ANDREESSEN
HOROWITZ

July 21, 2025

BY ELECTRONIC SUBMISSION

Commissioner Hester M. Peirce
Crypto Task Force
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-0213

Re: **Comments on the SEC Crypto Task Force's Questions Concerning Tokenized Securities**

Dear Commissioner Peirce:

Andreessen Horowitz ("a16z" or "we") appreciates the opportunity to provide comments on the questions that the Securities and Exchange Commission's Crypto Task Force provided to the public on February 21, 2025[1] on tokenized securities. We commend the Task Force's considered approach, enjoining stakeholders to provide actionable information about a wide range of crypto issues. While we recognize that the questions do not reflect the Commission's positions, we nevertheless appreciate the Commission's commitment to seek information from the public through an open process.

At a16z, we believe blockchain technology has incredible potential to promote innovation, entrepreneurship, and economic growth without compromising investor protection or the integrity of our capital markets. Like the Crypto Task Force, we are deeply committed to the development of a legal and regulatory framework for crypto assets, which we believe is critical to fostering innovation while protecting market participants. Our numerous publications on developing regulatory approaches, as well as our ongoing engagement with regulators reflect this commitment and belief.[2] To that end, we hope that our observations, drawn from our deep experience, can be of assistance to the Commission.

In our first letter, we addressed **Questions #1** through **#6**, presenting a single unifying regulatory framework—control-based decentralization—that resolves many of the uncertainties surrounding the application of federal securities laws to blockchain systems. Our subsequent responses have applied this framework to answer the Commission's questions regarding public offerings, safe harbors from registration, and custody. We have also applied this framework to make recommendations to the Commission concerning safe harbors for certain airdrops, incentive-based rewards programs, and collectible tokens. In this response, we make recommendations to the Commission regarding tokenized securities. As with the other considerations at issue, when it comes to tokenized securities, we believe that by establishing a consistent, objective, and repeatable regulatory approach that is both merit- and technology-neutral, the Commission can provide the legal clarity necessary for entrepreneurs to build, market participants to engage and invest with confidence, and regulators to effectively protect markets—without stifling innovation.

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[1] Statement, Securities and Exchange Commission, Hester M. Peirce, There Must Be Some Way Out of Here (Feb. 21, 2025), https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125.
[2] For a list of our publications relating to crypto policy, see: https://a16zcrypto.com/posts/focus-areas/policy.

I. About a16z

A16z is a venture capital firm that invests in seed, venture, and late-stage technology companies, focused on bio and healthcare, consumer, crypto, enterprise, fintech, and games. A16z currently has more than $74 billion in assets under management across multiple funds, with more than $7.6 billion in committed capital for crypto funds. In crypto, we primarily invest in companies using blockchain technology to develop protocols that people will be able to build upon to launch Internet businesses. Our funds typically have a 10-year time horizon, as we take a long-term view of our investments, and we do not speculate in short-term crypto-asset price fluctuations.

II. Responses to Crypto Task Force Questions 40 - 46

Question 40: Tokenization enables dematerialized securities to be mobilized (i.e., not held in and confined to a single centralized ledger). Are there any provisions under the federal securities laws that prevent these securities from being used in new blockchain-based transactions and applications, and, if so, what steps should the Commission consider taking to facilitate this innovation while mitigating any related risks? Are there amendments or new rules that the Commission should consider to ensure a merit- and technology-neutral approach to tokenization? Does the type of blockchain used (i.e., permissioned versus permissionless) bear on this risk assessment?

In his 2025 Annual Chairman's Letter to Investors, BlackRock CEO Larry Fink asserted that "[...] every stock, every bond, every fund—every asset—can be tokenized," and went on to conclude that "If they are, it will revolutionize investing."[3] Tokenization is the process of generating and recording a digital representation (i.e., a token) of traditional real-world assets—stocks, dollars, bonds—on a programmable platform, thereby facilitating online use and transmission of such tokens.[4] Much like a digital deed, a token certifies ownership of a specific asset. Unlike analog certificates, however, "tokens" are stored on a blockchain, enabling users to buy, sell, and transfer assets with the simplicity of sending an email and at the speed of the internet.[5]

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[3] Larry Fink, *Annual Chairman's Letter to Investors* (2025), https://www.blackrock.com/corporate/investor-relations/larry-fink-annual-chairmans-letter.

[4] *See* Hester M. Peirce, Comm'r, U.S. Sec. & Exch. Comm'n, *Hobs and Hobbes: Wharton FinTech Lecture* (Nov. 1, 2024), https://www.sec.gov/newsroom/speeches-statements/peirce-remarks-wharton-fintech-110124#_ftnref33; *see also* Hester M. Peirce, Comm'r, U.S. Sec. & Exch. Comm'n, *A Creative and Cooperative Balancing Act* (May 8, 2025), https://www.sec.gov/newsroom/speeches-statements/peirce-iismgd-050825 ("Tokenization refers to the use of distributed ledger technology to maintain the record of ownership of traditional assets, including securities, such as stocks and bonds. It entails formatting these assets as crypto assets (or "tokens") on a blockchain or other distributed ledger technology").

[5] *See* Hester M. Peirce, Comm'r, U.S. Sec. & Exch. Comm'n, *Getting Smart – Tokenization and the Creation of Networks for Smart Assets: Opening Remarks for Tokenization Roundtable* (May 12, 2025), https://www.sec.gov/newsroom/speeches-statements/peirce-remarks-crypto-roundtable-tokenization-051225 ("**Tokenization Roundtable Opening Remarks**") (noting that, because of the common protocols used to program smart contracts and the related assets and applications, "investors can use tokenized securities seamlessly on or within other smart contract-based applications, including DeFi applications. Removing securities from siloed databases and tokenizing them on open, composable crypto networks mobilizes them and makes them usable in new and enhanced ways.").

Beyond enabling markets to operate 24/7, reducing clearance times to near-zero, and mobilizing illiquid capital, tokenization has the potential to democratize the global financial market by making assets more affordable, shareholder governance more effective, and yield more accessible. Because tokenization enables fractional ownership, it can reduce the barrier to investing in valuable assets like private real estate. Likewise, tokenization can facilitate greater participation in shareholder voting by ensuring that a shareholder's voting rights are digitally logged and that they can seamlessly cast votes. By ameliorating legal and operational friction, tokenization can also enable more investors to enjoy higher returns by expanding access to yield that has historically been limited to large investors. While the promise of tokenization is immense, unlocking its benefits will require updating certain provisions of the federal securities laws.[6]

As detailed below in response to **Questions #41** to **#46**, various provisions under the federal securities laws may prevent or otherwise impede tokenized securities from being used in new blockchain-based transactions and applications to the fullest extent possible. Accordingly, the Commission should consider issuing tailored guidance, exemptive or no-action relief, and rulemaking, where appropriate, to facilitate innovation while ensuring investor protection. Specifically, our response to:

> **Question #41** discusses how the properties of blockchain technology provide significant enhancements to the efficiency and functionality of transfer agents, thereby offering solutions to longstanding issues associated with legacy recordkeeping and settlement systems. While some transfer agents already use blockchain technology, we provide recommendations to enable transfer agents to further utilize blockchain technology to the fullest extent possible.
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> **Question #42** analyzes potential unique issues relating to the tokenization of "redeemable securities" issued by registered investment companies. Additionally, we discuss how relief from secondary market limitations may be required and warranted to further enable secondary transactions in these securities.
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> **Question #43** addresses the benefits of tokenized securities that seek to maintain a stable value, such as money market funds, as well as approaches the Commission should consider such as granting relief consistent with relief historically provided to money market funds, which may be necessary to enable mutual funds to issue and enable secondary market trading of these securities.
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> **Question #44** provides an overview of other federal and state laws that may present challenges to firms seeking to issue or engage in activities involving tokenized securities, including certain

[6] *See* Paul S. Atkins, Chairman, U.S. Sec. & Exch. Comm'n, *Keynote Address at the Crypto Task Force Roundtable on Tokenization* (May 12, 2025), https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-crypto-roundtable-tokenization-051225-keynote-address-crypto-task-force-roundtable-tokenization ("Blockchain technology holds the promise to allow for a broad swath of novel use cases for securities, fostering new kinds of market activities that many of the Commission's legacy rules and regulations do not contemplate today. In order for the United States to be the "crypto capital of the planet" … the Commission must keep pace with innovation and consider whether regulatory changes are needed to accommodate on-chain securities and other crypto assets. Rules and regulations designed for off-chain securities may be incompatible with or unnecessary for on-chain assets and stifle the growth of blockchain technology.").

provisions under state corporate recordkeeping laws, New York's BitLicense regime, and FinCEN's money transmission regulations.

Question #45 considers leveraging the innovative features of tokenization to facilitate "atomic settlement" and recommends that the Commission and industry participants collaborate on guidance addressing the use of blockchain technology in connection with securities execution and settlement.

Question #46 evaluates situations in which Regulation NMS requirements may be implicated in connection with tokenized NMS securities, the issues raised by such application, and recommendations for relief, consistent with historic relief granted to Alternative Trading Systems ("ATSs") and other classes of securities.

