

A Change of State: Will the SEC's "Innovation Exemption" for Tokenized Stock Trading Usher in a New Era for Global Capital Markets?

October 5, 2026

1. OVERVIEW

On September 17, 2026, the Securities and Exchange Commission (the "Commission" or the "SEC") issued two conditional exemptions to facilitate permissioned trading of tokenized national market system ("NMS") stocks.¹ Collectively known as the "Innovation Exemption," the relief exempts qualifying Tokenized Securities Venues ("TSVs") from the Securities Exchange Act's definition of "exchange" and certain liquidity providers from its definition of "dealer." Effective immediately and scheduled to expire on September 17, 2031, the Innovation Exemption marks a significant step in the Commission's efforts to transform our current securities market infrastructure by inviting novel trading modalities developed in the world of decentralized finance onto the "main stage" of the U.S. equities markets. The extent to which this initiative will achieve meaningful adoption, and potentially transform not only U.S. but global securities trading, will depend in significant part on the market's willingness and ability to implement the flexibility provided by the Innovation Exemption.

The potential significance of the new exemptions extends well beyond the U.S. equity markets. Against the backdrop of the Commission's broader market structure initiatives, including its June 11, 2026, proposal to repeal Rule 611 of Regulation NMS² and its August 2026 proposal for Regulation Crypto Assets³ the Innovation Exemption could influence not only how U.S. equities trade domestically, but also how investors and intermediaries outside the United States access, price and connect with those markets. TSVs may facilitate trading through automated market makers ("AMMs"), which are blockchain-based smart contracts that establish trading terms and execute transactions against assets supplied to liquidity pools. Under the Order, a TSV remains responsible for permissioning and compliance.

These arrangements could broaden both domestic and cross-border access to U.S. equity markets and participation in supplying liquidity to traders in these markets. Potential applications include trading across time zones, direct exchanges of tokenized stocks for other eligible assets, and opportunities for investors to earn fees by contributing assets to liquidity pools. Whether those possibilities develop into durable market infrastructure will depend largely on

¹ SEC, Order Granting Temporary Conditional Exemptive Relief, Pursuant to Section 36(a)(1) of the Securities Exchange Act of 1934, from the Definition of "Exchange" in Section 3(a)(1) of the Exchange Act for the Use of Certain Distributed Ledger Trading Venues for Tokenized NMS Stocks and from the Definition of "Dealer" in Section 3(a)(5) of the Exchange Act for Certain Liquidity Providers for Tokenized NMS Stocks, and Request for Comment, Exchange Act Release No. 34-106402, File No. 4-927 (Sept. 17, 2026), at 2, 25-26 & nn. 1, 4 ("Order"). "NMS stock" generally encompasses exchange-listed stocks and exchange-traded products. Technically, it means an NMS security other than an option; "NMS security" refers to securities covered by specified transaction-reporting plans. The Innovation Exemption excludes rights and warrants. See also 17 C.F.R. § 242.600(b)(64) - (65).

² SEC, *The Trade-Through Rule and Locked and Crossed Markets Provisions of Regulation NMS*, Release No. 34-105655 (June 11, 2026), 91 FR 36656 (June 17, 2026).

³ SEC, *Regulation Crypto Assets*, Release Nos. 33-11434; 34-106150 (Aug. 18, 2026), 91 Fed. Reg. 54510 (Aug. 21, 2026) (proposing a tailored offering regime for certain investment contracts involving crypto assets). See also CahillNXT, *A Giant Step Forward: The SEC's Proposed Regulation Crypto Assets* (Sept. 2, 2026).

how the new venues connect with existing trading, custody and ownership-record systems. Implementation will require expertise in both traditional securities markets and on-chain trading. Broker-dealers, transfer agents and other intermediaries will have a critical role to play, with decades of experience in managing technological disruptions to securities market practice while “digitally native” businesses can bring depth in programmable transactions, liquidity pools, and new forms of investor access.

The Commission made its relief effective immediately upon issuance while requesting public comment on possible modifications and further action. Participants may therefore need to adapt their business models as the Commission evaluates comments and operating experience, potentially narrowing or expanding the relief over the term of the exemption. The framework creates opportunities for new entrants and established firms, while leaving important questions about how registered broker-dealers can participate consistently with their existing regulatory obligations.

The SEC’s new framework requires tokenized equities traded on TSVs to have shareholder rights equivalent to equities traded in traditional markets, but trading processes and liquidity arrangements may differ materially from those familiar to investors in conventional markets, and the conversion process into and out of tokenized form will present additional questions. These factors will shape both the benefits of broader access and the potential for trading disruptions to spread between markets.

This Alert examines the Commission’s exemptive relief, the business models it could support, the unresolved questions it presents, and the practical choices facing firms considering participation.

KEY TAKEAWAYS

- **A relatively narrow, five-year sandbox.** Until September 17, 2031, qualifying TSVs may operate permissioned AMM markets in tokenized NMS stock without registering as an exchange or ATS. The Commission may modify the conditions at any time. Unless increased in the future, symbol caps (75 Tier 1 / 250 Tier 2) and volume caps (0.25% / 2.5% of prior-month average daily volume, aggregated with affiliates) will likely keep early markets small. Exceeding a symbol cap takes a venue outside the exemption altogether.
- **Disclosure emphasis.** The Order imposes a core of mandatory conditions: permissioned access, U.S.-person status, verification of equivalent shareholder rights, halt-matching, issuer notice, no leverage, transaction transparency and recordkeeping. Beyond that core, it relies on a public notice covering 30 prescribed topics. Several protections—complaint handling, confidentiality safeguards, systems safeguards, trade surveillance and MEV policies—need only be described, or their absence disclosed. The notice is therefore both a venue’s operating charter and a potential source of liability.
- **Issuers have one short window to object.** Before trading an NMS stock tokenized by an unaffiliated third party, a TSV must notify the issuer at its principal executive offices. A written objection within 30 days of receipt blocks trading on that TSV, but only on that TSV and only if timely. Public companies should begin considering how they plan to respond if they receive a TSV notice.
- **Retail liquidity provisioning faces threshold legal questions.** The Order does not address whether liquidity pool (“LP”) tokens are securities, how their issuance fits the Order’s ban on primary issuance on a TSV, or whether a pool holding tokenized NMS stock is an investment company. It provides no relief under either the Securities Act or the Investment Company Act. Retail liquidity programs will require very careful consideration until staff guidance or further relief resolves those questions.
- **Traditional firms will need an operating structure, not only a strategy.** A registered firm may operate a TSV only if the TSV is kept separate from its registered activity, for example through an affiliate. Broker-dealers trading on TSVs keep their existing obligations. The Covered Firm dealer exemption is available only to liquidity providers whose securities activities are confined to TSV pools.

- **Shareholder rights must survive the tokenization process.** Tokenized NMS stock must carry the same ownership, dividend, voting, and liquidation rights as the conventional class. Operators of TSVs should do the work to get comfortable with how those rights work when tokens sit in pools, cross networks, or pass through intermediaries well before launch.

