
[21] ForkLog, "Yearn Finance DeFi Project Hacked for $9 Million;" (Jan. 12, 2025), available at: https://forklog.com/en/yearn-finance-defi-project-hacked-for-9-million/.
[22] Elliptic, "Attack mints $569 million-worth of BNB tokens in BSC bridge exploit," (Oct. 7, 2025), available at: https://www.elliptic.co/blog/analysis/attack-mints-569-million-worth-of-bnb-tokens-in-bsc-bridge-exploit.

for holding securities, higher spreads and commissions, etc.). It will be challenging to understand the all-in costs of alternative models to investors until the new models are operating and see increased volumes. Similarly, the pricing of new services should be understood in the context of the new functionality they may offer. It would be advisable, and maybe even necessary, to first pilot new trading models on a limited basis before large scale approval to understand whether they offer an improved experience for investors; this will provide an opportunity for robust economic and risk analysis before they are deployed on a larger scale.

Even more importantly, a rigorous review of proposed alternative operating models needs to account for how they would meet the anti-fraud controls and technology and operational resiliency requirements that regulated entities currently must meet. The experiences of decentralized markets prior to the advent of modern securities regulation clearly suggest that these models, absent the controls provided by established regulatory frameworks, are more likely to experience fraud. As such, the onus should be on proponents of these alternative models to demonstrate how they will offer equivalent protections and controls to those that exist in the securities markets today. Moreover, this rigorous review needs to be carried out before approving any types of broad changes to market structure, whether through a formal rulemaking process or through exemptive relief processes.

e) Transfer Agents Are Not Equipped to Assume Broker-Dealer Responsibilities in DeFi Markets

We have significant concerns about proposals that would shift key investor protection and market quality responsibilities from broker dealers to transfer agents. Under current regulatory frameworks, transfer agents are not equipped to assume sole responsibility for safeguarding client assets in decentralized trading models. As noted in our August 7th letter, transfer agents lack the operational capacity and regulatory mandate to perform the comprehensive risk management and compliance functions that broker-dealers provide.[23]

While transfer agents do facilitate registration services for certain P2P securities transfers, these models are extremely limited and highly structured. These include DSPPs and DRIPs where investors buy shares directly from issuers through TAs, or the direct sale of physical stock certificates, which requires the seller to identify buyers, to have a physical security, manage settlement independently and bear fraud risk without the protections broker-dealers offer.

Fundamentally, transfer agents only have a limited view of the transaction. Positioned late in the securities lifecycle, they lack access to critical trade execution details—such as timing, price, order type, and related transaction data—as well as commission and fee information. This makes them ill-suited to monitor illicit activity or enforce investor protection standards. Their obligations under rules like Exchange Act Rules 17Ad-2 and 17Ad-10 focus on timely processing, not systemic risk oversight

Transfer agents are subject to concrete regulatory requirements and case law precedents at both the state and federal level require transfer agents to process transfers in a reasonable timeframe. We support exploring how these transfer agent rules can be modernized to support their role as record

[23] SIFMA and SIFMA AMG, Additional Comments to Commissioner Hester M. Peirce's Statement "There Must be Some Way Out of Here," (Aug. 7, 2025), available at: https://www.sifma.org/wp-content/uploads/2025/08/SIFMA-Digital-Assets-SEC-Phase-III-Response.pdf.

keepers in a blockchain environment. One change could include permitting broker-dealers to treat tokenized mutual funds the same as traditional fund shares by recognizing that a transfer agent that uses blockchain technology to issue a tokenized mutual fund share can serve as a "good control location" for purposes of Rule 15c3-3, just like a transfer agent that uses a traditional book entry system.

However, these enhancements should not be conflated with a wholesale transfer of broker-dealer responsibilities. Any expansion of transfer agent roles would require new requirements for capital adequacy, operational resiliency, cybersecurity, and systems capability—potentially aligning with standards for financial market infrastructures.

Finally, emerging models where transfer agents act as token recordkeepers or even clearing agency substitutes raise additional regulatory questions. Policymakers must evaluate whether such models can deliver equivalent investor protections without being subject to the full oversight framework applied to clearing agencies.

III. The Need for a Clear and Nuanced Digital Securities Taxonomy

Developing a clear and nuanced taxonomy is critical to effectively applying securities regulatory frameworks to emerging digital asset securities markets in a way which ensures that these markets consistently apply the critical investor protection and market quality features of securities regulations. 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 (without regard to how they may be described in related marketing), is necessary to clearly identify how each product and service fits into established securities regulatory frameworks.

Thus far, much of the debate regarding the applicability of the securities laws to activity involving digital assets has focused on the higher-level taxonomy determining when digital assets fit within the broad categories of commodities, futures, cash, or securities. We are encouraged to see the work being done at the SEC, CFTC, and through legislation to clearly define these categories, and continue to point to the GFMA taxonomy as endorsed by the CFTC GMAC as a robust high-level to scope the broad universe of digital assets.

SIFMA appreciates SEC Chairman Atkins' speech on November 12th in which he discussed the importance of developing taxonomies for digital assets, and reiterated that securities remain securities without regard to whether they are tokenized.[24] SIFMA recommends that development of any taxonomy – whether for securities products or digital assets more broadly – offer clear definitions that allow certainty and consistency in how assets are classified, and that those definitions be grounded in legal and economic rights.

However, this is only the first step in developing a framework that can guide the development of regulations which consistently govern how digital assets securities can be issued, traded, and regulated. More granular work is needed to define the range of relevant features which shape digital securities offerings, including their method of issuance (*e.g.,* natively issued vs. wrapped), their relation with other securities, different costs, redemption features, transfer restrictions or fees

[24] Paul A. Atkins, Speech entitled "The SEC's Approach to Digital Assets: Inside "Project Crypto," (Nov. 12, 2025), available at: https://www.sec.gov/newsroom/speeches-statements/atkins-111225-securities-exchange-commissions-approach-digital-assets-inside-project-crypto.

(including gas fees), the impacts of the wrapping process for tokenized securities, and the extent to which these factors affect investors' legal and economic rights.

While there is an ongoing debate on products which are adjacent to securities (such as the investment contract assets test being considered in legislation) or are found to have features which make them securities even if they were not marketed as such, this letter will focus on assets which are clearly securities.

A nuanced taxonomy of securities in digital form will allow for consistent regulatory treatment across tokenized and non-tokenized securities, including disclosures, investor suitability, trading, custody and post-trade transparency, and support regulatory approaches that ensure that all securities products must be offered on consistent terms with other products with the same legal and economic rights, regardless of whether the form of the security is paper-based, electronic, or represented by a token. It will also promote clarity for investors on what exactly they are purchasing, the rights being provided, and key operational and technological features – clarity that is essential in promoting trust and confidence in digital security markets. Failure to clarify these distinctions can result in disruptions with issuers, market structure impacts, and confusion among investors regarding what they are actually purchasing and the rights they have.