Addressing these points will ensure a merit- and technology-neutral approach to tokenization that advances the Commission's mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

Importantly, any approach to tokenized securities must distinguish between securities that are issued and settled natively onchain and those that are issued offchain and subsequently wrapped for onchain representation by a person other than the issuer or its transfer agent. The former—categorized as "security tokens" in the taxonomy outlined in our response to **Question #1**—offer the clearest benefits: they establish a direct legal and technical relationship between issuer and holder, obviate the need for custodial intermediaries, and enable the use of smart contract logic to streamline shareholder rights and governance participation. By contrast, the latter—categorized as "asset-backed tokens"—may introduce risks that warrant additional scrutiny. As discussed in our response to **Question #4**, wrapped assets issued by centralized intermediaries can introduce informational asymmetries, discretionary control, and custodial risk. These trust dependencies not only dilute the benefits of tokenization but also increase the likelihood that an investment relationship forms with the intermediary rather than the issuer of the underlying security tokens itself, potentially triggering the application of federal securities laws. Any regulatory framework for tokenized securities should therefore recognize these distinctions and tailor its oversight accordingly—encouraging natively issued, programmable securities while ensuring that wrapped assets do not reintroduce the very intermediation that blockchain technology seeks to eliminate.

Question 41: How do the programmability and composability properties of blockchain technology and blockchain-based technologies, such as smart contracts, affect the role of a transfer agent? Are there provisions in the transfer agent rules that prevent transfer agents from using blockchain technology for this purpose to the fullest extent possible? Is an offchain record still needed as an official or a complementary record in a tokenization arrangement? Are there any legal or regulatory impediments to using onchain identity solutions?

The programmability properties of blockchain technology offer the capability to embed code in a tokenized security, as well as the ability of such security to engage with smart contracts, enabling higher degrees of automation. This automation of much of the transfer and settlement process and the self-executing nature of smart contracts affects the role of a transfer agent by: (1) greatly reducing operational burdens; (2) bringing about near-to-immediate settlement times; (3) streamlining record

creation, maintenance, and corporate actions; (4) improving data reliability, reducing (or eliminating) the risks associated with delivery and recording, including through human error and the accompanying burdens of manual data audits to identify and correct ledger discrepancies caused by human error; (5) enabling the programming of regulatory compliance safeguards, such as access and transfer restrictions to ensure and enhance compliance with financial sophistication or accreditation standards and AML/sanctions laws; and (6) reducing the number of intermediaries that a transfer agent must coordinate with to perform its duties.

Unlike legacy systems, the modular components of blockchain-based technologies (such as protocols, smart contracts, and decentralized applications ("DApps") as described in our initial response to the present Request for Information)[7] are also composable by nature, allowing them to be reassembled, duplicated, or integrated into one another with ease. Such composability enables interoperable systems where disparate elements can connect seamlessly. This enhanced interoperability significantly reduces the time and cost associated with the transfer agent's crucial role in data sharing among various market participants (such as broker-dealers and other securities intermediaries, exchanges, ATSs, custodians, and fund administrators), which is a major challenge today given the disparate systems utilized by various firms. These composability properties also amplify the benefits of blockchain's programmability properties.

While programmability and composability have clear benefits for market and corporate governance operations generally, we focus on two significant advantages that blockchain-based securities systems have over traditional ones: (1) fast, accurate, and current recordkeeping, which leads to improvements in trading and corporate governance; and (2) more efficient use of collateral, freeing up assets for optimal use.

The programmability and composability features of blockchain-based systems enable real-time shareholder records, eliminating several longstanding problems impacting issuers and other securities intermediaries, such as those relating to over/under voting and dividend/tax reporting.[8] For instance, as the Commission has noted, legacy transfer and recordkeeping systems have led to frequent instances of over-voting and under-voting.[9] The Commission noted that the primary cause of over-voting was

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[7] Miles Jennings, Jai Ramaswamy, Scott Walker, Michele Korver, David Sverdlov, & Aiden Slavin, *SEC RFI: A Control-Based Decentralization Framework for Securities Laws,* a16z crypto (Mar. 13, 2025), https://a16zcrypto.com/posts/papers-journals-whitepapers/control-based-decentralization-framework-securities-laws/.

[8] *See* Alexander Daniels, Blockchain & Shareholder Voting: A Hard Fork for 21st-Century Corporate Governance, 21 U. Pa. J. of Bus. L. 405, 406 (2018) ("[m]odern shareholder voting is broken. … Accurate lists of shareholders are non-existent. Ownership recordkeeping is painful. Some shareholders over-vote. Some savvy investors routinely manipulate the system. Modern shareholder voting undermines corporate governance. Blockchain technology … offers a solution. Through its simple yet ingenious design, blockchain provides the accuracy, transparency, and trust currently missing from shareholder voting. If blockchain takes hold, it may solve many problems with modern shareholder voting. The prevalence of street name ownership could diminish because a beneficial owner could hold and record shares in her own name. With easier ownership identification, some voting practices that aid over-voting and hedging may disappear. Vote counts could become accurate, precise, and verifiable.").

[9] *See* Concept Release on the U.S. Proxy System, Release No. 34–62495 (Jul. 14, 2010) [75 Fed. Reg. 42982 (July 22, 2010)] ("**Concept Release**"), at 42989-92. The Concept Release detailed issues in which vote tabulators (including transfer agents acting in such capacity) receive votes from a securities intermediary that exceed the number of shares that the intermediary is entitled to vote and that there was a lack of consistency with how various

difficulty in determining accurate shareholder records in connection with (1) securities lending and (2) "fails to deliver."[10] Specifically, historic inefficiencies in the clearance and settlement process led to the practice of holding securities in "street name," where securities are held in fungible bulk by intermediaries, making it difficult for issuers to identify and communicate with the underlying beneficial owners, and for beneficial owners to exercise their rights privileges.[11] In certain circumstances, broker-dealers may borrow or lend customer securities, often without the knowledge of the customer, and, given the fungible bulk holdings, typically without allocating the loaned securities to a particular account.[12] As a result, in some cases both the lending and borrowing broker-dealers may submit voting instructions for the same shares, giving rise to over-voting. In the words of Vice Chancellor Laster of the Delaware Court of Chancery, "The sheer complexity of the current voting system makes precision impossible."[13]

Imprecision as to ownership or holding records can also be the result of fails to deliver, which lead to discrepancies between a securities intermediary's position reflected on the issuer's records and the position reflected in its own books and records. This may occur when a broker-dealer credits a security to a customer prior to DTC's recognition of the broker-dealer's entitlement to vote the position.[14] Prompt clearance and real-time shareholder records are also critical in determining which holders are entitled to dividends and subject to taxation.[15]

Blockchain technology can resolve these issues in a number of ways, including through: (1) increased efficiency in clearance and settlement, which is not reliant on street name holding, thereby enabling shareholders to more easily own shares directly in their own name; (2) transparent, traceable, and real-time records of holders to eliminate both manipulative and inadvertent over-voting in connection with securities lending; and (3) eliminating (or greatly reducing) instances of fails to deliver.

Traditional securities settlement systems today typically operate on a T+1 basis and accordingly result in the locking up of cash and other assets in the form of collateral required for settlement. Even measures that are intended to promote settlement efficiency, such as netting (which minimizes the number of transactions to be settled), require collateral to be committed and effectively immobilized for some period of time, depriving transaction counterparties of the use of the collateralized assets. For example, the clearing agency for the U.S. equities markets, National Securities Clearing Corporation ("NSCC"), a subsidiary of the Depository Trust and Clearing Corporation ("DTCC"), maintains a "Clearing Fund" into

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issuers and intermediaries reconciled these discrepancies, raising serious concerns regarding the accuracy of voting results.

[10] *Id*. at 42989.

[11] *Id*. at 42999.

[12] *Id*. at 42899-90.

[13] Vice Chancellor J. Travis Laster, *The Block Chain Plunger: Using Technology to Clean Up Proxy Plumbing and Take Back the Vote* Keynote Speech to the Council of Institutional Investors (September 29, 2016), *available at* https://www.cii.org/files/09_29_16_laster_remarks.pdf.

[14] *Id*. at 42900.

[15] In the context of securities lending, the borrower is entitled to receive dividends and exercise any voting rights until such loaned securities are returned. However, the loan agreements typically stipulate that any payments received must be paid back to the beneficial owner in the form of "substitute dividends," which may be taxed differently, leading to some instances of improper tax avoidance through dividend arbitrage. *See Reporting of Securities Loans*, Release No. 34-98737 (Oct. 13, 2023) [88 Fed. Reg. 75644 (Nov. 3, 2023)], at 75696.

which member broker-dealers contribute margin to protect NSCC from potential losses arising from a defaulted member's portfolio until it is able to close out the defaulter's positions. The Clearing Fund consists of required deposits posted by members in the form of cash and eligible securities. NSCC's margin rules also allow for both intraday mark-to-market calls and additional special charges from clearing members if NSCC observes unusual volatility in specific securities that it believes would present heightened risk to the clearing agency and its members. NSCC can also impose excess capital premium charges for members whose margin exposure from cleared positions exceeds those members' excess net capital.[16]

Compared with such traditional clearance and settlement systems, blockchain-based securities systems are able to clear and settle significantly more quickly and can consequently avoid tying up significant amounts of cash securities. Quicker settlement not only frees up collateral, it also avoids market failures and reduces the risk of trading halts. Consider, for example, the recent proof of concept where DTCC utilized blockchain-based systems to run repurchase ("repo") transactions. Financial institutions often utilize overnight repo agreements to manage intraday cashflows as part of their liquidity management. Traditional repo and borrowing arrangements include several sources of friction such as: (1) settlement risks from trade entry errors and collateral inventory mismanagement; (2) suboptimal capital management arising from the inability to precisely determine when the institution would receive funding due to settlement failures, uncertainties, or delays; and (3) data transmission errors and delays.[17]

In stark contrast with such traditional repo arrangements, blockchain-based repo arrangements significantly minimize settlement risk and optimize capital management. Risks stemming from collateral inventory mismanagement are mitigated by requiring the institution to segregate its collateral prior to submitting a request for funding, which greatly reduces the likelihood of delays in settlement. The blockchain-based application verifies the collateral before the trade is proposed and creates a tokenized entitlement to the ownership of the collateral. The repo buyer transfers their cash into a blockchain deposit account. At trade execution, the repo seller and buyer negotiate, agree and cryptographically sign the terms of the repo. Smart contracts enable precise settlement within the terms of trade.