THE INNOVATION EXEMPTION FRAMEWORK

The Commission adopted the Innovation Exemption through an order (the “Order”) issued under Section 36(a)(1) of the Securities Exchange Act of 1934 (the “Exchange Act”). The Order exempts qualifying TSVs from the Exchange Act definition of “exchange” and certain liquidity providers (“Covered Firms”) from the definition of “dealer.” The exemptions are effective through September 17, 2031, subject to Commission modification.⁴

A TSV brings together buyers and sellers of “Tokenized NMS Stock,” as defined in the Order, by providing one or more AMM liquidity pools and setting standards for access to trading. The code underlying the AMM must be public and auditable and deployed on a public, permissionless distributed ledger, although access to TSV trading must be permissioned.⁵ Selecting a pool or controlling aspects of its deployment or operation can constitute providing it. A TSV may use third parties to verify participants’ eligibility, but the TSV remains responsible for compliance with the exemption’s conditions.⁶

In a common AMM model, liquidity providers contribute each of the eligible assets to a pool supporting a particular trading pair.⁷ Other participants trade against the pool, with smart contracts—code deployed to the relevant blockchain network—determining exchange terms and automatically updating pool balances. Constant-product pricing is one model; other models may incorporate external prices. This flexibility allows TSV operators to tailor their designs to different securities, trading patterns, and sources of liquidity.⁸

Although AMMs are a defining technology of decentralized finance, popularized by protocols such as Uniswap, the Innovation Exemption places their use within a framework of identifiable operator responsibility. Trades may execute automatically on a public, permissionless blockchain, but the TSV determines who may participate and remains responsible for compliance with the Order. Access controls may themselves be enforced through smart contracts, and participant verification may be delegated to service providers, without displacing that responsibility. The framework thus adapts a core DeFi technology to a permissioned market with an accountable operator—a future state one of the authors of this Alert anticipated in 2021.⁹

Eligible Tokenized NMS Stock may trade against another Tokenized NMS Stock, a non-security crypto asset, or a tokenized money market fund. A non-security crypto asset or tokenized money market fund must be directly paired and traded alongside Tokenized NMS Stock. Depending on the assets a TSV supports, investors could move directly between stocks or acquire shares using an eligible stablecoin balance. Access to TSVs by participants outside the United States will depend on applicable local law, sanctions restrictions, and venue standards; the TSV itself must be a U.S. person.¹⁰

⁴ Order at 57-60.

⁵ The Order states that “permissionless” generally means that anyone can “read or write to the distributed ledger without authorization” (emphasis added), but does not identify qualifying networks or expressly resolve how this standard applies to publicly accessible networks with restricted participation in consensus. The Commission invites TSVs to consult staff about whether a particular network satisfies the condition. See Order at 18 & nn. 54-55. For a detailed discussion of this issue, see Omid Malekan, [Comment Letter on Release No. 34-106402, File No. 4-927](#), at 1-2, 6 (Sept. 25, 2026) (advocating open participation in consensus as the relevant criterion and distinguishing restrictions at the network level from permissioning access to a TSV).

⁶ Order at 7-11, 18-19 & nn. 27-31. Solely performing the administrative act of encoding a smart contract to whitelist an AMM liquidity pool does not constitute providing that pool. Order at 9 n. 29.

⁷ Under the Order, a “pair” may include two or more distinct assets. Order at 8 n. 23.

⁸ Order at 3, 8-9, 41-42; see also Commissioner Hester M. Peirce, [Slumber Number: Innovation Exemption Statement](#) (Sept. 17, 2026), n. 2. The Commissioner’s statement expresses individual views and is not separate exemptive relief.

⁹ Alexander Lipton & Lewis Cohen, [DeFi: A Pathway Forward](#), IFLR (Sept. 9, 2021) (proposing “Automated Finance” platforms that provide permissioned access to DeFi protocols on public blockchain networks through identifiable operators assuming compliance responsibilities).

¹⁰ Order at 7-8, 19 & nn. 23-25, 56-57. Pairs may have more than two legs, but a non-security crypto asset or tokenized money market fund must be directly paired and traded alongside Tokenized NMS Stock. The Order discusses payment stablecoins as an example of non-security crypto assets and notes that the statutory exclusion from securities status for payment stablecoins issued by permitted payment stablecoin issuers takes effect upon the GENIUS Act’s effective date. See Order at 8 & n. 24.

The Order addresses difficulties identified by the Commission in applying existing exchange and alternative trading system (“ATS”) requirements to AMM trading, including pricing and quotation requirements under Regulation NMS.¹¹ A qualifying TSV need not register as a national securities exchange or operate under the registration exemption available to an ATS. Consequently, Regulation NMS requirements applicable to exchanges, ATSs, trading centers, and market centers do not apply to TSVs in those capacities. This relief does not extend to the separate obligations of participants using the venue. The framework contemplates only secondary trading; it does not permit primary issuances or initial offerings of securities on a TSV under the exemption or displace applicable antifraud requirements.¹²

The Covered Firm exemption addresses liquidity provisioning that involves additional activities potentially constituting dealing. The Commission states that liquidity provisioning alone ordinarily would not require dealer registration absent other indicia of dealer activity. A Covered Firm relying on the exemption must limit its securities activities to those related to trading Tokenized NMS Stock in qualifying AMM liquidity pools, trade solely for its own account, and refrain from holding or custodialing customer assets. It must also satisfy the Order’s recordkeeping, disclosure, and notification conditions.¹³

However, the Innovation Exemption does not provide general relief from any other federal securities law or other relevant regulatory requirements applicable to brokers, dealers, transfer agents, clearing agencies, investment companies, or investment advisers. Each participant in TSVs must assess the registration, conduct and anti-money laundering obligations applicable to its activities including, in particular:

- **Broker status.** The Order treats websites, applications and other interfaces used to enter, display or agree to trades as part of the TSV¹⁴ but does not separately address broker status. To the extent that an operator of a TSV or a liquidity provider takes custody of another person’s assets or receives transaction-based compensation, they may be deemed to be “effecting transactions in securities for the account of others” and required to register as a broker. The Division of Trading and Markets’ April 13, 2026 staff statement¹⁵ on broker-dealer registration for certain user interfaces used to prepare crypto asset securities transactions may inform the analysis for self-custodial front ends. However, that statement has its own conditions and a five-year horizon, and the Order does not address how it interacts with the TSV framework.
- **State law and stablecoin regulation.** A TSV that handles stablecoins or other non-security crypto assets for U.S. customers may need to analyze state money transmission and virtual currency licensing requirements, such as New York’s BitLicense. The Order expressly declines to address whether a TSV is a “digital asset service provider” under the GENIUS Act.¹⁶
- **AML/CFT and sanctions.** A TSV must be a U.S. person and must comply with OFAC requirements. Its AML/CFT obligations will turn on its status and activities.¹⁷

Given the many interconnected roles firms play in the capital markets, each firm relying on the Innovation Exemption must consider carefully which other regulated activities its business triggers and how it will maintain compliance with them. Exhibit A summarizes the principal operating conditions and timing applicable to the Order. With this background in mind, below we discuss the most important issues facing both traditional and digital-first trading firms, together with considerations for issuers whose equity securities may be tokenized and for investors seeking to hold these assets, as firms consider how to implement the Innovation Exemption.

¹¹ Regulation NMS, 17 C.F.R. §§ 242.600-242.614. See Order at 11-12 & nn. 32-35 (discussing quotation, trade-through and minimum pricing-increment requirements), and at 14 & nn. 41-44 (explaining the consequences of the TSV exemption).

¹² Order at 11-17, including at 16-17 (participants’ continuing obligations); at 22-23, 33, 36. Applicable Securities Act requirements continue to govern offers and sales.