The approach outlined below is a good faith effort to assess the digital securities market as it exists today. SIFMA and its members look forward to working with the SEC to further refine this taxonomy. Given the speed of development and change in this area, we recommend that the SEC continue to revisit any taxonomy on a periodic basis to ensure it reflects a rapidly evolving technological and product landscape.

While this letter is focused primarily on tokenization of equity securities, the same principles for classification and analysis can be applied not only to equities but also mutual funds, exchange-traded funds ("ETFs") and other financial products where the underlying assets are traditional equities. Similarly, this approach provides a framework for the handling of tokenized fixed income securities. We look forward to working with the Commission in the future to provide additional detailed recommendations on the application of these models to issues specific to these products and the regulatory frameworks that govern them.

a) Key Dimensions of the Taxonomy

At the most basic level, we recognize that some 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. In other cases, either the token issuer or a third party may acquire existing traditionally issued securities and use a token to "**wrap**" (or represent) that position. Either way, investors need to understand the rights conveyed and any gaps that may arise in those rights through a "wrapping" process.

Beyond this basic distinction we propose several key dimensions which are important in differentiating between digital asset securities products. While there is substantial variation among the models of digital asset securities, the features outlined below capture key distinctions between products which have important implications for how they should be incorporated into established regulatory frameworks, particularly regarding their suitability for investors. Some of the features are more relevant in distinguishing assets within other, higher-level categories – *e.g.,* they represent

features which distinguish wrapped products but are not relevant for natively issued securities. This framework needs to accommodate hybrid approaches and anticipate future variations, given the ongoing technological and product innovation in this area.

Key dimensions to support a digital security taxonomy are outlined in the table below and discussed in more detail below:

Taxonomy Element	Secondary Category
Native Tokenized vs. Wrapped Securities	
Native Tokenized	Relationship with other non-digital issuance
	Convertibility between digital and non-digital shares
	Status of the share class represented by the token (*e.g.,* exchange listing vs. OTC status)
Wrapped Security	Holding of 1:1 underlying shares
	Entitlement to underlying shares
	Relationship with the issuer
	Legal and economic rights offered
Registered vs. Bearer	
Transfer Agent Role	
Onshore vs. Offshore	
Network Type and Features	
Transfer Restrictions or Fees	

b) General Taxonomy Elements

- ***Native Tokenized Issuance vs. Wrapped Tokens*:** Is the security (*i.e.,* the relevant rights or interests) natively issued, and does it exist only in digital form, or is it created through a "wrapping" process of an already existing security? Broadly, this can be summarized as a distinction between:
  - Native tokenized securities: Conveys rights to token-holder which are legally equivalent to rights of a holder of street name securities.
  - Wrapped tokenized securities: Underlying securities are custodied and an ADR-type token is issued representing an interest in that custodied position.

- ***Registered vs. Bearer*:** Is the ownership of the securities tracked by an official agent, who is able to identify the owner by name through some technological means (which may include a blockchain system) where that system needs to be updated in a manner recognized by the agent to officially record changes of ownership? Or is ownership determined purely by the possession of the private keys associated with a digital asset that is intended to represent the security?

  While the modern securities markets are primarily based on registered securities, bearer models are common in the native crypto sector. Some proposals to trade or issue securities building on native crypto models are based on bearer features (*e.g.,* many AMM models assume certain bearer asset features). More broadly, bearer digital assets raise a range of

questions on their treatment under established regulations covering KYC, tax processes, and other issues. Where bearer securities are intended to represent true equity investment in a company, their holding model can create a disconnect where issuers no longer have a means of determining who their investors are at any given point in time and potentially present cyber and technology risks.

- ***Transfer Agent Role*:** We believe that there is still an important role for regulated transfer agents in tracking ownership and ongoing support functions such as corporate actions, particularly for NMS equities.
- ***Onshore vs. Offshore*:** Are the securities issued in the U.S., or overseas under the jurisdiction of another regulator? Foreign registered digital asset securities would need to be subject to the broader restrictions on foreign securities offered to U.S. investors. How would "flowback" into the U.S. be controlled for offshore issuances?
- ***Network Type and Features*:** While SIFMA advocates for a technology neutral approach which focuses on the risk controls and operating model of a particular application holistically as opposed to a reductive focus on high level network archetypes, certain network features may have important implications for the operating model of digital securities.
- ***Transfer Restrictions or Fees*:** Does the security have restrictions on its transferability, or fees associated with transfer, and have these fees been clearly disclosed? (This could include gas fees).

c) Native Tokenized Securities Features

- ***Relationship with other non-digital issuance*:** Does the issuer have both digital and traditional shares outstanding, or only digital shares? Are digital shares issued alongside traditional shares, in separate floats, or only available through digitization of outstanding shares? Are digitally issued shares part of a separate share class from other non-digital outstanding shares?
- ***Convertibility of digital and non-digital shares*:** Are holding of digital and non-digital shares freely convertible within the same share class? Or are there restrictions on convertibility? Are digital shares an entirely separate share class which are not convertible?
- ***Exchange Listing vs. OTC Status:*** Are digital shares issued on exchange and in compliance with exchange listing standards, or as OTC securities?

d) Wrapped Tokenized Security Features

- ***Holding of 1:1 Underlying Shares:*** Does the token issuer hold 1:1 shares of the underlying security immobilized? Or is the offering based on some other relationship with the underlying?
    - Does the token represent either a fraction of the underlying security, or multiples of it?
    - Are holdings of the underlying shares audited or verified in some manner?
- ***Entitlement to underlying shares:*** In the case of wrapped securities, does the token entitle the holder to "unwrap" the token and claim ownership of the underlying shares in traditional form and how is this effected? Do any fees apply to "unwrap" a token?

- ***Relationship with the issuer:*** Is tokenization being done in coordination with the issuer of the underlying security? Or is it done by an unrelated third party?
- ***Legal and Economic Rights:*** Does the token convey the full legal and economic rights associated with the underlying security? This includes voting rights and dividend exposures, among others. If not, what rights, if any, does the token holder have? Clear disclosures of the legal rights and interests should be required to ensure investors are aware of the risks they are taking in these investments. Simple clarity will be particularly important given the challenges for retail investors viewing such disclosures on their mobile phones.

e) Security-Based Swap, Non-Traditional Security and Non-Security Products

It is critical to distinguish tokenized securities (whether natively issued or wrapped tokens) on the one hand from SBS, which are securities that are, in the absence of specific exemptions and exclusions, subject to securities regulation and specific rules mandated by Title VII of the Dodd-Frank Act, and other derivative-like products (such as mirror tokens, which provide investors with economic exposure to companies without holding their underlying shares by "mirroring" their underlying value), as well digital commodities and other non-security instruments that fall under different regulatory regimes, on the other.