At settlement, cash and the tokenized entitlement to collateral are simultaneously transferred through an "atomic settlement."[18] The seller transfers the cash from their blockchain deposit account to their traditional deposit account. The repo buyer holds the tokenized entitlement to the collateral as recorded through the blockchain-based application. The application initiates a transfer of the cash borrowed and interest from the repo seller's traditional deposit account to their blockchain deposit account. Smart contracts trigger the exchange of collateral for cash and interest accrued, calculated based on the tenor of the trade.[19]

Since the assets were segregated before the trade, the likelihood of settlement failure is reduced. The use of a single blockchain-based application eliminates duplicative processes and reduces the need

[16] Staff Report on Equity and Options Market Structure Conditions in Early 2021 (October 14, 2021) at 14.
[17] JP Morgan Kinexys, Revolutionizing intraday financing with a blockchain-based solution, (2023) available at https://www.jpmorgan.com/kinexys/documents/Kinexys-Digital-Financing_case_study.pdf.
[18] See our response to Q. 45 below.
[19] Revolutionizing intraday financing with a blockchain-based solution, at 11.

for reconciliations traditionally required to identify manual trade entry errors. Programmatic settlement allows for precise planning for liquidity requirements and optimization of capital deployment based on organizational needs.[20]

It is in light of these significant advantages that accrue to blockchain-based systems that we should consider the operation of the transfer agent rules in a blockchain-based environment. The existing transfer agent rules are nearly five decades old and contain highly prescriptive and technical requirements and were designed to address safeguards surrounding physical securities certificates. The absence of clear guidance on the applicability to blockchain technology has led to disparate approaches taken by market participants, hindering market efficiency and investor protection.[21] To be clear, we do not think that there is anything in the existing transfer agent rules that prevents or prohibits the use of blockchain technology. However, and as we discuss further below, there are certain questions to which we believe Commission responses, guidance, or clarifications may be helpful.

Following the formation of the Crypto Task Force, the Commission has begun to address some of these questions. For example, Commission staff recently clarified that, in line with the neutrality approach noted in **Question #40**, the transfer agent retains the discretion to determine the specific technology, systems or files that comprise the records "provided the transfer agent ensures that its records are at all times secure, accurate, up-to-date, produceable to the Commission and its staff in an easily-readable format, and maintained for the required time periods under the rules."[22] In particular, we note that the staff has specifically observed that "transaction information, such as wallet address, asset balance, ownership percentage, number of shares or units, date of purchase and transaction ID, [that may be] maintained on a crypto network give rise to a new or different type of blockchain while personal information, like the investor's name, investor ID, address and other contact information, Tax ID or social security. A crypto network can constitute all numbers, and other identifying or part of non-public information, [may be] kept off-chain within the issuer's books maintained by its transfer agent's proprietary systems."[23]

Notwithstanding these clarifications, the Tokenization Roundtable Opening Remarks further note that tokenization may raise some legal challenges, such as those relating to "the integration with DeFi, application of the transfer agent rules and National Market System requirements, use of permissionless networks, and appropriate classification as certificated versus uncertificated securities." Below we suggest three sets of questions relating to transfer agent responsibilities for the Commission's consideration.

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[20] *Id.*

[21] For instance, variances in whether the blockchain record is considered the official ownership record, or whether it is merely a "courtesy copy." There has also been significant confusion and differing approaches taken with respect to whether a token represents merely a digital record reflecting ownership and that can serve as a transfer instruction; a security entitlement; or the security itself.

[22] SEC, Division of Trading and Markets: Frequently Asked Questions Relating to Crypto Asset Activities and Distributed Ledger Technology (May 15, 2025), https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions/frequently-asked-questions-relating-crypto-asset-activities-distributed-ledger-technology ("DLT FAQ") at A. 10 (clarifying considerations relating to transfer agent registration triggers in connection with the provision of services for crypto assets that are securities, as well as the circumstances under which a registered transfer agent may utilize distributed ledger technology as its official Master Security File "MSF").

[23] *Id*.

These concern (1) clarity regarding offchain records; (2) general recordkeeping requirements; and (3) provisions for lost or abandoned security tokens and asset-backed tokens.

We note the Commission staff's position that while the blockchain may be well suited to maintain certain transactional records onchain, certain types of records, such as personal information could be kept offchain.[24] We accept that the division of records may make sense in certain contexts. However, we urge the Commission to not consider that distinction between onchain and offchain records as a default presumption or a default rule going forward. While it may be necessary to retain offchain records for certain legacy issuers, for transfer agents that service issuers of fully blockchain-native securities, as we discuss in further detail below, the core functions traditionally served by offchain records can now be fulfilled directly onchain – provided that they have implemented appropriate safeguards. Requiring the use of offchain records could introduce unnecessary inefficiencies without providing any operational, investor protection, or other regulatory benefit.

Accordingly, further regulatory guidance may be helpful to clarify the application of these rules in this context. Until such guidance is available, and absent some compelling justification, the Commission should not mandate or require any information to necessarily be kept offchain—that decision is the transfer agent's prerogative as long as the transfer agent is otherwise in compliance with the federal securities laws. Nor should the Commission mandate or require the creation or use of any offchain record as an official or complementary record in a tokenization arrangement.

Rule 17Ad-7 allows transfer agents to use electronic or micrographic storage media to maintain their records, but requires transfer agents to:

- Use storage mechanisms that are designed to ensure the accessibility, security, and integrity of the records, detect attempts to alter or remove the records, and provide means to recover altered, damaged, or lost records;
- Create an index of the records that are electronically or micrographically stored and store the index with the underlying records;
- Keep a duplicate of all records and indexes that are stored using electronic or micrographic storage media;
- Be able to promptly download electronically or micrographically stored records to an alternate medium such as paper, microfilm, or microfiche; and
- Keep in escrow an updated copy of the software or other information that is necessary to access and download electronically stored records.[25]

[24] DLT FAQ at A. 10.
[25] Recordkeeping Requirements for Transfer Agents, Release No. 34-44227 (Apr. 27, 2001) [66 Fed. Reg. 21648 (May 1, 2001)].

Given that Rule 17Ad-7(f)(1)(ii) defines the term "electronic storage media" as "any digital storage medium or system," there should be no reason why blockchain-based systems should not be suitable for recordkeeping under Rule 17Ad-7, and indeed the DLT FAQs appear to agree with that approach. However, some further clarifications from the Commission on the use of the blockchain may provide significant regulatory reassurance to transfer agents in this nascent market.

First, the Commission should clarify that the blockchain is itself a sufficiently organized, and organizing medium so that no further index is required to be created for a blockchain-based system. Second, the Commission should clarify that blockchain-based records are inherently easily accessible records for the purpose of Rule 17Ad-7. Third, the Commission should clarify that maintaining a copy of the ledger on the network suffices for the purpose of complying with the requirement to maintain duplicate records under Rule 17Ad-7. These clarifications, taken together, should confirm the suitability of the blockchain as a general recordkeeping medium and location for transfer agents generally.

As part of the Commission's much needed efforts to modernize the transfer agent rules,[26] Staff should consider updates to Rule 17Ad-17,[27] which places obligations on transfer agents designed to reduce the number of lost securityholders and the escheatment of their assets.[28] As with other assets, security tokens may be stolen or lost. Wallets may be compromised, and addresses and infrastructure may be abandoned, whether by intention or otherwise. These are not new occurrences in the traditional securities context, and like traditional transfer agents, the Commission should clearly permit transfer agents for security tokens to replace assets or whitelist transfers or wallets, act against theft or fraud, and should outline the circumstances in which such actions may be undertaken. Whatever the merits of the principle "not your keys, not your coins," it is unlikely to work well for securities.[29]

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[26] *See*, *e.g.*, Commissioners Luis A. Aguilar and Daniel M. Gallagher, *Statement Regarding the Need to Modernize the Commission's Transfer Agent Rules* (June 11, 2015), https://www.sec.gov/news/statement/modernize-sec-transfer-agent-rules ("The Commission has not significantly revised its transfer agent rules in almost 30 years, a period that has witnessed sweeping changes in the securities industry, particularly in transfer agents' activities. As a result, the Commission's anachronistic transfer agent rules and the services that the nation's roughly 450 transfer agents provide today are out of sync.") *and* Commissioners Michael S. Piwowar and Kara M. Stein, *Statement of Support for the Need to Modernize the Commission's Transfer Agent Rules* (June 11, 2015), https://www.sec.gov/news/statement/statement-support-modernize-sec-transfer-agent-rules ("the issue of transfer agent regulation is pressing and timely").

[27] 17 CFR § 240.17Ad-17 (Rule 17Ad-17 governs the process that transfer agents must follow to try to find "lost securityholders," defined to include a securityholder for whom an item of correspondence that was sent to the securityholder at the address contained in the MSF has been returned as undeliverable and for whom the transfer agent has not received information regarding the securityholder's new address. In such instances, the transfer agent is required to exercise reasonable care to ascertain the correct addresses by conducting two searches (using an information database service), which shall be "based on taxpayer identification number is not reasonably likely to locate the securityholder.").

[28] *See* Securities Exchange Act Release No. 37595 (Aug. 22, 1996), 61 FR 44249.

[29] For the record, we have always believed the phrase to be an oversimplification. *See* Nassim Eddequiouaq & Riyaz Faizullabhoy, Wallet Security: The 'Non-Custodial' Fallacy, available at https://a16zcrypto.com/posts/article/wallet-security-non-custodial-fallacy/.