¹³ Order at 53-57.

¹⁴ Order at 9 & n. 28.

¹⁵ Division of Trading and Markets, [Staff Statement Regarding Broker-Dealer Registration of Certain User Interfaces Utilized to Prepare Transactions in Crypto Asset Securities](#) (Apr. 13, 2026).

¹⁶ Order. at 8 n. 24.

¹⁷ Order at 16-17, 19.

2. DISCUSSION

CLOBs vs. AMMs

The Innovation Exemption applies to TSVs that use liquidity pools and AMMs. This technology differs from the central limit order book (or “CLOB”) structure, which currently constitutes the predominant model for continuous trading on U.S. equity exchanges. CLOBs and AMMs provide different mechanisms for price formation and trade execution. A marketplace using a CLOB maintains an electronic book of discrete buy and sell orders specifying quantities and limit prices or pricing instructions. A matching engine executes incoming orders against available resting interest under the venue’s priority rules, commonly price-time priority. Prices emerge from competing bids and offers submitted by market participants, including professional market makers that actively manage their quotes. Although displayed orders provide transparency, a book may also contain undisplayed interest.

An AMM liquidity pool, by contrast, enables traders to exchange assets against reserves committed by liquidity providers and managed through blockchain-based smart contracts. The contracts determine execution prices under programmed rules, which may use a formula, such as the constant-product rule $x*y = k$, or incorporate external pricing data. Liquidity providers need not submit individual buy and sell orders, although they may actively manage their positions and, in some designs, choose the price ranges within which they supply liquidity. CLOB limit orders give participants direct control over acceptable execution prices; AMM trading instead draws on liquidity available under the pool’s pricing rules.

Execution quality in either model depends on available liquidity and trade size. In conventional constant-product AMMs, larger trades relative to pool depth produce greater price impact (known as “slippage”), while liquidity providers face “impermanent loss” (discussed below). Arbitrage activity helps align prices on a given AMM with prices for the same assets in other markets. Although many AMMs in decentralized finance permit unrestricted participation, TSVs under the Innovation Exemption must restrict trading access to permissioned participants and comply with applicable trading-stoppage requirements.

SHAREHOLDER RIGHTS

WHAT THE INVESTOR OWNS

The first question in evaluating tokenized securities trading is what the investor owns. The term “tokenization” has long encompassed different arrangements for representing assets and rights on a blockchain or other distributed ledger, and market participants continue to use it without a single, globally accepted definition.¹⁸

For purposes of the Innovation Exemption, “Tokenized NMS Stock” includes qualifying NMS stock tokenized by or on behalf of its issuer or by an unaffiliated third party. Eligible exchange-traded products are included; rights and warrants, private company shares that are not NMS stock, and third-party securities providing synthetic exposure to an underlying stock are excluded. A token that merely promises a stock-linked return does not confer ownership of the stock, even if the tokenizing party holds shares as collateral. Eligible Tokenized NMS Stock must also preserve the shareholder rights required by the Order, including rights to dividends, voting and distributions upon liquidation.¹⁹

The SEC staff’s joint January 2026 statement on tokenized securities (the “January Statement”) distinguishes issuer-sponsored arrangements from third-party custodial and synthetic models. An issuer may incorporate blockchain records into its ownership-record system or use token transfers to instruct updates to an authoritative off-chain

¹⁸ See Meni Rosenfeld, [Overview of Colored Coins](#), § 2, at 1-2 (Dec. 4, 2012) (describing digital tokens representing company shares, bonds, demand deposits and physical assets); Financial Stability Board, [The Financial Stability Implications of Tokenisation](#), at 5-6 (Oct. 22, 2024) (identifying the absence of a generally accepted definition and differences in terminology).

¹⁹ Order at 2, 22-26 & nn. 1, 4. See also 17 C.F.R. § 242.600(b)(64)-(65). Eligible exchange-traded products must satisfy the NMS-stock definition and other applicable conditions.

record.²⁰ An intermediary may instead tokenize a security entitlement representing an indirect interest in securities held in custody. These distinctions describe how ownership is recorded and held, rather than simply how a token is transferred. As the Order itself notes though, the January Statement is staff guidance with no legal force. What a holder actually acquires turns on the issuer's records, the tokenization arrangements and the governing law. The Order places the first-line burden of getting this right on the TSV. The TSV must verify that each Tokenized NMS Stock it makes available provides the same rights and privileges as the conventional class, and must describe in its notice how it evaluates each token's legal status, technical soundness and operational integrity. Liquidity providers and traders will still want to diligence those disclosures, because the TSV's verification is a condition of its exemption, not a guarantee to participants.

Different tokenization models serve different commercial needs. An issuer-sponsored arrangement may facilitate shareholder communications and services but requires the issuer's participation in establishing and maintaining the arrangement. If tokenized trading attracts a broader investor base, issuers may have stronger incentives to make that commitment and explore new ways of connecting share ownership with their customer and business relationships. For example, an issuer could explore programs that distribute small amounts of tokenized stock as rewards to customers or business partners. Verified share ownership could also support separate customer loyalty benefits: an airline might link a customer's wallet to a frequent-flyer account and offer additional miles based on qualifying holdings. Tokenization could simplify ownership verification for such programs, although any stock distribution would require its own securities law analysis.²¹

Alternatively, a third-party model may build on established custody relationships and make a wider range of stocks available without requiring each issuer to implement tokenization itself. This could help participants develop practical experience with TSV trading across different securities. Such trading nevertheless remains subject to the Order's issuer-notice and objection provisions discussed below.²²

In either model, the documentation should identify the legal interest represented, the authoritative ownership records, when transfers become effective, and the parties responsible for administering or passing through shareholder rights. Those details determine how the investor's rights operate in practice. Exhibit B compares the principal tokenization structures.

HANDLING CORPORATE ACTIONS

The TSV must verify that Tokenized NMS Stock gives holders the same rights and privileges as traditional stock of the equivalent class, including ownership interests, dividends, voting and residual liquidation rights. The operational test is whether those rights remain usable when circumstances change.

Preserving dividend rights under the Innovation Exemption highlights the relationship between token transferability and investor identification. Some stock-linked products reflect dividends through reinvestment and adjustments to the economic interest represented by each token, without making cash distributions to token holders.²³ For Tokenized NMS Stock eligible under the Order, the operating arrangements must preserve the holder's right to receive dividends and connect on-chain positions with the ownership records and holder information needed to administer that right. Whether tokenization is issuer-sponsored or effected through a third-party custodial arrangement, responsibility must be established for identifying the persons entitled to distributions, obtaining applicable tax documentation, handling withholding and reporting, and complying with sanctions restrictions. These functions may be performed through transfer agents, custodians or other intermediaries; the issuer need not itself

²⁰ SEC Divisions of Corporation Finance, Investment Management, and Trading and Markets, [Statement on Tokenized Securities](#) (Jan. 28, 2026), sections on issuer-sponsored and third party-sponsored tokenized securities & nn. 2, 5, 11, 13-15. Staff statements have no legal force or effect.

²¹ Order at 22-23. The exemption does not permit primary issuances or initial securities offerings on a TSV or displace applicable Securities Act requirements.

²² Order at 21-22. A timely issuer objection prevents the TSV from making the third-party-tokenized stock available for trading.