Where tokens are structured as SBS, they must remain subject to the full range of SBS regulations (*e.g.,* registration requirements for intermediaries, reporting, disclosure, and business conduct requirements, margin requirements, customer protection and trading and clearing requirements). It is noteworthy that the SEC has promulgated specific anti-fraud and anti-manipulation rules for SBS beyond those that specifically accommodate differences in the structuring, trading and lifecycle of these products. Similarly, regulators should review the emerging category of perpetual futures referencing equities and focus on the proper regulatory characterization, including the potential application of SBS regulations.

It is also important to separate tokenized securities from many other digital assets (*e.g.,* many that are found in the "Top 200" in sites like CoinGecko) that do not purport to convey rights in an issuer or other entity and so are not generally considered "securities," so the cited regulations would not apply to activity involving these tokens. These assets are not "tokenized securities" – they may be classified as "digital commodities" under the CLARITY Act or as "ancillary assets" in recent drafts of the Senate market structure bill.

IV. Regulatory Recommendations Linked to Taxonomy Dimensions

As the SEC works to incorporate digital security products within established regulatory frameworks, we would like to highlight a number of recommendations and open questions which align directly with the dimensions of the taxonomy outlined above. Later in the letter we will outline additional questions and recommendations which apply to digital asset securities markets broadly.

Taxonomy Elements and Associated Regulatory Issues:

Digital Security Category	***Regulatory Issue***	***Sub-Issue***
Wrapped Tokenized Security	Relationship of Tokenized Securities with Underlying Securities	
	Fungibility of Tokenized Securities	
	Issuance of Tokenized Securities	Float
		Prospectuses
		Ownership Registries
	Corporate Actions	
	Investor Suitability & Disclosures	
Native Tokenized Security	Corporate Actions	
Cross Model Issues	Trading of Tokenized Securities	Best Execution and NBBO
		Regulatory Fees
		Supervision and Oversight for Fraud and Market Manipulation
		Regulation SHO
		Financial Market Access Controls (15c3-5)
		Sub-Penny Rule (Reg NMS Rule 612)
		CAT Reporting and Order Trail
		Restricted List Controls
		Price and Transaction Reporting
		Clearinghouse requirements
		Registration/Licensing & Continuing Education
		Liquidity & Market Making Obligations
		Connectivity & Infrastructure
		Wash Sales
		Client Onboarding
		Fragmentation and Multiplicity of Securities
		Cost and customer impacts
	Stress Scenario Controls	Circuit Breakers and Trading Halts
		Regulated Leverage and Margin Requirements
		Reliable Pricing and Data Integrity
		Structured Trading Hours and Liquidity Provisions
		Technology Resiliency

		Transparency into Handling of Stress Scenarios
	Investor Protection and Capital Recommendations	15c3-3 issues
		SIPC
	Lost Digital Securities	
	Anti-Fraud Controls	
	SEC-CFTC Coordination	
	Portability of Digital Securities	
	Fixed Income Issues	

a) Relationship of Wrapped Tokenized Securities with Underlying Securities

Tokenized securities must be backed by actual securities if they are wrapped. Investors should have confidence that the wrapped token is fully backed by the underlying security and should have the legal ability to redeem tokens for the underlying security. A structure akin to ADRs for U.S. assets may warrant further evaluation.

b) Fungibility of Tokenized Securities

The degree to which tokenized assets (whether natively digital or wrapped) are completely fungible with non-tokenized securities of the same class, or whether wrapped securities can be "unwrapped" and converted between digital and conventional forms is an important element of taxonomy in differentiating among tokenization models. More broadly, fungibility applies if the security is equivalent in all key aspects (*i.e.,* same security with same characteristics).

We believe that natively tokenized securities should be considered legally and economically fungible with non-token versions if they are of the *same* share class (i.e., the same security) to avoid fragmenting the market. If this were not to be the case, it would have a range of impacts that would be disruptive to market quality and create confusion and negative outcomes for investors. For example, a lack of fungibility could result in the market being split into separate token and non-token segments for the same security, with potentially different prices and different levels of investor protections. While this might be reduced through arbitrage activity between separate markets, this is only a limited mitigant to an inferior market outcome, the effectiveness of which may diminish during periods of market stress or when market cycles for different instruments do not align or in off-hours periods. However, the fungibility of digital and "traditional" securities within the same share class should not imply any fungibility across other share classes, which may be convertible but not fungible.

The degree of fungibility of tokenized securities will have a range of broader operational implications. For example, the ability of a broker-dealer to perform the 15c3-3 securities allocation can be impacted depending on whether tokenized securities are fungible with DTC securities of the same issuer.

Traditional securities "wrapped" with a token can have different legal characteristics and may need to be addressed on a case-by-case basis. A review of some recent and hypothetical transactions highlights the importance of a nuanced taxonomy for tokenized securities and registered products.

As discussed in the proposed taxonomy approach above, distinguishing among the key features of digital asset securities will determine their appropriate treatment under securities laws broadly, including how their fungibility would be handled. Indeed, fungibility is one of the key dimensions of tokenized securities.

The fungibility of tokenized securities is also connected with the extent to which they can be converted between tokenized and "traditional" forms. For example, there was a recent case where the issuer offered securities holders to convert some of their existing holdings of outstanding shares from book entry to digital token form.[25] As such, the expectation would be that the two forms of the same security would be legally and economically fungible. If the native token is a different security (e.g., a different share class of a non-tokenized class) but consistent pricing across the two securities is maintained through arbitrage, the securities may be convertible, while not fungible. We should be conceptually clear that fungibility, and convertibility of native digital securities, and the unwrappability of tokenized securities are different. A native token is fungible with the corresponding street name share in the same share class and convertible with a different share class with sufficient arbitrage mechanisms to support price consistency. A wrapped token (or ADR) may have features which allow it be unwrapped in exchange for the underlying share, but until the unwrapping is performed it is not "fungible" with that share.

Recommendations on Frameworks for the Issuance of Tokenized Securities

Turning to the issuance process for tokenized securities, we would like to highlight a number of regulatory and operational considerations which will need to be addressed so investors have clarity on their rights and how tokenized securities would be traded and processed.

At a foundational level, one policy question is whether issuance rights should be exclusive to the underlying company or whether third party issuance be allowed. Who is permitted to tokenize an issuer's securities - is it only the issuer or also third parties? In the case of third party issuance, there are outstanding questions regarding fee disclosure, convertibility to the underlying securities, and potential exposure to credit risk that would need to be disclosed and accounted for. Similarly, to the extent third parties are permitted to tokenize, it should be considered whether the underlying issuer should consent to such tokenization akin to a sponsored ADR program, as multiple third party tokenization of the same underlying stock presents greater risk of fragmented equity markets. Because the existing ADR rules are only available to foreign issuers, the Commission would have to consider what type of regulatory framework should be applicable to the issuance of wrapped tokenized securities backed by shares of domestic issuers.