There also remain significant outstanding questions regarding the operations of Rule 17Ad-17 (and the transfer agent rules more generally) with respect to both traditional[30] securities and security tokens. For instance, it is unclear when, if ever, the correspondence being "returned as undeliverable" test for lost securityholder status will be triggered in today's age of electronic communications, particularly in the context of decentralized finance ("DeFi") where physical mailing addresses may not always be known or available. Some state courts have authorized counsel to serve legal documents via NFT, specifying that "such service 'shall constitute good and sufficient service for the purposes of jurisdiction under NY law on the person or persons controlling the [Wallet] Address.'"[31] Moreover, many states have not clarified if and how their escheatment laws should be interpreted in relation to crypto assets, furthering uncertainty. However, some states have proposed solutions to address this concern, which provide models that the SEC can consider in ensuring a consistent and technology-neutral approach to regulation.[32] With respect to in onchain identity solutions, advancements made by blockchain analytics companies are making it possible to achieve legal and regulatory compliance by offering not only initial KYC but also ongoing KYT (Know-Your-Transaction) and KYW (Know-Your-Wallet) checks and monitoring prior to accepting or distributing funds/securities to further enhance safeguards and, with regulatory clarity or industry standards set, financial institutions could achieve compliance with AML/sanctions requirements and offering restrictions. Currently, the KYC process and anti-money laundering compliance in general allows for variability amongst financial institutions for risk appetite (e.g., setting of risk scores for countries, industries), this makes a unified solution difficult to be acceptable by all financial institutions until this point. However, we believe that blockchain programmability and composability—as well as zero knowledge proofs—make it possible to build a solution that would allow for this information to be pulled in a privacy preserving way such that each financial institution could calculate their scores and retrieve answers to other necessary onboarding questions. Continued flexibility with the risk-based approach would provide the industry comfort as to how these innovations can be employed to ensure compliance with applicable regulations in connection with blockchain transactions, which would accelerate the adoption and refinement of these efficient solutions.

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[30] *See, e.g.*, Commissioners Hester M. Peirce and Mark T. Uyeda, *UnRulemaking: Statement Regarding DST Asset Manager Solutions, Inc.* (Aug. 17, 2023), https://www.sec.gov/newsroom/speeches-statements/peirce-uyeda-statement-dst-asset-manager-solutions-inc-081723 (commenting, in relation to an Order finding Rule 17Ad-17 violations, that "the Order creates the implication that mutual funds' existing disclosures regarding escheatment are inadequate, but offers no guidance about what would be adequate.").

[31] Christian Staples, *Court Authorizes First-Ever Service of Court Documents via Air-Drop of Non-Fungible Token (NFT) to Cryptocurrency Wallet Address*, JD Supra (Jun. 17, 2022), https://www.jdsupra.com/legalnews/court-authorizes-first-ever-service-of-3668226/

[32] For instance, on May 7, 2025, Arizona enacted H.B. 2749, which updates the state's unclaimed property laws to account for the handling of cryptocurrency, virtual currency and other digital assets. Arizona's presumption of abandonment in relation to digital assets adopts a more flexible approach that is triggered by the return of any written or electronic communication by the post office, email, or any other electronic messaging method and such presumption ceases immediately upon the "exercise of an act of ownership interest" in the digital asset or by a memorialized communication with the holder or their agent. Such acts of ownership interest include taking any action regarding the digital asset; conducting a transaction in the account where the asset is held (including deposits and withdrawals of funds) or another account also owned and held by the same holder; electronically accessing the account; or taking any other action that reasonably demonstrates knowledge of the digital asset's existence. *See* A.R.S. § 44-302.A.15.

Finally, the benefits and implications of the programmability and composability properties of blockchain technology extend beyond the transfer and settlement of tokenized securities themselves to the automation of derivative transactions in respect of such tokenized securities: for example, the implementation through automated, self-executing and auditable smart contract code of security-based swaps and security futures that reference, are linked to, or result in the delivery of an underlying tokenized security.

These sets of improvements—around offchain records, recordkeeping generally, and lost or abandoned assets—should help clarify the path forward for transfer agents dealing with crypto assets. We emphasize that these are merely helpful improvements; as noted above, we see nothing in the rules relating to transfer agents that would have the effect of preventing or prohibiting transfer agents from transacting or facilitating transactions in tokenized securities.

While we maintain that transfer agents dealing with tokenized securities should be able to work within the framework of the existing rules with relatively few clarifications, we see a longer-term trend towards greater disintermediation. As with the advance from certificated to uncertificated securities, the programmability and composability properties of blockchain technology have the power to ultimately eliminate the need for many of the legacy transfer agent rules. The use of blockchain technology in securities transfers furthers the Commission's tripartite mission—it leads to greater protection of investors, maintenance of fair markets, and the promotion of capital formation.

Recommendations:

To fully realize the benefits of blockchain-based transfer agents and reduce operational burdens, the Commission should issue interpretive guidance and initiate a rulemaking process to modernize existing transfer agent regulations. Specifically:

1. Clarify the Use of Onchain Records: To avoid fragmentation or contradictory compliance requirements, we recommend the Commission continue building upon the DLT FAQ. Further clarification would help rationalize current recordkeeping rules in a way that promotes secure, auditable, and immutable onchain systems as valid substitutes for legacy offchain processes.

2. Permit Programmable Compliance Mechanisms: Allow smart contract-based compliance logic for restrictions like KYC/AML to fulfill any transfer agent obligations.

3. Facilitate Identity Standardization: Work with industry to develop best practices for onchain identity protocols (e.g., whitelisting, KYT, KYW) used to meet compliance requirements.

4. Clarify Lost Securityholder Considerations: The Commission should clearly permit transfer agents for tokenization arrangements to replace keys or assets or whitelist transfers or wallets, act against theft or fraud, and should outline the circumstances in which such actions may be undertaken.

These measures would ensure investor protection while aligning transfer agent rules with the technological advancements of programmable securities infrastructure.

Question 42: Does the tokenization of redeemable registered investment company securities, such as those of a mutual fund or money market fund, raise any unique issues under the Investment Company Act or the rules thereunder? Would secondary transactions in these securities (e.g., peer-to-peer transactions or transactions occurring on or through an ATS) require relief from any provisions of the Investment Company Act? If so, should the Commission propose any changes to facilitate tokenization of registered investment company securities, and what should any such conditions be?

While the tokenization of "redeemable securities" issued by registered investment companies raises certain issues under the Investment Company Act, neither the Investment Company Act nor the rules thereunder prohibit the tokenization of such securities. Indeed, several registered mutual funds currently offer tokenized shares. However, secondary market trading in tokenized mutual fund shares could raise issues under Section 22(d) of Investment Company Act and Rule 22c-1 thereunder.

As a general matter, secondary market trading in mutual fund shares (tokenized or otherwise) is restricted by Section 22(d) of Investment Company Act and Rule 22c-1 thereunder. Section 22(d) generally prohibits mutual funds, their principal underwriters, and dealers from selling mutual fund shares to the public except at a current public offering price described in their prospectuses. Rule 22c-1 under the Investment Company Act generally requires that a mutual fund, its principal underwriter or dealer (or any other person designated in the mutual fund's prospectus) selling, redeeming, or repurchasing a redeemable security do so only at a price based on its net asset value ("NAV") next calculated.[33] Rule 6c-11 under the Investment Company Act provides exemptions from these provisions to enable investors to purchase and sell exchange-traded fund ("ETF") shares from and to dealers in secondary market transactions at market-determined prices (*i.e.,* at prices other than those described in the ETF's prospectus or based on the NAV next calculated). The adoption of Rule 6c-11 and the exemptions thereunder was dependent on a properly functioning arbitrage mechanism.

Section 22(d) and Rule 22c-1 would generally *not*, however, restrict peer-to-peer trading of tokenized mutual fund shares because these provisions would generally not apply to transactions among investors (unless an investor was acting as a "dealer"). Accordingly, peer-to-peer transactions in these securities (tokenized mutual fund shares) can, and in fact do,[34] occur within the existing regulatory framework without modification. For example, a registered investment company, its principal underwriter, or a dealer would generally transact with investors in redeemable securities issued by the investment company at a forward-priced NAV. However, investors in such securities, not subject to the restrictions of Section 22(d) or Rule 22c-1, could trade peer-to-peer in real-time pricing. This ability to transact at real time pricing is a key benefit of ETFs; however, unlike ETFs, we do not believe that peer-to-peer trading of tokenized mutual fund shares would require an arbitrage mechanism to force

[33] According to the SEC, these provisions were designed to: "(i) prevent dilution caused by certain riskless trading practices of principal underwriters and dealers; (ii) prevent unjust discrimination or preferential treatment among investors purchasing and redeeming fund shares; and (iii) preserve an orderly distribution of investment company shares." *See* Exchange-Traded Funds, Investment Company Act Rel. No. 33646 (Sept. 25, 2019) (*citing* Mutual Fund Distribution Fees; Confirmations, Investment Company Act Rel. No. 29367 (July 21, 2010)).
[34] *See* Franklin Templeton Trust, Prospectus Franklin OnChain U.S. Government Money Fund™ 38 (Jan. 3, 2025).

approximate parity between expected NAV and the market price of such securities. Note that mutual funds that wish to restrict peer-to-peer trading would be able to do so.[35]

Although peer-to-peer trading of tokenized mutual fund shares is not required to be effected at the next calculated NAV, the programmability and composability of a security token can be leveraged in a way to ensure that (secondary) trading only occurs at a specified price (or subject to the satisfaction of other conditions). Specifically, a token's embedded code can be programmed to include automated pricing information to reflect (a) the price stated in the fund's current public prospectus, and/or (b) pricing based on the fund's next calculated NAV. In conjunction with the implementation of such "pricing oracle," smart contract protocols can be employed to restrict transfers of the security token to only occur on the specified pricing terms.