²³ See Kraken, [xStocks Frequently Asked Questions](#), "What is a multiplier?" and "Do I receive dividends from xStocks?" (updated Sept. 18, 2026) (describing reinvestment of dividends net of U.S. withholding and adjustments to effective holdings without changing the raw on-chain token quantity); Robinhood Chain, [Stock Tokens](#), "Corporate actions & the multiplier" (last visited Sept. 28, 2026) (describing adjustments to the shares-per-token ratio).

know every ultimate beneficial owner.²⁴ Token transfers—including transfers into and out of liquidity pools—must therefore remain connected to the information and procedures needed to make shareholder rights effective.

Consider a dividend record date while tokenized shares are committed to a liquidity pool. The arrangement must identify who holds the relevant rights and how distributions reach the persons entitled to them. Changing pool balances make the allocation method consequential. Voting raises a related question: if investors hold pool interests rather than individually identifiable shares, how are instructions obtained and exercised? A stock split or merger may require coordinated changes to token supply, ownership records and the pool's pricing parameters. Further, in order for Tokenized NMS Stock to be eligible for trading on TSVs, all related proxy materials and issuer communications must be made available to tokenholders without cost to the issuer or tokenholders.²⁵ Testing those events before launch could reveal issues that a description of token mechanics misses.

AN ISSUER'S LIMITED OPPORTUNITY TO OPT OUT

Where an NMS Stock has been tokenized by a third party unaffiliated with its issuer, the TSV operator must notify the issuer and wait at least 30 calendar days after receipt before trading of the Tokenized NMS Stock may commence through an AMM within the TSV. A timely written objection by the issuer would prevent trading on that TSV, although affirmative approval is not required.

The notice gives public companies an opportunity to assess broader investor access alongside the proposed ownership and communications arrangements. Legal, investor relations and transfer agent personnel acting on behalf of the issuer can then evaluate how corporate actions will work and engage with the TSV to determine how the venue will explain prices or disruptions particular to its market. Issuer-sponsored tokenization models create an opportunity for issuers to address these matters from the outset. TSV operators proceeding with trading of a Tokenized NMS Stock based on non-objection from the issuer should describe that status accurately, without implying issuer sponsorship or a commitment to support the technology.

It is also important for issuers to bear in mind that while they may object to third-party tokenization of their shares being traded through a TSV, this would not prevent a third party from creating a tokenized version of their shares which trade on other venues, including decentralized exchanges that allow for the permissionless creation of liquidity pools for U.S. equities. That said, any such activity remains subject to applicable law and any other rights the issuer may have.

WHAT PUBLIC COMPANIES CAN DO

- **Prepare a routing process for notices.** An Issuer Notice must be sent to the physical or email address of the issuer's principal executive offices listed on the cover page of its Exchange Act reports. The 30-day period runs from receipt.²⁶ Issuers should ensure that mail and email received at those addresses reach the legal and investor relations functions promptly. They should also decide in advance who has authority to object.
- **Set criteria in advance.** The Order neither requires nor suggests grounds for objection. Relevant considerations may include (i) the tokenizer's custody and recordkeeping arrangements; (ii) how dividends, votes and issuer communications will reach token holders (a third-party tokenizer must make proxy materials and other issuer communications available at no cost to the issuer or to holders); (iii) how the TSV will handle halts, and corporate actions that occur outside market hours; and (iv) reputational and investor relations considerations.²⁷
- **Object in writing, on time and to the right place.** The objection must be in writing and provided to the TSV, using the contact information in the Issuer Notice, on or before the 30th calendar day after the issuer received

²⁴ See SEC, *Investor Bulletin: Holding Your Securities* (describing intermediary records and dividend, tax-information and proxy processing for beneficial owners); IRS, *Instructions for Requesters of Forms W-8* (Revised: 06/2022), "Who Is a Withholding Agent?" and "Chapter 3 Responsibilities" (addressing documentation, withholding and intermediary arrangements); OFAC, *FAQ 335* (Jan. 23, 2014) (describing risk-based sanctions controls for securities intermediaries and custodians).

²⁵ Order at 21-23. The objection must be delivered on or before the thirtieth calendar day after issuer receipt; the TSV must update its public notice within five business days after a timely objection.

²⁶ Order at 21 & nn. 63-64.

²⁷ Order at 21-23, 45.

the notice. Issuers should allow time to confirm delivery. The Order does not provide for later objections or for objections that apply across TSVs.

- **Update trading and disclosure policies.** Insider trading policies, pre-clearance procedures and blackout periods are often framed around exchange trading days. They should expressly cover tokenized forms of the company's shares and trading outside regular hours. Section 16 compliance procedures and Rule 10b5-1 trading plan arrangements should be reviewed with the same lens. Where tokenized shares trade overnight and on weekends, announcements made after the close may be reflected in TSV prices before the primary market reopens, which may bear on the timing of material disclosures.

CONTINUOUS TRADING AND CONNECTED MARKETS

EXECUTION AND CONVERSION MAY FOLLOW DIFFERENT SCHEDULES AND BE SUBJECT TO DIFFERENT DYNAMICS

Around-the-clock trading of Tokenized NMS Stock through an AMM operated by a TSV would allow investors to respond to price-sensitive information immediately when it arrives and, in general, to participate in market activity at the times that suit them. These benefits will nevertheless depend on the availability of associated services. A completed on-chain exchange may still depend on separate processes to update ownership records, redeem a token, or move a conventional security into a brokerage account. In addition, investors seeking to "cash out" from the blockchain ecosystem will still need off-ramps to move stablecoins or tokenized money market fund interests back into fiat currency in the banking system.

Suppose, for example, an NMS stock trades at \$100 on a conventional exchange while its tokenized equivalent trades at \$98 on a TSV. Assume each token can be converted into one conventional share, but conversion requests are processed only once a day. A trading firm that already owns conventional shares could profitably close the price differential by selling one share for \$100 and buying a token for \$98. The TSV purchase can complete immediately, but the firm must wait for conversion to replace the conventional share it sold. Until then, its ability to repeat the trade is limited by its remaining inventory and available capital. The apparent \$2 profit must cover transaction and funding costs, as well as the risk that conversion is delayed or fails. Faster, more reliable conversion would make this trade easier to repeat and help bring the two prices closer together.

Accordingly, even where a Tokenized NMS Stock has shareholder rights that are identical to those of the underlying security, identical prices at every moment are far from assured, even when the traditional trading markets are open, and particularly on off-hours when they are not. A weekend price may reflect new company information, limited pool depth, or conversion constraints. A discount associated with one tokenizing party or network may say little about the issuer's business. Identifying the cause matters to investors, to firms using the price for valuation, and to conventional markets incorporating that information at their next opening. The Commission expressly seeks comment on these interactions.

Venues and providers could help by making conversion windows, fees and expected completion times easy to find, and by displaying available depth alongside recent prices. Pre-positioned inventory and reliable conversion services could support arbitrage. Where conversion is interrupted, timely notice would allow users to distinguish a problem in the trading arrangement from a change in the underlying company's value. The usefulness of these measures will depend on the particular tokenization model.