Float: It remains uncertain under what circumstances tokenized securities are to be included in or excluded from official public stock statistics. Natively tokenized securities would presumably be included in the float on the same basis as "traditional" shares.

As discussed above, there are complexities around the treatment of wrapped tokenized securities when considering their inclusion in overall shares issued. Our expectation is that existing shares are already counted in the float, so counting them again once they have been wrapped for tokenization would effectively be double counting.

[25] Alex Thorn, Thomas Cowen, Michael Marcantonio, "Introducing Tokenized GLXY," (Sep. 3, 2025), available at: https://www.galaxy.com/insights/research/tokenized-glxy.

SEC staff and the industry would need to think through what kind of wrap model would be sufficient for determining whether equivalent digital products should be counted in the float based on the treatment of ADRs. As ADRs are backed by underlying shares, the local market ordinary share against which the ADR is created is counted in the float, not the ADR itself.

Prospectuses: Providing clear, tailored requirements for prospectuses for digital asset securities will be critical to provide high quality, accurate information to investors. To support this, tokenized securities should be subject to consistent disclosure obligations and provide investors with material information, and this should be reflected in updated prospectus requirements. These should provide the information necessary for investors in tokenized securities to fully understand what they are purchasing and how any novel technological features will affect their rights and ability to trade and transfer securities.

As in many other issues discussed in this letter, aligning prospectus requirements with a taxonomy that reflects granular distinctions among digital asset securities issuance and wrapping models will be critical. This would likely include differentiation in prospectus and disclosures requirements between native and wrapped tokenized securities, particularly when the issuance model involves features that impact the processing of the security, its convertibility or transferability, or the rights of the holder, as discussed in the taxonomy above.

Native tokenized securities may need a separate prospectus if they are a separate class of security from existing shares outstanding, or have other novel features related to their token status which are not relevant to shares in the “traditional format.” A wrapped tokenized security may also likely need its own prospectus depending on the facts and circumstances, particularly based on the wrapping model and its features. Disclosures around a wrapped tokenized security would also need to provide clarity on the rights of the investor in the event that the entity creating the token fails.

Ownership Registries: Tokenization models can also impact an issuer’s ability to understand who the holders of its securities are. As discussed above, the disconnect between issuer and securities holder is particularly acute for the case of bearer assets. However, wrapped tokenized securities with ownership registries can create additional complexity in communicating ownership records between issuers and entities supporting the tokenization process and end investors.

Anti-Fraud Controls: In prior letters SIFMA discussed the importance of consistently applying regulations against fraud and market manipulation to the trading of tokenized securities. It is equally important to ensure that regulations to prevent fraud in securities issuance are consistently applied to tokenized securities issuance. This includes at a minimum Section 17(a) of the Securities Act , Section 10(b) of the Exchange Act, and Rule 10b-5, issued thereunder .

SEC-CFTC Coordination: In light of the recent joint SEC-CFTC roundtable on coordination between the two agencies, coordination between the two agencies will be very important as new digital products are developed which sit at the intersection of their respective jurisdictional authority. For example, this could address risks raised by markets in which a tokenized security is traded against a crypto asset.

Investor Suitability: Certain methods of structuring tokenized securities will likely make them ineligible to be offered to certain classes of investors. For example, if the tokenization process creates an asset which is an SBS, it would not be able to be offered to investors in the U.S. that are not eligible contract participants without a registration statement

Fixed Income Issues: While this letter primarily focuses on issues around the tokenization of equity securities, the tokenization of fixed income securities will introduce a range of other additional regulatory considerations. While core elements of the taxonomy would remain consistent across both equity and fixed income tokenization, there will be additional considerations unique to the features of fixed income securities. Examples include the question of how covenants in debt securities would be appropriately disseminated and whether multiple tokens created by different "wrappers" on the same underlying security would create confusion. SIFMA looks forward to working with the Commission in the future to provide additional detail on the impact of tokenization on fixed income products and markets.

c) Corporate Actions: Native Tokenized Securities & Wrapped Tokenized Securities

For wrapped tokenized securities, questions of how corporate actions by an issuer are treated will depend on how the wrapped tokens are structured and what the token holders are promised. Alignment with the taxonomy features described above will define consistent approaches to corporate action treatments. There are a range of questions on how corporate actions would be processed for wrapped tokenized securities. This includes the treatment of the voting process, as well as a range of other questions around handling of non-transferrable assets, such as contingent value or payout rights that can expire worthless or pay out years after issuance; entitlements to class action payouts, for example, accrue to holders as of a particular record date.

While broker-dealers have obligations regarding corporate actions involving street name holdings, it will be important to clearly define how those obligations would be met where traditional securities are "wrapped" and offered as tokens, and to distinguish and define the roles and responsibilities of parties supporting the tokenization process. These would include the roles of tokenization agents, transfer agents, and custody banks holding underlying shares.

We expect that delivering the corporate action events to the end token holders should be the tokenization agent / transfer agent's role (in other words, the party creating the token), along with responsibilities such as maintaining the token holder registry.

The custodian of underlying shares of a tokenized security (playing the equivalent role of a depositary bank's custodian for ADRs) holding the underlying securities on behalf of the tokenization agent (equivalent to the depositary bank for ADRs) would likely process the corporate actions for the traditional underlying securities. However, providing the correct allocations, and delivery of those corporate actions events and any associated income based on who is holding tokens, the count of their holdings, in which wallets and at what times, would likely be the role of the tokenization agent/transfer agent, not the custodian holding the underlying security.

The extent to which wrapping models disrupt elements of the corporate actions' lifecycle may call into question whether wrapped products provide the full economic and legal rights offered by equivalent securities in "traditional" form, and whether retail investors trading these tokens understand and appreciate these distinctions.

Handling of the issuer's corporate actions will reflect differences between the operational flows and relationships among the issuer, the investor, and the broker-dealer between natively tokenized securities and wrapped tokenized securities.

While wrapping models and the role of additional intermediaries such as tokenization agents can potentially address these impacts and provide an equivalent or even enhanced investor experience, they need to be considered and clearly disclosed to provide clarity to investors.

Policymakers should also explore the issues which arise when some portion of the security is held in a securities clearing system, and the extent to which this can build on established procedures where securities are held both indirectly through DTC (*e.g.,* if a position is held through a broker or custodian that is a DTC participant) or directly on the issuer's books (*e.g.,* through DRS).

Natively issued tokens should all have the same rights and corporate actions treatments as the underlying, though new technology models may change the way they are processed. It is likely that natively tokenized securities can be structured so that the issuer's corporate actions would flow smoothly. Proponents have suggested that native tokenized securities could increase the efficiency of the corporate actions process and allow for more opportunities for investor engagement with the issuer.

For native tokens, assuming that such tokens are not issued on a bearer basis, and that there is a method for correlating a wallet address to a legal identity, the transfer agent will generally know who the holders are and can engage with them directly for corporate actions. However, natively issued securities may still be held in a clearing agency or with a broker-dealer or other intermediary and, if so, the same rules would apply to them as to traditional securities held by an intermediary.