Nonetheless, given uncertainties around the application of Section 22(d) and Rule 22c-1, we recommend that the Commission provide guidance on the circumstances under which a person would be acting as a "dealer" when supporting secondary market transactions in tokenized mutual fund shares. In addition, to the extent the Commission takes the view that the requirements of Section 22(d) and Rule 22c-1 should apply to secondary market transactions, and given applicable regulatory challenges faced by investment companies, their principal underwriters, and dealers, as well as the potential for technical innovation and trading efficiencies promised by the tokenization of mutual fund shares, we recommend that the Commission clarify the circumstances under, or conditions upon, which secondary trading of such security tokens could be effected, which conditions could include, for example, that:

- A description of the underlying holdings of the registered investment company be publicly available (e.g., on the issuer's website or embedded in the security token), and
- An estimated real time NAV be displayed adjacent to any peer-to-peer pricing or embedded in the security token.

Ultimately, the programmable nature of a security token provides an opportunity to increase the efficiency of trading in securities in a manner largely consistent with existing rules, given the flexibility to control pricing and other terms through the application of smart contracts and real-time pricing algorithms.

Recommendations:

Given the technical innovations afforded by tokenization and the constraints posed by the existing framework, we recommend that the Commission:

1. Clarify Application of Section 22(d) and Rule 22c-1: Clarify the circumstances under which a person would be acting as a "dealer" when supporting secondary market transactions in tokenized

[35] *See* Section 22(f) of the Investment Company Act ("No registered open-end company shall restrict the transferability or negotiability of any security of which it is the issuer except in conformity with the statements with respect thereto contained in its registration statement nor in contravention of such rules and regulations as the Commission may prescribe in the interests of the holders of all of the outstanding securities of such investment company").

mutual fund shares (and therefore subject to the restrictions in Section 22(d) and Rule 22c-1).

2. Provide Guidance Concerning Tokenized Mutual Fund Shares: Permit secondary trading of tokenized fund interests through ATSs or smart contract protocols where tokens enforce compliance with NAV-based pricing rules.

3. Extend ETF-Style Relief: Offer ETF-like exemptive relief to open-end tokenized funds using smart contract-based mechanisms to simulate creation/redemption functionality.

4. Mandate Transparent Disclosures: Require tokenized funds to disclose pricing mechanics, redemption conditions, and token logic in public filings and/or directly in the token metadata.

These recommendations will enable registered investment companies to responsibly leverage tokenization while ensuring compliance with the substantive investor protection objectives of the Investment Company Act.

Question 43: How should the Commission approach tokenized securities that seek to maintain a stable value and may be designed to be used as a means of payment or settlement? What are the challenges and impediments to the usability and transferability of these tokenized securities, particularly securities issued by offchain entities (e.g., registered investment companies)? Should transactions involving the use of these tokenized securities as a means of payment be treated differently from other security-based transactions?

A registered investment company generally must value its assets at market value or, in the case of securities for which market quotations are not readily available, at fair value, as determined in good faith by the fund's board of directors. However, Rule 2a-7 under the Investment Company Act permits money market funds that seek to maintain a stable net asset value (typically $1.00 per share) to use valuation methodologies not otherwise available under the Act. Specifically, these funds are permitted to utilize the amortized cost method of valuation and the penny-rounding method of pricing for their entire portfolios. These pricing methodologies are reasonable in the case of money market funds that invest in short term debt securities because, assuming the debt securities are held to maturity, amortized cost converges with market price as maturity approaches. To the extent stable value securities are securities issued by registered investment companies and backed by short-term debt securities, the Commission should provide relief to permit similar reasonable deviations from the general requirements of the Investment Company Act. Any such relief could be conditioned upon pricing and valuation parameters related to either or both the interest in an underlying pool of assets or the underlying assets themselves. As discussed in response to the previous question, tokenization of interests in registered investment companies offers a unique opportunity to control the price at which such interests could be traded on a secondary market through a crypto native pricing oracle and the application of smart contract protocols, which in the case of a money market fund could be applied to restrict trading except on a specified price pegged to the fund's stable net asset value (i.e., $1.00).

An additional complication for using security tokens representing interests in registered investment companies as a means of payment or settlement is that such interests typically issue dividends,

which could complicate the structure and mechanics of such security tokens. In our view, however, a competitive marketplace will drive innovative solutions to address such complexities. We note also, that in the case of money market funds that hold debt securities that make predictable interest payments, the shares of the money market fund can be transacted at a stable value with variable, yet predictable interest payments being allocated to shareholders based on the interest earned during the relevant holding period.[36] A similar structure could be applied to other income producing assets, whereby the security representing an interest in the income producing assets trades at a generally stable value but income payments vary to the extent there are any changes in the risk of the underlying assets.

Given the potential utility of tokenized interests in stable net asset value mutual funds as a means for payment, and to the extent the Commission took the view that the requirements of Section 22(d) and Rule 22c-1 effectively make it impractical to trade redeemable shares of open-end registered investment companies on a secondary market without exemptive relief, we recommend that the Commission pursue ways to exempt such security tokens from the typical limitations imposed on interests in registered investment companies and other open-end vehicles to accommodate the potential benefits afforded by security tokens both in terms of trading efficiency and regulatory compliance.

Recommendations:

Given the growing interest in stable-value tokenized securities and their potential utility as instruments of payment and settlement, we recommend that the Commission:

1. Issue Conditional Exemptive Relief: Provide guidance or exemptive relief under the Investment Company Act for tokenized interests in stable NAV mutual funds to allow dealer intermediated, peer-to-peer or platform-based secondary transactions at par (e.g., $1.00 per share), so long as token contracts enforce trading at the fund's stable net asset value.

   Further, provide guidance or exemptive relief under Section 22(d) and Rule 22c-1 of the Investment Company Act for tokenized shares of registered money market funds that seek to maintain a stable NAV per share to allow dealer intermediated, peer-to-peer or platform-based secondary transactions at par (e.g., $1.00 per share), so long as: (1) token contracts enforce trading at the fund's stable NAV per share; (2) the fund is a "government money market fund" (as defined under Rule 2a-7); and (3) the fund's market-based NAV per share (i.e., its shadow price) remains within acceptable tolerance levels to its stable NAV per share (i.e., between $0.9975 and $1.0025).

2. Address Dividend Complexity Through Standards: Support the development of standardized token formats capable of handling dividend accrual, distribution, and reporting for security tokens intended to be used in real-time payment and settlement systems.

3. Clarify Use-of-Proceeds Restrictions: Where tokenized securities are intended for payment use, clarify that such functionality does not change their treatment under the Investment Company Act

[36] *See* Franklin Templeton Trust, Prospectus Franklin OnChain U.S. Government Money Fund™ 38 (Jan. 3, 2025).

so long as investment company requirements are met and the token remains tied to fund NAV.

4. Enable Multi-Jurisdictional Acceptance: Work with other regulators (e.g., the CFTC, FinCEN) to establish interoperable compliance frameworks that support the use of stable-value security tokens in financial infrastructure across asset classes and transaction types.

These recommendations would ensure that regulatory frameworks accommodate the unique technical characteristics and benefits of stable-value tokenized securities while preserving investor protections and systemic safeguards.

Question 44: Do other federal laws, or state corporate or commercial laws present challenges to firms seeking to issue tokenized securities or engage in activities involving tokenized securities?

The following other areas of federal law and of US state law may be relevant for issuers of tokenized securities: state general corporate law, state digital asset laws, and money transmission regulations.

General Corporate Law

The Delaware General Corporate Law was amended in 2017 to include specific permission for Delaware corporations to maintain books and records on a "distributed electronic network or database."[37] Delaware was one of a number of states that adopted similar provisions in order to be technology forward.[38] However, even states without such amendments do not prohibit the use of any specific technology for the maintenance of corporate books and records. For example, the New York Business Corporations Law states that a corporation's books and records "may be in written form or in any other form capable of being converted into written form within a reasonable time."[39] The California Corporations Code similarly states that "books and records shall be kept either in written form or in another form capable of being converted into clearly legible tangible form or in any combination of the foregoing."[40]

State Virtual Currency Regulations

Many of the digital asset laws and regulations adopted by the various states have been based on the Uniform Regulation of Virtual Currency Businesses Act (the "URVCBA"). Certain of these rules do not require issuers of virtual currencies (who do not provide other digital asset-related services) to be licensed, so these would not apply to the issuers of many tokens representing securities as long as they do

[37] DGCL § 224.
[38] *See, e.g.*, NV Rev. Stat. § 78.0297 (Nevada provision permitting maintenance of records "on, or by means of, any information processing system or other information storage device or medium, including, without limitation, a blockchain, or in the form of an electronic record."); and Tex. Bus. Org. Code § 3.151 (Texas provision permitting maintenance of records "on, or by means of, an information storage device or method or one or more electronic data systems." "Electronic data system" is in turn defined under §1.002(20-a) to mean "an electronic network or database. The term includes a distributed electronic network or database, including one that employs blockchain or distributed ledger technology.").
[39] *See* NY BSC § 624.
[40] *See* CA Corp. Code § 1500.

not otherwise engage in covered activities. However, issuers of redeemable digital assets are required to register under these rules. Thus, these rules could inhibit the tokenization of fund interests.

New York's virtual currency regulation, the "Bitlicense" regime, was adopted prior to the promulgation of the URVCBA and requires issuers of "Virtual Currency" (as defined therein) to be licensed. Under the Bitlicense, "Virtual Currency" is defined as "any type of digital unit that is used as a medium of exchange or a form of digitally stored value" and is not limited to redeemable tokens. The Bitlicense regime may thus inhibit the tokenization of all securities, not just redeemable interests in investment funds. Other state regimes may be similarly unpermissive in this regard.