These challenges may be compounded by the emergence of multiple tokenized versions of popular NMS stocks, with differences in custody arrangements, conversion procedures, or underlying distributed ledgers affecting their prices relative both to the conventional shares and to one another. Direct trading between these versions could help narrow price gaps that exceed those justified by their differences, but whether such markets would attract sufficient liquidity remains uncertain. Pairing a Tokenized NMS Stock with a volatile non-security crypto asset, such as bitcoin, adds another complication: traders seeking to align prices with conventional markets must account for movements in both assets and the costs of trading or hedging each. These markets could create new opportunities for trading, liquidity provisioning and price discovery, while making price alignment more demanding. As versions and trading

pairs multiply, liquidity could become spread too thinly across pools to connect the markets effectively. Market forces will ultimately sort out issues like these, but an extended period of uncertainty is likely as these markets find their level.

EXECUTION QUALITY AND THE ROLE OF BROKER-DEALERS

AMMs can make trading terms transparent and execution accessible through competing interfaces. Comparing those terms requires more than a displayed exchange ratio. A trade's size affects its price impact; network costs, pool fees, transaction ordering, and the cost of acquiring the paired asset also affect the result. Different pools may offer better execution for different sizes or at different times.

The Order requires machine-readable, dollar-denominated transaction information to be updated within ten minutes, with transaction data during the preceding 30 days available. That information supports scrutiny, although completed trades do not themselves establish currently executable prices. Registered broker-dealers participating in these markets retain their own existing obligations, and the Commission invites comment on obstacles to their participation.²⁸

Established securities firms could provide routing, execution analysis and understandable client interfaces. FINRA's best-execution rule considers market characteristics, transaction size, and quotation accessibility, among other factors. A registered broker-dealer considering TSV access would need to assess how its tools and procedures address the particular market and customer order.²⁹ Comparisons that show expected proceeds after all relevant transaction costs, together with price-impact limits and controls for stale data, could make the new choices easier to evaluate.

OBLIGATIONS OF BROKER-DEALERS ENGAGING WITH A TSV

The Order exempts the trading venue, not its participants. A registered broker-dealer that accesses a TSV, whether for customers or for its own account, remains subject to its existing obligations. Because the Order defines Tokenized NMS Stock as a form of NMS stock, rules keyed to NMS stocks will generally follow the token.³⁰ Firms considering access should expect to work through, among other things:

- **Trade reporting and audit trail.** The Order itself notes that FINRA Rule 6110 requires members to report transactions in NMS stocks effected otherwise than on an exchange.³¹ Firms will need to determine how TSV executions will be reported, including those occurring overnight and on weekends. From December 6, 2026, FINRA's trade reporting facilities will operate from Sunday 9 p.m. to Friday 8 p.m. ET, so most weekend TSV activity will still fall outside reporting hours. They will also need to determine how Consolidated Audit Trail and other recordkeeping requirements apply.
- **Best execution and order handling.** FINRA Rule 5310 continues to govern customer orders. The venue's exemption does not displace the Regulation NMS requirements that apply to broker-dealers, and the Commission has asked specifically whether broker-dealer participants need relief from Regulation NMS.³²
- **Custody, capital and segregation.** Holding Tokenized NMS Stock, stablecoins or other paired assets for customers raises questions under the customer protection rule (Rule 15c3-3) and the net capital rule (Rule 15c3-1). The staff's statements on broker-dealer custody of crypto assets are relevant here.³³
- **Short sales.** A broker-dealer's sales of Tokenized NMS Stock on a TSV will need to be analyzed under Regulation SHO, including order-marking and, where applicable, locate requirements.
- **Operating versus accessing.** A broker-dealer that wishes to operate a TSV, rather than access one, must keep that operation separate from its registered activity.

²⁸ Order at 28-31, 58-59 & n. 83. The venue's Regulation NMS relief does not automatically extend to regulated participants.

²⁹ [FINRA Rule 5310](#), particularly paragraph (a)(1) and Supplementary Material .02 and .09. Application depends on the firm's role and the customer transaction; the rule does not require treating every tokenized representation as interchangeable with a conventional holding.

³⁰ Order at 1-2.

³¹ Order at 30 n. 83.

³² Order at 58.

³³ See SEC Division of Trading and Markets, [Statement on the Custody of Crypto Asset Securities by Broker-Dealers](#) (treating "tokenized versions of an equity or debt security" as crypto asset securities); [Division of Trading and Markets: Frequently Asked Questions Relating to Crypto Asset Activities and Distributed Ledger Technology](#) (updated Feb. 19, 2026) (discussing stablecoin net capital treatment).

These are the compliance and operational challenges on which the Commission has requested comment.

THE PAIRED ASSET(S)

The choice by a TSV of the asset (or assets) paired with a Tokenized NMS Stock can attract new capital to the trading markets and enable new types of portfolio transactions. A stock paired with a volatile crypto asset exposes liquidity providers to divergent price movements in both assets. The risks of a pair including a stablecoin, by contrast, depend on the asset's legal status, its own liquidity, and its redemption and other terms. The Order's discussion of qualifying payment stablecoins takes account of the GENIUS Act's effective-date provisions. Eligible stablecoins under the Order are not, in theory, limited to "payment stablecoins" issued by permitted issuers under the GENIUS Act, and other stablecoin structures may qualify as non-security crypto assets, subject to their securities law status and compliance with other applicable legal requirements.³⁴

Tokenized money market funds could allow investors to use "cash" balances earning a return to fund trades in Tokenized NMS Stock. Implementation of such a pair would require detailed attention to the fund's terms of service. The Order explicitly reserves taking a position on questions arising under the Investment Company Act of 1940, as amended (the "Investment Company Act"), including Section 22(d) and Rule 22c-1 thereunder, which govern aspects of the pricing and trading mechanics of shares in registered open-end mutual funds and unit investment trusts. The application of these provisions depends on the fund, the participants, and the transaction; the ability to use money market fund tokens in an AMM pair does not establish that every AMM design fits those requirements.³⁵

BROADENING PARTICIPATION IN LIQUIDITY PROVISIONING

FEE INCOME AND CHANGING INVENTORY

Retail participation in providing liquidity is one of the Order's most interesting possibilities. Both institutional and retail investors can earn trading fees by contributing assets to a liquidity pool, participating in an activity traditionally associated with professional trading firms in securities markets. Explaining the resulting exposure to individuals or businesses not deeply familiar with market making will be essential to informed participation.³⁶

In a constant-product pool, arbitrage activity following a change in relative prices changes the pool's inventory. If an asset appreciates relative to the other asset in outside markets while the pool's price lags, arbitrageurs can purchase it from the pool and sell it elsewhere, provided the price difference is sufficient to cover trading and other transaction costs. The pool consequently holds less of the relatively appreciating asset and more of the other asset. This adjustment can leave liquidity providers with assets worth less, before accounting for fee income, than if they had simply held the original quantities. This shortfall is commonly called "impermanent loss"; it need not represent an absolute loss on the investment. Trading fees may offset or exceed that shortfall, but a liquidity provider's total return may remain significantly below the return from holding the original assets over the same period.

For illustration, assume a pool contains ten tokenized shares worth \$10 each and 100 stablecoins worth \$1 each. If the share's external price doubles and arbitrage activity aligns the pool's prices to the external prices, the pool would hold approximately 7.07 shares and 141.42 stablecoins. Its value would be about \$282.84, compared with \$300 from holding the original assets. This represents a pool value that is \$17.16 less than if the same asset mix was held on the external market, which is a 5.72% shortfall, measured against holding, not against the initial \$200

³⁴ Order at 8 & n. 24; See SEC, [Application of the Federal Securities Laws to Certain Types of Crypto Assets and Certain Transactions Involving Crypto Assets](#), Release No. 33-11412 (Mar. 17, 2026), 91 FR 13714, at 22-23.