If tokenized securities are issued on a bearer basis, there will be more disruptions in the processing of corporate actions. Decoupling securities from any central registry of ownership would require a fundamental reenvisioning of corporate actions processing. While some have suggested that self-executing corporate actions could be programmed into digital assets, even those on a bearer basis, this would be a more dramatic departure from the defined responsibilities of the corporate actions lifecycle and would need to be supported by a robust review and oversight process to ensure investors are protected.

The mechanics of share buy-backs and stock-splits involving tokenized securities (both in native tokenized and wrapped tokenized forms) will need to be considered. For example, if a wrapped tokenized security is initially issued 1:1 to the traditional underlying security, how would a stock-split in the underlying be handled? Would that change the ratio, or would that force the tokenization agent/transfer agent to deliver additional shares to the wallet holder?

SIFMA would be happy to work with the SEC to develop a full list of all the equities-based corporate actions which need to be considered and the extent to which they need to be replicated in tokenized form, including what additional considerations would be introduced as a result of utilizing/relying on wallets/blockchains etc.

d) Clarity for Investors on the Roles and Responsibilities of the Token Issuer and the Underlying Equity Issuer

Clarity will need to be provided to investors in tokenized securities that are "wrapped" by a third party on the respective responsibilities of the underlying security issuer *vis-a-vis* the tokenization agent / token issuer. This includes issues such as the security of their assets and the underlying equity, and who is responsible for key corporate actions and securities lifecycle events. This clarity is particularly important in the case of tokenized securities models such as those where the issuance of

the token occurs through a special purpose vehicle ("SPV") that conducts no business other than holding the underlying securities, and especially when tokenized securities are not issued by, or otherwise endorsed by, the relevant company. Distinctions between sponsored issuance of wrapped products and unsponsored issuance where there is no relationship with the underlying issuer will need to be made clear, as well as the impacts more broadly on issuers if unsponsored issuance is allowed.

Investors will also need to understand the potential risks associated with certain forms of wrapped tokenized securities. For example, the purchasers of a wrapped tokenized security effectively may have counterparty risk to the tokenization agent. While these exposures can be remedied through clear legal rights and the support of regulated custodians for the underlying security, they introduce a level of complexity which must be understood and documented. This is particularly true, in contrast to the ADR model, where investors clearly differentiate the foreign security which the ADR is based on from the bank which is issuing the ADRs. However, any limitation on third-party issuance needs to be carefully crafted to avoid unintended consequences for existing SBS products.

V. Recommendations to Consistently Apply Trading Regulations to Tokenized Securities

a) Application of Specific Market Regulations to Tokenized Securities

While there are a range of open questions on how to apply established securities regulatory frameworks to tokenized securities markets so that they meet the same levels of investor protection and market quality, we would like to highlight additional issues specifically created by the wrapped tokenization of securities which are already traded in their "traditional" form. In addition to the broader questions around regulation on blockchain-based markets, many of the questions below arise from the existence of representations of the same security in both "traditional" and wrapped tokenized form. As regulators apply the regulatory framework to tokenized security products and markets, it will be important to focus on how regulatory requirements will apply to each underlying layer of the technology (*e.g.,* infrastructure, data, network, consensus, execution, and application layers) and the participants in each such layer.

Best Execution and NBBO Requirements: If the trading of tokenized equities takes place on different venues with different pricing, how will brokers meet best execution and NBBO requirements? These differences could be either between tokenized equities and their "traditional" underlying securities, or between multiple wrapped tokens based on the same equity that trade at different venues and at different prices.

Supervision and Oversight for Fraud and Market Manipulation: In prior letters SIFMA noted the importance of integrating tokenized securities into established price and trade reporting infrastructures. Failure to do so will create substantial challenges for regulators and SROs as they carry out supervision for fraud and market manipulation. Absent integration in post-trade reporting systems, it will be extremely challenging to determine when market manipulation occurred. Carrying out investigations without the full picture of established reporting data would be dramatically more cumbersome, likely requiring regulatory requests to obtain pre trade communications. This highlights the importance of integration of tokenized securities trading 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)

Cost and Customer Impacts: Will there be additional costs to customers and firms transacting in tokenized securities if there is a lack of synchronization of platforms where they are traded? Will margin rates be higher if tokenized securities may not be accepted by banks and other liquidity providers? How do you ensure the development of tokenized trading does not drive fragmentation, affecting spreads and execution quality for clients? As discussed in SIFMA's prior letters, integration of any new trading models or platforms into established market infrastructure will help avoid market fragmentation and its negative cost and execution quality impacts on clients. Client disclosures in emerging digital trading models for tokenized securities will also need to provide accurate execution quality disclosures. This will be particularly important in helping clients understand the holistic costs associated with any alternative trading models.

Fragmentation and Multiplicity of Securities: The SEC should carefully consider the ways in which tokenization may fragment existing securities markets, and potential mitigants. This should include considering the implications of digital security models which break down the current assumption of a single security in a single jurisdiction's market available to the same investor (*i.e.,* in contrast to ADRs and other products which are based on an underlying security but are divided by jurisdictions).

More broadly, wrapped tokens raise these questions anew and magnify them, because they occur alongside equities in the "home market" they were originally issued in (unlike ADRs). This will include questions such as: (i) implications of wrapped tokenized securities referencing the same underlying stock as an existing native tokenization; (ii) the existence of a "sponsored" wrapped tokenized security alongside the existence of "unsponsored" wrapped tokenized securities referencing the same underlying stock.

The SEC should consider its role in regulation of the co-existence of these multiple securities, including whether the market needs regulation to address these issues, and whether there are existing regulations which can be applied. The answers should be formulated to minimize market fragmentation as between token and non-token markets for the relevant security (and potentially between different token markets for the same reference security) to the greatest extent possible. Failure to address the impacts of fragmentation will have a range of negative impacts on market quality, such as challenges in obtaining best execution. Promoting interoperability will also help address the risks of fragmentation.

Financial Market Access Controls (Rule 15c3-5): How will market access controls be coordinated between digital asset platforms and traditional broker dealers? If a participant trades both tokenized and traditional versions of the same equity, will risk limits be netted across both categories, or managed separately? What systems will reconcile exposures and prevent over-leverage or duplicate orders across digital and traditional venues? How will the volume in the tokenized version be considered, as part of the overall traditional volume or separately?

Price and Transaction Reporting: Tokenization models should address concerns such as the possibility of creating a situation where the tokenized form prints to the tape separately (and potentially at a different price) than the underlying. How would trade reporting rules be applied? These challenges would be even greater if there are multiple wrapped tokens all based on the same underlying equity with different prices all printing to the tape. While these disconnects could

potentially be solved with economic arbitrage, this would certainly not enhance the efficiency of the market. As discussed above, it is less likely that arbitrage can resolve these issues during periods of market stress, or when there is a disconnect between the trading hours of securities in different forms and on disconnected venues.