In the situation where the digital asset is merely a form of record ownership and the true asset is the security itself, separately regulating the digital asset is duplicative and unnecessary. Regulation of tokenized securities is best left to the securities laws, which already provide adequate protection for investors. This is true for both issuances of securities which may be tokenized, and regulation of market intermediaries such as providers of custody and centralized exchange services.[41] We therefore recommend that the Commission issue interpretive guidance clarifying that, because creation of a token does not change the substance of the underlying security, federal preemption in connection with tokenized securities activities turns on whether the applicable security is itself eligible for treatment as a "covered security" under Section 187 of the Securities Act with respect to state Blue Sky laws.[42] The Commission should also work with Congress to provide broader exemptive authority.[43]

Bank Secrecy Act and Money Transmission Regulation

With respect to money transmission regulations, FinCEN's 2019 guidance states that an issuer of "physical or digital tokens evidencing ownership of commodities, securities, or futures contracts that serve as value that substitutes for currency in money transmission transactions" may be engaging in money transmission. The guidance then goes on to state that its intent is to apply to convertible virtual currencies that "substitute for currency," giving the example of assets such as securities that are specifically issued or later repurposed to serve as a currency substitute. A tokenized security will not be issued for the purpose of serving as a currency substitute – it is merely the record of ownership in the underlying security.

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[41] This position aligns with prior Staff relief and guidance confirming that the issuance of custodial receipts representing ownership interests in underlying securities do not result in the creation or issuance of a separate security. See, e.g., Financial Security Assurance Inc., SEC No-Action Letter (Mar. 30, 1988) and Bear, Stearns & Co., SEC No-Action Letter (Jan. 28, 1992).

[42] See Hester M. Peirce, Comm'r, U.S. Sec. & Exch. Comm'n, There Must Be Some Way Out of Here (Feb. 21, 2025), https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125 ("Creating a digital representation of a security on a blockchain or issuing a security directly on a blockchain does not change the substance of the security but may benefit issuers and investors."). Note that, under the existing regime, states also generally exempt registered broker-dealers from state money transmission licensure requirements in connection wit activities relating to covered securities, consistent with the existing scope of federal preemption under Section 18 of the Securities Act, which extends to both direct and indirect regulation of covered securities. See 15 U.S. Code § 77r.

[43] We note that such broader state law preemptive authority is currently proposed under Section 308 of the Digital Asset Market Clarity Act of 2025 ("CLARITY Act") (H.R. 3633), which was advanced by committee votes on June 10, 2025 for consideration by the full U.S. House of Representatives, aims to establish a regulatory framework for digital assets in the U.S.

Following the theme that the tokenized security is merely the "instruction" to the issuer and that the true asset is the security, the Commission should work with FinCEN to clarify the 2019 guidance and to confirm that because securities are already subject to regulation, the issuance of tokenized securities does not constitute money transmission.

Derivatives Regulation

The regulatory treatment of tokenized securities may have implications for a range of categories of transactions relating to or in respect of such securities, such as derivatives transactions. Depending on the precise nature of the transaction, a derivatives transaction on a tokenized security could be subject to regulation by the SEC as a "security-based swap," regulation by the CFTC as a "swap," or joint regulation as a "security future" or a "mixed swap." The Commission should therefore consider, and as appropriate coordinate with the CFTC, to understand and address any follow-on consequences to the derivatives markets from the tokenization of securities.

Moreover, there is a continuing lack of clarity as to the scope and application of the broad definitions of "swap" and "security-based swap" adopted pursuant to the Dodd-Frank Act. In this regard, it would be beneficial for the Commission to confirm that tokenized securities—in the sense of the "security tokens" and "asset-backed tokens" of our taxonomy—do not constitute "security-based swaps" and, in contradistinction, clarify the application of the "security-based swap" definition to instruments (including tokenized instruments) involving synthetic or derivative exposure to an underlying tokenized security.

Recommendations:

To resolve federal-state conflicts and avoid duplicative or misaligned regulation, the Commission should:

1. Affirm Preemption of State Virtual Currency Laws: Clarify that tokenized securities subject to Commission regulation, including those traded on ATSs or held via SEC-registered custodians, are preempted from coverage under state virtual currency laws (including the Bitlicense and URVCBA regimes), to the extent that such underlying securities qualify as "covered securities" under Section 18 of the Securities Act.

2. Clarify Money Transmission Status of Tokenized Securities: Coordinate with FinCEN to confirm that the creation and transfer of tokenized securities do not constitute "money transmission" under the Bank Secrecy Act, where such tokens serve only as records of ownership in regulated instruments and are not convertible virtual currencies.

3. Recommend Safe Harbor for Blockchain Records: Recommend that state lawmakers harmonize corporate recordkeeping statutes to affirmatively permit the use of blockchain-based ledgers for shareholder registries and governance, following Delaware's 2017 amendments to the DGCL, as well as similar subsequent amendments by other states, such as those enacted by Texas and Nevada in 2019.

4. Establish Federal Guidance on Legal Form: Encourage the Commission to provide guidance on the treatment of tokenized securities across corporate forms (e.g., LLCs, business trusts, etc.) to avoid enforcement risk based on divergent state interpretations.

5. Clarify "Swap" and "Security-based Swap" Status of Tokenized Securities: Coordinate with CFTC to confirm that the creation of a tokenized security does not constitute a "swap" or a "security-based swap" and clarify that a "security-based swap" also constitutes a swap on a tokenized security.

These measures would remove legal friction, promote regulatory certainty, and ensure that tokenization can achieve its intended benefits within the existing securities law framework.

Question 45: The Commission recently adopted rule amendments to shorten the standard settlement cycle for most broker-dealer transactions from "T+2" to "T+1," subject to certain exceptions. Tokenization is often characterized as an innovation that facilitates instant or simultaneous settlement ("atomic settlement") if all parts of a transaction are executed and settled on the same blockchain. What are the benefits of atomic settlement, and what are the risks? Should the Commission consider taking any actions that would encourage adoption of atomic settlement?

The benefits of T+1 settlement over T+2 settlement that drove the recent rule amendments apply similarly to atomic settlement compared to T+1 settlement. However, many risks that are reduced by shorter settlement times are eliminated entirely with atomic settlement. Atomic settlement removes counterparty and settlement risk, eliminating fails to deliver and receive, and reduces or potentially eliminates entirely the need to rely on certain intermediaries such as clearinghouses. Instant settlement frees up invested capital for faster reinvestment and eliminates the need for collateral requirements to address settlement risk, thus enhancing market liquidity and capital efficiency and lowering operational costs. Additionally, blockchain-based transactions are immutable and auditable in real time.

Beyond the direct benefits of atomic settlement in terms of the direct transactions being settled, there are also second order effects. For example, markets have overwhelmingly tended to rely on cash collateral for margining due to the timing difficulty of transferring securities or other forms of eligible collateral that are subject to T+2 or even T+1 settlement. Tokenization and the availability of atomic settlement thus has the potential to greatly expand the availability and use of non-cash forms of collateral and facilitate margin calls on a 24/7 basis, not limited by banking hours. For example, the CFTC's Global Markets Advisory Committee has recently issued a report on expanding the use of non-cash collateral through the use of DLT technology.[44]

Atomic settlement also enables capital, margin, settlement, and onboarding efficiencies through its ability to enhance the feasibility of engaging in side-by-side pairs trading of securities and non-security assets. For instance, atomic settlement combined with pairs trading allows for market participants to utilize stablecoins for the "cash" leg of a transaction, eliminating settlement risk and the accompanying

[44] *See* Recommendations to Expand the Use of Non-Cash Collateral Through Use of Distributed Ledger Technology, *Report to the Commodity Futures Trading Commission's Global Markets Advisory Committee by the Digital Asset Markets Subcommittee* (Nov. 21, 2024), https://www.cftc.gov/PressRoom/PressReleases/9009-24.

costs and delays associated with slower legacy payment rails. Additionally, atomic settlement eliminates pricing frictions associated with other types of cross-instrument transactions, as it would eliminate the need for an intermediate step of converting one instrument to cash to be used to purchase the second instrument.

Of course, atomic settlement will give rise to new risks and challenges which must be addressed by issuers of tokenized securities, market intermediaries, and providers of peer-to-peer trading software. While, as mentioned, certain risks are eliminated or reduced, risks related to hacks, errors in code, and system failures could be increased, and certain losses might be irreversible given the immutability of the blockchain as a transaction ledger. However, such risks can be mitigated. Independent third-party audits and continuous monitoring of smart contracts and blockchain platforms can help identify and remediate vulnerabilities before they are exploited. Incorporating redundancy measures, such as having multiple independent nodes, and fail-safe mechanisms, such as an automatic pause of a transaction triggered when certain pre-programmed conditions are met, can provide a buffer against system failures, ensuring that transactions either execute correctly or are safely aborted without exposing market participants to undue risk.

Current regulations are aimed at regulating centralized actors and are designed for delayed settlement. At least some structural changes to the legal framework may be required to adequately address new risks and challenges from atomic settlement. For example, short selling and margin trading may require structural changes to function with atomic settlement. While technological solutions exist in DeFi today, they would likely need a new regulatory framework to be fully functional in the securities landscape.[45]

Recommendations:

In light of the systemic benefits of atomic settlement and the new risks it may introduce, we recommend that the Commission:

1. Issue Guidance on Atomic Settlement Standards: Collaborate with industry stakeholders to establish standards for atomic settlement implementation, including guidance on interoperability, smart contract audit requirements, and contingency mechanisms in the event of failure or reversibility concerns.