³⁵ Order at 7 & n. 22; Investment Company Act § 22(d); 17 C.F.R. § 270.22c-1. Applicable exceptions, existing relief, fund characteristics and the capacity in which each person acts must be considered. The Order also identifies possible multi-class issues under Investment Company Act § 18.

³⁶ Order at 16, 37, 45. Retail participation remains subject to applicable access standards and other legal requirements.

contribution. The example excludes fees, transaction costs and changes in liquidity, and does not describe every AMM model.³⁷

The same arbitrage that helps to connect prices across markets affects the returns of the liquidity providers that help make that connection. Accordingly, clear illustrations of fee income, changing inventory, and withdrawal outcomes would help retail and other users new to liquidity provisioning assess that tradeoff. The term “impermanent loss” warrants explanation because a shortfall can be realized on withdrawal. Providers also need to understand whether fees or incentives compensate them adequately for the conditions in which their liquidity is used.³⁸

Pool size alone is an incomplete measure of durable liquidity. Liquidity providers often have no contractual or even reputational obligation to maintain the liquidity they supply and may withdraw pool assets at any time—including when volatility rises and trading demand is greatest. By separately identifying committed and withdrawable liquidity, and by testing the effect of concentrated withdrawals, TSV operators could improve both disclosure and planning for liquidity providers. Operators can explore a variety of incentives that encourage continuity while making the associated terms and conflicts clear.

THE POOL INTEREST ITSELF REQUIRES ITS OWN LEGAL ANALYSIS

Three elements each require a distinct securities law analysis: the NMS stock and other paired assets contributed to a liquidity pool; any LP token or other pool interest issued by the AMM smart contract back to the liquidity provider; and the arrangements for operating and managing the TSV and its underlying liquidity pools. The Order describes liquidity pool tokens (“LP tokens”) but does not generally address their status under the Securities Act of 1933, as amended (the “Securities Act”). If the LP token is considered by the SEC or a court to be a separate security, because of its transferability and the undivided interest it represents in a pool containing both NMS Stock and another paired asset, its issuance would require registration or an available exemption. The analysis should also consider how the LP tokens interact with the Order’s prohibition on primary issuances of securities through a TSV.³⁹

The liquidity provisioning structure also requires analysis under the Investment Company Act, from which the Order provides no exemption.⁴⁰ Depending on its activities and organization, a discrete pool of assets consisting of more than 40% “investment securities” with transferrable pool interests made available to liquidity providers may need an exclusion or exemption under the Investment Company Act or a registered structure. Section 3(c)(1) of the Investment Company Act requires significant ownership and offering restrictions; Section 3(c)(7) generally requires a non-public offering and for holders of the issued interests to be “qualified purchasers”. Those conditions can significantly affect the participant base for liquidity provisioning. Permissioned access to a TSV alone would not satisfy these requirements.⁴¹ Taken together, these factors make Investment Company Act structuring a particularly important issue if retail participation in a liquidity pool is desired.

TAX AND ACCOUNTING CONSIDERATIONS

The US federal income tax treatment of liquidity provision is unclear. Under one possible approach, the position would be “looked through” and the liquidity provider would be treated as engaging in their proportionate share of the pool’s actions. While that position is consistent with the general proposition that a software program’s actions are imputed to the user, it is not very administrable. Another possible approach is to treat the liquidity pool as a

³⁷ Illustrative constant-product calculation: $x \times y = 1,000$, where x is the number of shares and y is the number of \$1 stablecoins; after the share price rises to \$20, $y/x = 20$, $x \approx 7.071$ and $y \approx 141.4214$. Combined value = \$282.84; holding value = \$300. See Uniswap, [Understanding Returns](#) (last visited Sept. 28, 2026). The illustration assumes a stable \$1 paired asset, arbitrage alignment, no fees or costs, and no contributions or withdrawals.

³⁸ Some decentralized AMM protocols with distributed governance have provided the related tokens to liquidity providers through programs commonly called “liquidity mining.” These rewards supplement trading fees and may offset impermanent loss, but do not guarantee that result. The Order expressly contemplates fees, tokens, rebates, and other liquidity-provider incentives; the structures TSV operators adopt remain to be seen. Order at 43 and 56.

³⁹ Order at 8-9, 22-23 & n. 26; Securities Act §§ 2(a)(1), 4-5, 15 U.S.C. §§ 77b(a)(1), 77d-77e. The Order’s description of LP tokens does not itself determine their legal classification or exempt their issuance.

⁴⁰ ANMs were initially developed for use with pairs of non-security crypto assets, and so Investment Company Act considerations have generally not been part of the range of issues considered with these structures.

⁴¹ Order at 7 n. 22; Investment Company Act §§ 3(a)(1)(A), (C), 3(c)(1), (7).

deemed entity and liquidity providers as the entity's equity holders. However, that position begs several additional questions, such as what type of entity (corporation or partnership) and whether the entity is domestic or foreign. Ultimately, taxpayers and their advisors must take a reasonable position, of which many exist.

There are also non-tax accounting questions market participants should consider when engaging with a TSV liquidity pool. The contribution of a token intended to represent an NMS Stock to an AMM liquidity pool in exchange for an LP token would likely require an assessment of whether the contributed assets should remain recognized by the contributor as shares carried on the contributor's balance sheet or be replaced by a distinct asset in the form of the LP interest. That accounting treatment may also affect a regulated entity's capital requirements.

PROFESSIONAL LIQUIDITY AND THE COVERED FIRM EXEMPTION

The Order clarifies that liquidity provisioning alone does not constitute "dealer" activity under the Exchange Act and that, absent other indicia, liquidity providers would typically engage in trader activity. The Order's Covered Firm Exemption addresses arrangements that may involve additional indicia of dealing, without creating a presumption that reliance makes the provider a dealer.⁴²

A firm relying on the Covered Firm Exemption must use proprietary capital, act for its own account and avoid holding or custodialing customer assets. Its securities activities must be limited to activities related to trading Tokenized NMS Stock in qualifying TSV pools. It must meet recordkeeping, applicable website disclosure, notification and statutory-disqualification conditions. The relief permits participation on multiple TSVs and does not limit non-securities activities.⁴³ The scope of permitted securities activities is of particular importance where a liquidity provider expects to hedge its position in conventional stocks or other securities.

CONNECTING NETWORKS AND FINANCIAL APPLICATIONS

PRESERVING RIGHTS ACROSS A BRIDGE

Interoperability of tokenized securities between blockchain networks and other distributed ledgers could make those assets more widely available, reduce dependencies on one provider, and connect different sources of capital and liquidity. The most common "bridge" designs that facilitate interoperability effectively lock an asset in a smart contract deployed on one network and create a new "representation" or "wrapper" token on another network. Alternatively, other structures burn (or eliminate) a token on one network while simultaneously minting a corresponding token on another network. However, whether a bridged asset would meet the requirements for inclusion in a TSV would need a fact-specific substantive analysis.⁴⁴ Since a Tokenized NMS Stock needs to remain within a permissioned system that presumably whitelists participant addresses, any bridge would need to be permissioned and a component of the TSV. That said, issuers of Tokenized NMS Stock may choose to make them available both within TSVs as well as outside of TSVs. Tokenized NMS Stock available outside of a TSV would fall outside the Innovation Exemption and be subject to full securities law compliance in the U.S., and issuers are free to explore the use of bridge technology to support interoperability across blockchain networks within the confines of the applicable securities laws.