CAT Reporting and Order Lifecycles: Will order lifecycles for tokenized equities be integrated with those for traditional equities, or maintained separately? As in our prior letters, we recommend integration of reporting of trades in tokenized securities into the broader reporting systems for equivalent "traditional securities" (*e.g.,* tokenized fixed income securities would be reported to TRACE). However, there are a number of questions which will need to be addressed to achieve this integration. How will a consolidated audit trail be validated when trades occur in both digital and traditional forms of the same security? Can events on blockchain platforms be mapped to traditional CAT reporting fields for seamless surveillance? Will changes need to be made to allow trade reporting tools such as TRF and TRACE capture trading in tokenized securities? More broadly, how will trade surveillance and market abuse detection adapt for on-chain activity? How will messaging be tracked to allow for this surveillance in alternative models which reduce or eliminate the role of the broker/dealer?

Regulatory Assessments: How will models for the trading of tokenized securities capture fees on transactions to support regulatory activity, such as Section 31 fees, FINRA Trading Activities Fees and FINRA Regulatory Transaction Fees? These will need to be consistently applied to any emerging digital trading models, particularly if new infrastructure or programs are needed at regulators and SROs to supervise these markets.

Clearinghouse Requirements: The role of the clearinghouse and the specific requirements associated with clearinghouse activities may change as the result of tokenization of securities, both by tokenization allowing for new models of holding and trading securities, and by enabling changes to post-trade workflows. The impact on tokenization on clearinghouse associated regulatory requirements can be grouped broadly into four categories: a) impacts of self-custody models, b) development of alternative clearing models and changes in the role of the clearinghouse, c) changes to settlement and netting models, and d) impacts on product specific regulations which assume trade lifecycle and clearinghouse roles that may change in tokenized operating models.

First, when considering the role of the clearinghouse in tokenized security operating models, we caution that any shift towards widespread self-custody models will fundamentally disrupt these requirements and undermine the protections for investors and systemic stability they offer; this is one of the reasons SIFMA cautions against the broad adoption of self-custody models even where they remain an option for individual investors. As discussed in prior SIFMA letters, while we recognize that self-custody will be an option for some individual investors, most business models will look to preserve the investor protections provided by third-party custodians. Self-custody models need to be clearly limited to models where the end investor is directly custodying assets themselves; self-custody does not mean third parties holding and trading assets on behalf of investors without meeting the standards of custody providers.

Second, even absent a shift to self-custody, tokenization may open a range of new clearinghouse models. As seen during the Regulated Settlement Network (RSN) proof of concept, tokenization of securities may allow for new post-trade settlement models that move away from traditional clearinghouse roles.

Third, any reassessment of the role of the clearinghouse and clearing functions needs to balance changes to settlement speed with the benefits of netting and risk management that clearing provides. Broad-based acceleration of securities settlement which forgo the opportunity to net, but instead settle on a real-time gross basis, would dramatically change liquidity demands and negatively impact post-trade functions broadly. Any acceleration of settlement needs to be on a voluntary, case by case basis.

Finally, tokenization of part of an issuer's outstanding shares, whether through native token issuance or wrapped token issuance, may also impact compliance with clearinghouse requirements, such as compliance with requirements to post membership, risk, and settlement requirements daily once they exceed their credit line as part of established frameworks for DTC eligible securities custodied at the clearinghouse. Product specific clearing requirements should also be considered (***e.g.,*** the U.S. Treasury central clearing mandate).

Regulation SHO: Will short positions in tokenized and traditional equities be netted for locate and close-out requirements, or managed separately? How will Rule 201 price tests be applied if short sales occur in both categories—will the triggers and restrictions be synchronized? How will the associated locate and buy in requirements be handled? Will side marking ("long," "short," "short exempt") be harmonized across digital and traditional platforms, or will there be risk of mismarking and regulatory gaps?

Registration / Licensing of Intermediaries and Continuing Education Requirements: How would these rules apply?

Liquidity & Market Making Obligation*:* Would designated liquidity providers and liquidation agents be mandated for tokenized securities? How would trading desks manage liquidity obligations across fragmented venues?

Connectivity & Infrastructure*:* How to develop integration with existing OMS/EMS platforms for trading tokenized securities? Would there be clearing and settlement interoperability between DTC and blockchain-based systems for tokenized and "traditional" versions of the same security? How would market participants apply latency and resiliency standards for smart contract execution as opposed to traditional connectivity?

Client Onboarding*:* How will client onboarding requirements adapt to handle wallets and associated custody questions? Will there be changes in regulatory expectations for prime brokerage services supporting tokenized assets?

Restricted List Controls: If a security is restricted in the traditional market, will the restriction automatically apply to its tokenized version? How will firms ensure that restricted list controls are synchronized across both digital and traditional platforms? Will compliance teams need to monitor two separate lists, or will there be a unified approach?

Wash Sales: For wash sales, if a wash sale occurs between a tokenized and a traditional version of the same equity, will it be detected and treated as a single wash sale event? How will surveillance systems identify and net wash sales across both asset categories?

Non-Security Products: It is likely that some tokens will be created that were not intended to be securities, but which do provide identifiable legal rights in or by an issuer. These should be covered by the cited regulations even though the issuer may not have expected the token to be treated as a

security. There should be an opportunity to add more clarity to the language which describes each of these products (*e.g.,* SBS are securities (even if "tokenized"), but should be distinguished from securities broadly and largely subject to requirements under the Dodd-Frank regulatory framework). For those products which are not securities, collateral requirements for issuance of a mirror token and delivery need to be thought through.

b) The Importance of Market Stress Scenario Controls

The experiences of the crypto markets flash crash on October 10, 2025, described above highlight the importance of the range of regulatory protections which are designed to preserve market quality and protect investors during market stress scenarios, provide transparency into how stress scenarios would be handled by market infrastructure, and to ensure technology resiliency.

As the SEC looks to broaden markets for tokenized securities and potentially to incorporate market structure elements from native (non-security) digital asset markets, it is critical to consider how the controls to manage the impacts of stress scenarios on the markets can be applied to any new operating models.

This is particularly important as there have been a range of proposals to introduce tokenized equities activity into the market structure for native digital crypto products. The October crypto flash crash highlights the risks of applying these market models to the securities markets, particularly if the market stress controls outlined below are not extended to any emerging alternative models for trading tokenized securities. Similarly, proposals for market structure or market infrastructure combining tokenized securities and non-securities products would need to carefully consider the risks which can arise from the lack of stress scenario controls in the non-security crypto markets.

i. Core Market Resiliency Exchange Rules Which Should be Applied to Tokenized Securities Markets

Circuit Breakers and Individual Stock Halts: Circuit breakers automatically pause trading across the entire market if indices like the S&P 500 drop by set thresholds (*e.g.,* 7% for Level 1 halt of 15 minutes, 13% for Level 2, and 20% for a full-day close). This would have interrupted the crypto flash crash's rapid 13.1% market cap erasure in under three hours, giving time for liquidity to rebuild and preventing automated liquidation cascades.