2. Launch a No-Action Framework for Settlement Innovations: Create a no-action letter or sandbox program to allow tokenized securities platforms to explore atomic settlement structures while receiving regulatory feedback without fear of premature enforcement.

3. Address Margin and Short-Selling Compatibility: Engage in rulemaking or inter-agency efforts with the CFTC and SROs to identify how traditional market mechanisms like margin trading and

[45] See DeFi Roundtable Remarks (noting that "blockchain technology makes possible an entirely new class of software that can perform these functions without an intermediary. I do not believe that we should allow century-old regulatory frameworks to stifle innovation with technologies that could upend and most importantly improve and advance our current, traditional intermediated model. We should not automatically fear the future.").

short selling could be made compatible with atomic settlement via secure and compliant design patterns.

4. Modernize Rules for Non-Delayed Settlement: Begin review of existing rules (e.g., netting, trade reporting, collateralization requirements) that assume delayed settlement and assess whether structural reforms are necessary to support real-time or atomic clearing workflows.

By creating regulatory clarity and reducing friction for atomic settlement, the Commission can drive the next phase of market modernization in a way that enhances investor protection and market resilience.

Question 46: What issues are raised by the tokenization of securities subject to National Market System ("NMS") requirements? Should the Commission clarify any requirements or provide relief from any requirements under Regulation NMS? Are there any other SEC rules that should be clarified or amended to address the trading of tokenized equity or debt securities?

We note with interest Nasdaq's written submission to the Task Force of June 2025, which states that "With limited exceptions (e.g., peer-to-peer trading), no special regulatory relief—in a sandbox or otherwise—is needed to enable the trading of tokenized securities, and in particular, NMS securities."[46] We agree. We also agree with Nasdaq's assertion that "Regulation NMS, can accommodate many, if not most of the elements needed to tokenize securities, and that a sandbox is not needed for this purpose."[47] Today, NMS securities trade on a number of ATSs without difficulty and there is no reason to believe NMS securities could not continue to trade on such venues in tokenized form. We therefore take the view that ATSs are appropriate venues to engage in tokenized securities trading (including trading of tokenized NMS securities).

Regulation NMS primarily places requirements on "trading centers,"[48] not the underlying securities.[49] This is because, as the Commission noted in the Regulation NMS adopting release, "trading centers themselves have a legal obligation to meet their responsibilities under the Exchange Act" and "the Exchange Act regulatory regime is designed to preclude entities that are not capable of meeting high standards of conduct from doing business with the public."[50] Accordingly, Regulation NMS should not be

[46] John A. Zecca, Nasdaq Inc., "Digital Asset Sandbox", (June 6, 2025) at 4.
[47] *Id.* at 2.
[48] A "trading center" is defined under Regulation NMS, Rule 600(b)(106) as "a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent."
[49] *See* DeFi Roundtable Remarks ("Most current securities rules and regulations are premised upon the regulation of issuers and intermediaries, such as broker-dealers, advisers, exchanges, and clearing agencies. The drafters of these rules and regulations likely did not contemplate that self-executing software code might displace such issuers and intermediaries.")
[50] *Regulation NMS*, Release No. 34–51808 (June 9, 2005) [70 Fed. Reg. 37496 (June 29, 2005)], at 37526 (also noting that the regulatory regime "will depend on the Commission taking any action that is necessary and appropriate to address trading centers that fail to meet fully their regulatory requirements.").

implicated in connection with peer-to-peer (including peer-to-pool)[51] transactions in tokenized securities occurring through blockchain networks that are not controlled (as described in our initial response to the present Request for Information) as such disintermediated transactions do not involve a registered broker-dealer or regulated trading center. This is the case regardless of whether the tokenized security could be classified as NMS Stock.[52] This interpretation is consistent with the objectives of the Exchange Act, as such disintermediated technology protocols are incapable of engaging in the types of misconduct and manual performance failures that the registration regimes are designed to address. This is also consistent with the historic lack of prohibition on persons engaging in private peer-to-peer securities transactions.[53] Likewise, this approach aligns with that proposed by Congress in the current draft market structure legislation.[54]

Of course, to the extent a trading center engages with tokenized securities, the particular Regulation NMS requirements would vary depending on the type of trading center at issue. While some of these requirements may be seamlessly applied, others may be incompatible with the unique characteristics of tokenized securities.[55] Thus, as predicted by then-Commissioner Atkins, "[i]nstead of

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[51] Investors engaging in peer-to-peer transfers of digital asset securities often utilize publicly-available decentralized finance liquidity pool software protocols to engage in atomic DVP swaps of two assets, which are executed and settled autonomously in accordance with the investor's self-directed instructions and the protocol's open-source code. An investor's usage of such liquidity pool software in connection with these transactions does not change the peer-to-peer nature of the transaction, as no regulated securities intermediaries play any role in connecting transferors and transferees and the assets involved are not listed for trading on any public trading market center, such as a national securities exchange or an alternative trading system.

[52] Regulation NMS, Rule 600(b) defines "NMS Stock" as any "NMS Security" other than an option, which is in turn defined to include "any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan." An "effective transaction reporting plan" means "any transaction reporting plan approved by the Commission pursuant to § 242.601." Under Rule 601(a)(1), transaction reporting plans must be submitted with regard to any transaction in "listed equity and Nasdaq securities" that are executed either (1) through the facilities of a national securities exchange ("NSE"); or (2) by FINRA members outside of an NSE. Accordingly, if a tokenized security is executed exclusively through Exempt Technologies without the involvement of a registered broker-dealer, such security would not trigger the NMS Stock definition. However, if such security were also registered and listed on a NSE, the tokenized version would constitute NMS Stock.

[53] *See*, e.g., Policy Statement of the Securities and Exchange Commission of the Structure of A Central Market System (Mar. 29, 1973) ("All transactions in system securities in which a registered broker-dealer (including an electronic communications system registered as a broker-dealer) or exchange member is involved, either as principal or agent, would have to be reported through the system and executed subject to its rules. Initially, so-called 'fourth' market transactions would not be subject to these requirements, in large part because of the practical problems of imposing obligations of the system on investors who deal with each other without the participation of a broker or dealer. Should the fourth market develop as a means to avoid the reporting and other obligations of trading within the system, the Commission will give prompt consideration to corrective measures, including recommending legislation if necessary, to bring such transactions within the scope of the system.").

[54] Section 309 of the CLARITY Act would exclude a wide array of decentralized finance activities related to the operation and maintenance of blockchain networks from SEC regulation (except with respect to anti-fraud and anti-manipulation enforcement authority).

[55] For instance, additional guidance may be required for broker-dealers engaging such transactions to achieve compliance with trade reporting requirements under Rules 601 and 613 of Regulation NMS, as it is unclear how to interpret all of the existing reporting fields/requirements given the unique characteristics of the trading at issue, such as atomic settlement, pairs trading, fractionalization, and unregistered execution venues. However, no such reporting should be necessary given that the relevant transaction information is already publicly available onchain, thereby accomplishing the underlying disclosure and price discovery goals of Regulation NMS.

facilitating a national market system in which technology, competition and innovation will produce benefits for all investors, Regulation NMS [would] saddle[] the marketplace with anachronistic regulation that reduces investor choice and raises investor costs."[56]

Providing appropriate relief from Regulation NMS would be consistent with both the congressional intent behind the 1975 amendments to the Exchange Act,[57] as well as the historic approach taken by the Commission to exempt developing ATSs from the majority of the requirements under Regulation NMS.[58] Certain of these exemptions also extended to larger NMS stock ATSs, with the remaining requirements primarily focused on applying non-merit based disclosure obligations "in a manner consistent with allowing NMS Stock ATSs to continue to innovate."[59] Indeed, the Commission emphasized that its review of such platforms "is not intended to evaluate an NMS Stock ATS's services against industry norms, nor approve or disapprove aspects of the NMS Stock ATS's operations, for example, a new trading functionality, order type, or execution protocol."[60] Similarly, the Commission has a history of exempting certain classes of securities, quotations, and order types from the requirements of Regulation NMS.[61]

An ATS could specify through its rulebook that when an NMS security trades on the ATS, it will do so in tokenized form. Users could be required to consent to trading in such form as a condition for their use of the ATS. That tokenized form may revert to book-entry form once the security leaves the ATS to trade on a different venue. This transition between forms should not present a problem in and of itself. It gives rise to no regulatory arbitrage and does not involve the creation of any new security—merely a change in the form of recordation while trading on a particular venue. As a "walled garden," an ATS represents an appropriate site for innovative trading techniques, particularly those that could improve liquidity. As the Commission recognized when it first adopted Regulation ATS, "Congress clearly intended the 1975 Amendments to encourage innovation by exchanges and recognized that future

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[56] U.S. Securities and Exchange Commission, *Dissent of Commissioners Cynthia A. Glassman and Paul S. Atkins to the Adoption of Regulation NMS*, June 9, 2005, http://www.sec.gov/rules/final/34-51808-dissent.pdf (accessed March 12, 2025).

[57] *See* H.R. Report No. 94-229, 94th Cong., 1st Sess., p. 92. ("It is the intent of the [House and Senate] conferees that the national market system evolve through the interplay of competitive forces as unnecessary regulatory restrictions are removed.").

[58] *See* Regulation of Exchanges and Alternative Trading Systems, Release No. 34-40760 (Dec. 8, 1998) [63 Fed. Reg. 70924 (Dec. 22, 1998)], at 70847 ("To allow new markets to start, without disproportionate burdens, a system with less than five percent of the trading volume in all securities it trades is required only to: (1) File with the Commission a notice of operation and quarterly reports; (2) maintain records, including an audit trail of transactions; and (3) refrain from using the words 'exchange,' 'stock market,' or similar terms in its name. If, however, an alternative trading system with five percent or more of the trading volume in any national market system security chooses to register as a broker-dealer—instead of as an exchange—the Commission believes it is in the public interest to integrate its activities into the national market system.").