An issuer-supported system might recognize transfers across multiple distributed ledger networks within its coordinated ownership records. A third-party bridge might instead hold the original token and issue another claim against it. Eligibility of a Tokenized NMS Stock on its original network cannot be assumed for every wrapped representation of that asset. The token on the destination network must be examined for its actual rights, including

⁴² Order at 53-54 & n. 115 (including pricing and committed-liquidity arrangements as possible additional indicia of dealer activity).

⁴³ Order at 54-57 & nn. 116-118. The records include information concerning the ability to maintain sufficient liquid assets against potential trading losses, supplied liquidity, relevant agreements and compensation. Written SEC notification covers the specified business, risk-control, contact, agreement, incentive and oversight information. The disqualification condition includes affiliates and the Order's specified exception.

⁴⁴ Ethereum.org, [Bridges](#) (last updated Apr. 3, 2026), describing common technical mechanisms and risks. Legal characterization requires a separate analysis of the arrangement. See also Order at 40.

whether it preserves an eligible interest or creates a separate synthetic instrument. Changes may also affect the tokenizing party, the issuer notice process, and venue disclosures.

These operating arrangements should be tested by tracing specific shareholder rights through the complete structure. For example, a review should confirm how a dividend payment reaches the ultimate holder when tokenized shares have been bridged, which party bears responsibility for withholding and reporting, and how the holder's entitlement is documented at each step. A similar analysis should apply to voting, redemption and recovery. Reconciliation procedures can help prevent inconsistent claims against the same underlying position. Coordinating transfer restrictions and destination-wallet verification would help preserve permissioning where it is required, without assuming that every transfer outside a TSV is governed by the venue's access rules.

COLLATERAL USE AND INTERCONNECTED RISK

Tokenized NMS Stock may become useful in financing arrangements outside TSVs, subject to applicable law and transfer restrictions. Given that TSVs are permissioned, and the Order prohibits specified borrowing and hypothecation on TSVs, including arranging or permitting hypothecation, and credit to purchase Tokenized NMS Stock there, any use of Tokenized NMS Stock as collateral in a financing arrangement would need to happen outside the TSV context. A separate interface, contract or affiliate does not by itself establish that a connected financing falls outside those restrictions.⁴⁵ Again, issuers may choose to make Tokenized NMS Stock available on TSVs and outside of TSVs as a design choice. Importantly, the ability to leverage Tokenized NMS Stock on other non-TSV platforms may drive overall demand for holding U.S. equities in this format, thereby indirectly encouraging greater use of TSVs.

Price selection adds another potential concern. The closing price in the conventional markets at the close of business on a Friday will very likely become stale over a weekend. A thin pool price may reflect temporary trading pressure. A bridged token's discount may arise from doubts about conventional pricing of the original asset. Treating these prices as interchangeable could produce unexpected and undesirable liquidations or understate a lender's exposure. Falling prices, withdrawals of liquidity and further liquidations could reinforce one another; hedging can transmit pressure to conventional markets. These are potential channels whose importance depends on scale and actual connections.⁴⁶ Over time, we expect all of these concerns to be addressed; however, in the immediate future, careful structuring and exposure limits will be particularly important.

Tokenization does not, by itself, displace otherwise applicable Federal Reserve margin requirements applicable to "margin stock". Depending on the instrument and financing arrangement, credit involving Tokenized NMS Stock may implicate the Federal Reserve's Regulation T, Regulation U, or Regulation X, even if a broker is not involved. Regulation U can apply to banks and qualifying nonbank lenders extending credit to purchase or carry margin stock where that credit is secured directly or indirectly by margin stock. The analysis depends on the security's classification, the purpose and collateral for the credit, the identity and location of the parties, and applicable exemptions. These requirements should be considered alongside the Order's restrictions on TSV financing and on directly or indirectly arranging for or permitting hypothecation of assets on the TSV.⁴⁷

MATCHING COMMERCIAL LAW TO THE ASSET

Use of Tokenized NMS Stock and other tokenized securities as collateral in lending arrangements and other financing transactions requires determining how these tokens would be classified under the Uniform Commercial Code, which informs how a security interest may be created and perfected over each.⁴⁸

⁴⁵ Order at 32-33. The restrictions address borrowing securities or non-security crypto assets on the TSV, directly or indirectly hypothecating or arranging or permitting their hypothecation on the TSV, and extending credit to purchase Tokenized NMS Stock there.

⁴⁶ See Financial Stability Board, [FSB Assesses Financial Stability Risks of Decentralised Finance](#) (Feb. 16, 2023), summarizing its report on leverage, liquidity mismatches and transmission channels.

⁴⁷ See 12 C.F.R. pts. 220, 221, 224 (2026); see also 12 C.F.R. § 221.2 (2026) (defining "margin stock"; id. § 221.7 (setting forth maximum loan values for margin stock).

⁴⁸ The UCC is a model statute enacted separately by each state and, though enactments may vary in certain respects, the provisions of Articles 8 and 9 relevant to this discussion are substantially uniform across all U.S. jurisdictions.

The relevant analysis under Article 8 of the Uniform Commercial Code will depend on the tokenization method adopted. Where an issuer endeavors to use a token as the authoritative record of share ownership, for U.S. law purposes the security (i.e., the legal relationship between an issuer and an investor) may be deemed to be “uncertificated” under Article 8 because the only other available commercial law alternative (“certificated” securities) requires the use of a traditional paper certificate or some other physical format. If a Tokenized NMS Stock is considered an uncertificated security for U.S. commercial law purposes, then a security interest granted by a borrower over the token would most commonly be perfected by control, as described in UCC § 8-106(c) (rather than by “possession” of the Tokenized NMS Stock). The same control framework applies where a transfer agent maintains the master securityholder file on the issuer’s behalf. However, in this model, the token’s function for commercial law purposes is merely as a means of communicating instructions to register transfers of the master securityholder file rather than itself constituting the security (in the sense that a paper security certificate can be deemed to constitute the embodiment of the legal rights that constitute the security). Regardless of model, parties may contractually elect to treat a token as a “financial asset” under UCC Section 8-102(a)(9)(iii), bringing it within Article 8’s well-established indirect holding framework and enabling perfection by control, though that arrangement requires an actual intermediary relationship and a securities account.⁴⁹

For a lender, the practical question is whether it can enforce its rights against its borrower upon a default (and what other creditor right may have priority over the lender’s rights). Identifying that interest, the governing records and the necessary control arrangements early can make Tokenized NMS Stock more useful as collateral and reduce uncertainty during recovery. A change in wrapper or intermediary may require the analysis to be revisited even where the user experience appears unchanged.