Limit Up-Limit Down ("LULD") mechanisms halt trading on a single security if its price moves 5-10% in five minutes, curbing volatility in assets like altcoins that dropped 60-90% intraday. Unlike crypto's continuous trading, this enforces "cooling-off" periods to avoid panic selling and allows the order book to replenish after an initial price shock. It's important that a tokenized security and its untokenized form be treated as a single security subject to the same LULD thresholds to avoid cases where trading may persist on one side where the other side is limited due to price volatility.

Individual stocks may also be halted for pending news or due to regulatory concerns by traditional exchanges. Similar halting may be needed for tokenized security markets which may be more difficult to accomplish given they are highly fractured, where a single asset can trade across dozens of different markets, many of which operate on an automated basis. Consideration must also be given to "mixed" markets where traditional equities (*e.g.,* Apple) and digital assets (*e.g.,* Bitcoin) are in a trading pair.

Given the challenges of preventing at least some blockchain markets from operating outside these norms, consideration should be given to regulatory incentives that encourage market participants to trade only in those markets that include such safety features. Regulators would also need to consider whether to build in trading halts to allow news announcements as exist in traditional markets, particularly if tokenized securities trading occurs on the continuous cycle of native digital assets, without weekends or end of day cutoffs to make announcements.

ii. Core Broker/Dealer Rules Which Should be Applied to Tokenized Securities Markets

Regulated Leverage and Margin Limits: Under regulations like the U.S. Federal Reserve's Regulation T, initial margin is capped at 50% (2:1 leverage), with maintenance margins at 25% (long)/30% (short), and in some cases down to 15% with portfolio margining, but all far below what is available in crypto markets (*e.g.,* perpetual futures with leverage in excess of 100x, high loan-to-value collateralized borrowing with "looping", etc.). There is no policy reason for allowing leverage levels in tokenized markets to exceed those allowed in traditional markets.

The recent failure of Stream Finance discussed above highlights the financial stability risks excessive leverage can have in alternative operating models, particularly when that borrowing occurred through opaque models. While the exact facts are under investigation, initial data suggests that certain Stream Finance products were backed by a 4x leverage ratio, with much of that borrowing effectively opaque given the complex mechanics of their recursive looping borrowing strategy.[26]

Position Limits and Risk Controls**:** Broker-dealers that provide "direct market access" impose caps on position sizes and require pre-trade risk checks for high-frequency trading (HFT), which could have tempered algorithmic amplification seen in crypto. Post-2010 Flash Crash reforms mandated these controls to prevent extreme "fat finger" errors or rogue algorithms.

Reliable Pricing and Data Integrity: The National Market System devised over fifty years following the passage of the Securities Acts Amendments of 1975 underscores the importance of (i) an SEC that has sufficient statutory authority to oversee the national markets and (ii) the critical role of reliable, transparent, equally accessible pricing information. Regulated broker-dealers and exchanges are required to provide securities pricing information to utilities that publish the data in NMS markets. Regulated exchanges with redundant systems consolidate and disseminate data, minimizing "stale data" or latency issues. SEC rules promote fair and transparent pricing.

As highlighted previously, on October 10th, we observed that certain crypto platforms which relied solely on "in house" marks saw large price discrepancies in the same asset between their own prices and other platforms, which led to many customer liquidations and collateral sales at off-market prices. This could have been avoided if there was enhanced transparency to support a "routing" or "best price" requirement for such triggered liquidations and sales. The recognition that a true national market system could not exist with that price disparity was a major driver for the markets, Congress, and the Commission in fashioning and implementing the 1975 Securities Act Amendments. Similarly, securities markets have frameworks for the consistency of valuation of assets in the context of collateral.

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[26] Ayesha Aziz, "Stream Finance Stablecoin xUSD Crashes 77% After $93M Loss," *CMC Crypto News*, available at: https://coinmarketcap.com/academy/article/stream-finance-stablecoin-xusd-crashes-77percent-after-dollar93m-loss.

The crypto flash crash highlights that the SEC should consider sharing its experience of successfully addressing the problem of fragmented liquidity with the CFTC. The CFTC market structure and protections are primarily based on vertically integrated market venues. The 1975 Securities Acts Amendments creation of the National Market System and consolidated tape can inform and guide the CFTC's work. On October 10th, market participants, particularly retail crypto investors, lacked consolidated pricing information during the dislocation. Applying SEC market data principles of transparency, fairness, and fee reasonableness can strengthen CFTC oversight and protect crypto investors and markets. The additional transparency and data integrity would also enhance the efficacy of stress scenarios, market-wide circuit breakers, and position limits, among other benefits.

Clearinghouses and Settlement Guarantees: Central counterparties (*e.g.,* DTCC) act as intermediaries, guaranteeing trades, netting transactions to facilitate efficient settlement and reducing counterparty risk. In seeking efficiencies, new trading models may also "throw the baby out with the bathwater" by removing critical protections relied upon by investors (particularly retail investors). Post trade infrastructure also has a well-documented, resilient process to ensure DVP settlement occurs. As new settlement options emerge for tokenized equities, while some market participants may prefer instantaneous settlement via crypto rails, others (who perhaps engage in large numbers of transactions regularly) may prefer periodic net settlement vs. continuous gross settlement.

Structured Trading Hours and Liquidity Provisions: Equity and options markets close daily (*e.g.,* U.S. equities 9:30 AM–4:00 PM ET, although they have extended trading hours) and on weekends/holidays, avoiding the thin liquidity that exacerbated crypto's off hours plunge in October. A similar event in listed equities might delay full impact until Monday's market open, allowing for orderly absorption. While the U.S. equity markets are considering a move to extended trading hours, this will still preserve many of the features of defined operating hours and daily trading milestones, and markets will still be closed in certain off hours.

Market Maker Obligations: Designated market makers (*e.g.,* via NYSE's program) must provide continuous buy/sell quotes, even in stress, increasing liquidity and reducing the "flight to liquidity." Markets for digital asset securities currently lack such mandated providers, leading to exhausted order books.

Technology Resiliency: Key market infrastructure providers are mandated to meet robust standards of technology resiliency, most notably through Regulation Systems Compliance and Integrity ("Reg SCI"). This is designed to ensure that the technology which supports critical market functions operates as designed.