[59] Regulation of NMS Stock Alternative Trading Systems, Release No. 34-83663 (July 18, 2018) [83 Fed. Reg. 38768 (Aug. 7, 2018)], at 38797.

[60] *Id.*

[61] *See, e.g.*, SEC, Spotlight On: Regulation NMS, available at https://www.sec.gov/spotlight/regnms.htm (listing prior exemptive orders).

exchanges may adopt diverse structures."[62] Permitting NMS securities to be traded in tokenized form represents precisely the type of diversity and innovation that Regulation ATS was intended to encourage.

A more substantive question concerns the application of the Order Protection Rule to tokenized securities. The Order Protection Rule prohibits trading through the best price provided by the national best bid or offer.[63] This is likely to be an obstacle if a tokenized security cannot seamlessly be traded across other venues which do not use the security in tokenized form. This is an obstacle, but it is not an insurmountable one. There are at least two ways in which the Commission could permit an ATS trading a tokenized security to not have to comply with the Order Protection Rule. First, by considering whether the exception for non "regular way" transactions could exempt an ATS from having to comply with the Order Protection Rule. Second, by considering whether an exemption from the Order Protection Rule is warranted for the class of ATSs that trade tokenized NMS securities, consistent with the public interest and investor protection. Each of these options appears viable on its face, and we explore them further below.

"Regular Way" Exception

The Order Protection Rule permits trading through the national best bid or offer if the transaction was not a "regular way" contract.[64] The adopting release for Regulation NMS defines a "regular way" contract to refer to "bids, offers, and transactions that embody the standard terms and conditions of a market. Thus, this exception applies to a transaction that was executed other than pursuant to standardized terms and conditions, for instance a transaction that has extended settlement terms."[65] Based on that definition, it's plausible to conclude that a tokenized trade should not be considered a "regular way" contract, and should therefore not be required to comply with the Order Protection Rule.

Investors engaging in peer-to-peer transfers of crypto assets often utilize publicly-available decentralized finance liquidity pool software protocols to engage in atomic delivery versus payment ("DVP") swaps of two assets, which are executed and settled autonomously in accordance with the investor's self-directed instructions and the protocol's open-source code. We discuss this process further in our response to **Question #45**. To the extent an ATS makes use of such atomic settlement to settle tokenized trades, it settles trades on a non-standard basis, and in a manner that is significantly quicker than traditional trading. If, as the Regulation NMS adopting release notes, a contract with extended settlement terms is not a "regular way" contract, it is reasonable to conclude that a contract with significantly shortened settlement terms should also not be a "regular way" contract. On that basis, it is possible for ATSs engaging in tokenized trading to not have to comply with the Order Protection Rule.

Commission Exemption for ATSs Trading Tokenized NMS Securities

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[62] *See* Regulation of Exchanges and Alternative Trading Systems, Release No. 34-40760 (Dec. 8, 1998) [63 Fed. Reg. 70924 (Dec. 22, 1998)], at 70880.
[63] Trading-through is the process of executing a trade at a price that is worse than the available price displayed on another venue.
[64] § 242.Rule 611(b)(2).
[65] Regulation NMS, Release No. 34–51808 (June 9, 2005) [70 Fed. Reg. 37496 (June 29, 2005)], at 37496, n.326.

A second way by which the Commission could permit ATS trading tokenized NMS securities to not have to comply with the Order Protection Rule is by exempting such ATSs from having to comply with the rule. The Commission's power to do so is specifically provided for under Rule 611(d), which states that "The Commission, by order, may exempt from the provisions of this section, either unconditionally or on specified terms and conditions, any person, security, transaction, quotation, or order, or any class or classes of persons, securities, quotations, or orders, if the Commission determines that such exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors."[66]

The Disclosure Requirement

Irrespective of whether ATSs are permitted to not comply with the Order Protection Rule on the basis of the non-regular way exception under Rule 611, or pursuant to a Commission exemption, it is appropriate that ATS users receive disclosures that (1) the ATS is not required to comply with the Order Protection Rule; and (2) the risks, potential consequences, and any conflicts of interest arising from such non-compliance.

Notably, when Regulation NMS was first proposed, it contained an "opt-out" from the trade-through rule for informed customers. It also permitted an automated order execution facility to trade through the quotations of non-automated markets.[67] The opt-out proposal was intended to provide investors with flexibility in choosing where to route their orders and in determining whether their orders should trade-through better-priced quotes.[68] The automated market exception was intended to resolve problems of integrating automated and manual markets under the Order Protection Rule by protecting only the quotations of automated markets.[69] Permitting ATS users to opt out of the Order Protection Rule would merely return Regulation NMS to the form in which it was originally proposed. Permitting ATSs trading tokenized NMS securities to not comply with the Order Protection Rule would recognize, once again, the problems of integrating markets that operate at fundamentally different speeds. None of these actions defeat the legislative aim that led to Regulation NMS—they further it.

The adoption of Regulation ATS in 1998 marked the Commission's recognition of the fact that major technological and commercial innovations were underway in the operation of securities markets. As the adopting release notes "Market participants have incorporated technology into their businesses to provide investors with an increasing array of services, and to furnish these services more efficiently, and often at lower prices. The current regulatory framework, however, designed more than six decades ago, did not envision many of these trading and business functions. In particular, market participants have developed a variety of ATSs that furnish services traditionally provided solely by registered exchanges."[70]

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[66] § 242.Rule 611(d).
[67] U.S. Securities and Exchange Commission, Dissent of Commissioners Cynthia A. Glassman and Paul S. Atkins to the Adoption of Regulation NMS, June 9, 2005, http://www.sec.gov/rules/final/34-51808-dissent.pdf (accessed March 12, 2025).
[68] *Id.*
[69] *Id.*
[70] *See* Regulation of Exchanges and Alternative Trading Systems, Release No. 34-40760 (Dec. 8, 1998) [63 Fed. Reg. 70924 (Dec. 22, 1998)] at 70924.

Regulation ATS was meant to acknowledge and provide room for ongoing innovation—it was not meant to be a terminal point in market development.[71] Accordingly, while we urge the Commission to permit ATSs to continue innovating, including through the use of tokenized NMS securities, we envision a future in which the ATS will be only one of many trading venues for securities. More specifically, we see a future in which traditional exchanges and ATSs operate alongside centralized and decentralized blockchain-based trading venues and securities (both NMS and otherwise) trade seamlessly across various types of venues, with trading and settlement times that are exponentially quicker than today. Securities investors should have the ability to choose from a spectrum of venues, from the traditional, fully intermediated exchange that arose in the United States in the early 19th century to the fully decentralized, fully disintermediated trading platforms that are emerging today. The changes we recommend to the Commission in this submission are intended as relatively modest steps towards that future market landscape.

Each of Regulation NMS Rules 601-612 contains a provision providing the Commission with broad authority to exempt, "either unconditionally or on specified terms and conditions, any person, security, quotation, or order, or any class or classes of persons, securities, quotations, or orders, if the Commission determines that such exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors." The Commission should exercise this authority to grant reasonable exemptions with respect to the application of Regulation NMS requirements to tokenized securities, including for example, with respect to disintermediated transactions occurring through blockchain networks that are not controlled.

Recommendations:

To accommodate tokenized securities while maintaining the objectives of Regulation NMS, we recommend that the Commission:

1. Issue Interpretive Guidance on Peer-to-Peer Transactions: Clarify that direct peer-to-peer transactions executed through public, permissionless, and autonomous blockchain networks do not constitute the activities of a "trading center" for purposes of Regulation NMS.

2. Use Exemptive Authority for Tokenized Securities: Exercise its authority under Rules 601–612 to issue exemptions for functional, autonomous tokenized trading systems that meet transparency and security benchmarks, while lacking discretion or agency.

3. Support ATSs Trading of Tokenized NMS Securities: The Commission should clarify that the exception for non "regular way" transactions permits an ATS trading tokenized NSM securities to not comply with the Order Protection Rule. If an exception from Rule 611 dos not apply, the

[71] *Id.* at 70856, noting that "The Commission believes that allowing alternative trading systems to make a business decision about how to register with the Commission will continue to encourage the development of new and innovative trading facilities."

Commission should use its authority under the rule to exempt the class of ATSs that trade tokenized NMS securities.

4. Develop a Framework for Disintermediated Trading: Study and propose a framework for regulating or exempting platforms that facilitate decentralized or semi-decentralized trading in tokenized securities, to ensure competition, investor choice, and system integrity.

As disintermediated financial infrastructure continues to develop, the Commission should also consider how tokenized securities might interact with legacy venues and infrastructures. A hybrid framework that accommodates both decentralized peer-to-peer trading and regulated ATS platforms could preserve flexibility and investor protection while facilitating capital formation. This dual-path model could serve as a proving ground for scalable regulatory innovations in secondary market trading.

These steps would ensure that Regulation NMS continues to promote market integrity without suppressing the technological progress and efficiency gains introduced by blockchain-based securities.

III. Conclusion

We greatly appreciate the opportunity to provide comments on these matters, and we look forward to continued engagement with the Commission. We urge the Commission to continue to seek industry and public input as it fashions guidance and relief in the areas discussed above, including solicitations for comment on any proposed guidance the Commission may be considering prior to adopting it in final form.

Respectfully submitted,

Miles Jennings, Head of Policy & General Counsel
a16z crypto

Scott Walker, Chief Compliance Officer
a16z

Michele R. Korver, Head of Regulatory
a16z crypto

Jai Ramaswamy, Chief Legal Officer
a16z