GOVERNANCE

CONTINUITY WHEN TRADING IS INTERRUPTED

A TSV must stop trading concurrently with a stoppage in the underlying stock on its primary listing exchange. Ordinary closure of that exchange is different from a halt. Implementation therefore needs reliable halt information and an effective way to apply it to relevant contracts and interfaces, including pending activity and resumption.⁵⁰

Trading capacity is another constraint. Tier 1 Tokenized NMS Stock includes up to 75 symbols and a volume ratio of 0.25%; Tier 2 Tokenized NMS Stock permits up to 250 symbols and a volume ratio of 2.5%. The ratios use the Order’s average-daily-share-volume methodology, with the underlying stock’s prior-month volume as the reference. The first volume exceedance for a stock requires future compliance; subsequent exceedances require an immediate three-month pause.⁵¹

These limits shape the reliability of services built around a venue. Strong demand can bring a market closer to capacity, and a change in underlying-market volume can affect available headroom. Operators could communicate approaching constraints and plan for an orderly reduction in activity. Participants using tokens as collateral or hedges would benefit from understanding alternative lawful trading or conversion routes, especially where the token primarily trades on one TSV.

Operational incidents require immediate participant notice, prompt SEC notice and remediation as soon as reasonably practicable. The public-notice regime separately governs disclosure updates.⁵² Testing a contract exploit, compromised administrative key or unavailable price feed could clarify who may intervene and how pending

⁴⁹ See generally Adviser and Regulated Fund Custody Rules; Crypto Custody Rules, Investment Advisers Act Release No. 7023, Investment Company Act Release No. 36353, at 159–63 (October 1, 2026) (explaining that, under the financial asset election, a security entitlement arises once the asset is credited to a securities account maintained by a securities intermediary, a term the SEC reads broadly in accordance with the UCC definition).

⁵⁰ Order at 30-31, 45-46 & nn. 84-85. The Order also requires immediate participant notice of TSV-initiated stoppages.

⁵¹ Order at 23-28 & nn. 66-77. Tier 1 uses the LULD Plan’s S&P 500, Russell 1000 and eligible ETP categories; Tier 2 covers remaining eligible NMS stocks. The ratio compares the Tokenized NMS Stock’s average daily share volume on the TSV with reported average daily share volume of the underlying NMS stock. The trade-date convention is tied to SIP reporting. These are not flat caps on every individual calendar day.

⁵² Order at 19-21, 31-32. Material changes generally require a public-notice revision 20 calendar days in advance; incident notification and remediation are separate duties. An urgent intervention requires consideration of both sets of conditions.

transactions and assets will be treated. The plan should distinguish pausing trading from suspending withdrawals or conversions; the legal and operational basis for each may differ.

3. CONCLUSION

BUILDING TOWARD DURABLE ADOPTION

The Innovation Exemption is one of the most important steps yet by the SEC to integrate concepts from crypto asset trading and decentralized finance into mainstream securities activity. It provides the opportunity for AMM-based equities trading to establish a place in U.S., and possibly global, capital markets. Its significance extends beyond the potential for longer trading hours: it permits experimentation with how investors exchange securities for other assets and supply liquidity themselves. Although the initial limits will constrain scale, experience under the exemption could inform changes with much broader consequences.

Realizing that potential will require the SEC to continue their policy of vibrant and open dialogue with both traditional firms and new market entrants to resolve the many questions the Order leaves open, particularly the treatment of liquidity pool interests and the participation of regulated intermediaries. It will also require market participants to develop arrangements that preserve shareholder rights through corporate actions, pool transactions, and transfers of tokens between networks. These issues will determine which business models can attract investors and liquidity providers and operate within the available relief.

The five-year exemption period should provide market participants a sufficient opportunity to demonstrate that these arrangements can work in practice and to identify where further regulatory action is needed. The strongest case for making AMM trading a permanent part of U.S. equity markets will come from venues that deliver demonstrable benefits to investors while preserving the rights embodied in the shares they trade.

EXHIBIT A: PRINCIPAL CONDITIONS AND TIMING

VENUE ELIGIBILITY AND OPERATION

Requirement	Principal condition	Source
Infrastructure and access	Public, auditable applications on a public, permissionless ledger; permissioned access to TSV trading.	§§ I.A, II.A
Venue status	TSV must be a U.S. person and satisfy applicable statutory-disqualification conditions.	§ II.B
Stock and rights	Eligible Tokenized NMS Stock; verify equivalent rights. No primary issuance or initial offerings on a TSV.	§§ I, II.E
Trading pairs	Stock must be paired with another eligible stock, a non-security crypto asset or a tokenized money market fund.	§ I.A
Tier 1 limits	Up to 75 symbols and a volume ratio no greater than 0.25% under the Order's average-daily-volume methodology.	§ II.F
Tier 2 limits	Up to 250 symbols and a volume ratio no greater than 2.5% under the same methodology.	§ II.F
Affiliate aggregation	Aggregate volume and symbol counts across affiliated TSVs. The trade-date convention follows SIP reporting.	§ II.F
Volume exceedance	First for a stock: ensure future compliance. Subsequent: immediate three-month pause, including affiliates. No stepped treatment for symbol limits.	§ II.F
Market data	Machine-readable dollar transaction data updated within ten minutes; prior 30 days available; additional pool data required.	§ II.G
Trading stoppages	Stop concurrently with primary-exchange stoppages. Immediately notify participants of required or TSV-initiated stoppages.	§ II.H
Financing	No specified borrowing or hypothecation on the TSV, including arranging or permitting hypothecation, or purchase credit.	§ II.J
Records	Retain required records in the U.S. throughout the exemption and for three years afterward; provide access and consent to SEC examinations.	§ II.L

NOTICES AND CONTINUING OBLIGATIONS

Event	Timing and action	Source
Initial public notice	Publish at least 30 calendar days before operating; address 30 prescribed categories; notify SEC within one business day after publication.	§§ II.C, III
Unaffiliated third-party tokenization	Give issuer notice; wait at least 30 calendar days after receipt. Timely written objection prevents trading on the TSV.	§ II.D
Specified trading events and objection	Revise public notice within five business days for commencement or cessation of trading, volume pauses or resumptions, and timely issuer objection.	§ II.C
Material change	Revise public notice 20 calendar days before a material change to operations or disclosed information.	§ II.C
Non-material change	Revise within 30 calendar days after the relevant calendar quarter-end.	§ II.C
Material inaccuracy or omission	Correct within five business days after discovery.	§ II.C
Revised public notice	Notify SEC within one business day after publication. Keep all versions publicly available.	§ II.C
Significant operational event	Notify participants immediately and SEC promptly; remedy as soon as reasonably practicable; notify participants of remediation.	§ II.I

EXHIBIT B: TOKENIZATION STRUCTURES AND SHAREHOLDER RIGHTS

Structure	Interest and ownership record	Questions for implementation
Issuer-sponsored token with integrated records	The issuer's ownership system incorporates onchain records.	When does a transfer update the recognized ownership interest? How are identity, corporate actions and recovery handled?
Issuer-sponsored token instructing an offchain record	The authoritative ownership record remains offchain; the token transfer communicates an instruction.	When is that instruction effective? What happens while records are being updated or if they disagree?
Tokenized security entitlement	An indirect interest through a securities intermediary; records may be onchain or offchain.	How are backing assets, voting and distributions administered? What happens upon intermediary failure?
Third-party synthetic instrument	The tokenizing party's own security provides exposure to another security.	Excluded from the Order's definition of Tokenized NMS Stock. Holding shares of the underlying NMS stock as collateral does not alone change that characterization.
Cross-chain representation ⁵³	May preserve a recognized interest or introduce another claim, depending on the arrangement.	Reassess the destination interest, rights delivery, supply reconciliation, transfer restrictions and recovery.

⁵³ Cross-chain representations of Tokenized NMS Stock are a distinct likelihood in the market but not addressed in the Order.

CONTACT

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