Transparency into Handling of Stress Scenarios, PFMI and FMI Disclosure Requirements: FMIs supporting regulated securities markets are required to provide transparency on how they handle stress scenarios. This is primarily established through meeting the Principles for Financial Market Infrastructures ("PFMI") developed by the Committee on Payment and Settlement Systems ("CPSS") and the International Organization of Securities Commissions ("IOSCO"). The PFMI requires FMIs to have comprehensive plans for how stress scenarios would be handled, and to provide robust disclosures to their users around them. This provides transparency to market participants and confidence on the stability of FMIs in stress scenarios, avoiding situations where uncertainty on FMI plans or status could exacerbate market stress.

c) Cross Border and Foreign Trading Activities

The global nature of tokenization and native digital asset issuance allows assets to flow offshore, and for trading to occur broadly outside SEC jurisdiction, with flow back implications for trading in U.S. markets. Thus far these issues have largely been in the context of offering non-U.S. persons exposure to U.S. equity markets, but in the future may include digital equivalents of ADRs. The porousness of ledger-based assets and their underlying technologies allows for easy access and trading across borders, particularly if they are applied to decentralized and semi-decentralized models. This is a particular contrast to current operating models, where the vast majority of securities are currently in clearing systems which effectively confines them to individual jurisdictions and prevents transfers that are inconsistent with regulatory requirements. This is an area with far reaching implications; the comments below are an initial framing of considerations on these issues and we look forward to further dialogue with the Commission.

This has a range of implications very different from when securities are structured to allow for offshore offerings under. Indeed, tokens make it much easier for brokers to trade foreign securities in the U.S. and to move them across jurisdictions broadly. This is particularly relevant given the interest of some market participants in using tokenization as a vehicle to provide cross-border exposures to the U.S. equities markets. In the context of fixed income securities, the Commission relies on FINRA TRACE for fixed income security trade transparency. Will the Commission expect FINRA to expand member reporting obligations to cross-border and foreign trading of tokenized U.S. dollar-denominated foreign sovereign debt? For trading that takes place either outside the U.S. or without U.S. broker-dealer participation, what will be the impact on transparency in the U.S. market? In addition, blockchain-based models may allow U.S. securities or synthetic versions of them to trade on foreign platforms in ways that bypass existing offer-and-sale restrictions, complicate issuer obligations, and reduce regulatory visibility into settlement, custody, and market-abuse risks.

Digital operating models which break this constraint highlight the importance of understanding jurisdictional issues, and we encourage the SEC to explore how these issues and operating models impact its mandate to protect investors, maintain fair, orderly, and efficient markets in the U.S., and facilitate capital formation and then identify what regulatory changes may be needed to address them.

d) Investor Protection and Capital Recommendations

We would like to echo prior SIFMA recommendations for regulatory changes to expedite tokenization, including clarifying that tokenized securities are treated the same as non-tokenized securities for purposes of the Net Capital Rule (15c3-1). More broadly, it will be critical to develop clear frameworks under which broker-dealers can comply with the Customer Protection Rule (15c3-3) when holding tokenized securities for customers.

While SIFMA applauds the May 2025 SEC FAQs moving away from the unworkable special-purpose broker-dealer framework, additional work will need to be done to provide clarity on meeting 15c3-3 requirements within established broker-dealer entities, and extending this modernization to other entity types which can meet the requirements of “good control locations” (*e.g.,* banks, transfer agents, and clearing agents as well as broker-dealers). SIFMA looks forward to dialogue with the SEC on meeting these requirements, as well as providing input on associated questions such as the circumstances in which the re-hypothecation of digital asset securities is permitted.

As is standard in this space, SIFMA prefers generally applicable parameters that are adaptable and future-proofed and recommends avoiding piecemeal guidance on specific assets / currencies. Additionally, providing equivalent capital treatment for tokenized securities should be based on the tokenized security conveying the appropriate legal or beneficial rights and interests to merit similar treatment.

SIPC: We are encouraged to see the May 2025 SEC FAQ which clarified that SIPC coverage would include registered securities in digital form, providing equivalent protection for registered securities regardless of their technological form.

This is an important step in building a digital asset securities ecosystem which extends the investor protections offered in the current market structure to SEC registered securities regardless of their technological form. SIPC provides certain protections to broker-dealer customers in the event of a broker-dealer liquidation. Alternative models which move away from the broker-dealer would not enjoy the protection offered by SIPC coverage that is expected by investors.

A closer look at the mechanics of SIPC coverage highlights the importance of a nuanced taxonomy of digital assets. Clarity on SIPC coverage for tokenized equities (both in wrapped tokenized security and native tokenized issuance models) should be supplemented by providing clarity to investors on types of digital asset products which would fall outside the scope of SIPC. Currently, customer property covered by SIPC includes cash and securities held by a broker-dealer on behalf of or in a securities account of a customer. Although the Dodd-Frank Act amended customer property to include a broader set of property in a securities account pursuant to a portfolio margining program approved by the SEC, that list does not include security-based swaps, swaps, or commodities.

A nuanced taxonomy of digital asset securities, which aligns them consistently with established SIPC coverage, will be critical in providing clarity and protection to investors.[27] For example, there will likely be tokens with structures similar to ADRs or Global Depositary Receipts (“GDRs”), which are covered by SIPC. However, in other cases, clear definitions would show that certain products are products which are outside SIPC’s scope.

Ambiguity in this space can create confusion and risks for investors. Providing clarity on any SIPC coverage of novel product categories with limited SEC oversight such as investment contract assets will also be important. Additionally, the treatment of payment stablecoins will need to be considered, given the nuances in SIPC treatment of cash holdings.

Lost Tokenized Securities: Holders of securities today are covered by regulations which govern the treatment of lost securities and the requirement to escheat lost assets to the investors’ last known state of residence. For example, if the investor is considered lost, at some point the investor’s cash and securities may need to be escheated to the investor's State Treasury Department. These procedures for unclaimed assets, their escheatment, and reclamation will need to reflect the technical features of tokenized securities infrastructure and the technological enhancements needed at the state government level to receive and distribute the assets.

e) Portability of Tokenized Securities

[27] Treatment of digital asset securities under SIPC will also likely be shaped by future legislation affecting digital assets market structure, such as potentially addressing expanding SIPC coverage in the context of portfolio margining.

We recommend that the SEC consider frameworks to ensure that tokenized securities are portable and not chained to a specific infrastructure platform or technology provider. As discussed in our August 2025 letter, one of the key features of the current U.S. securities markets is the avoidance of forced vertical integration, and the flexibility of investors and brokers to work with a range of service providers across the securities lifecycle and preserving this interoperability for tokenized securities. This could include building on the principle that if any SEC registered product that is tokenized (including issuer sponsored tokenization, receipts, etc.) the transfer agent also allows the shares to be held in book entry form. As most tokenization models likely require an SEC registered transfer agent, it would provide a channel to avoid trapping securities within a single provider's ecosystem to the disadvantage of investors. This approach is consistent to the SEC's 2019 guidance to Overstock.com in the handling of its digital dividend via tZERO's blockchain-based ATS.

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SIFMA appreciates the Crypto 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 & CEO