

December 2, 2025

Ms. Vanessa A. Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

**Re: Tokenized U.S. Equity Securities & DeFi Trading Protocols**

Dear Ms. Countryman:

Citadel Securities appreciates the opportunity to provide input to the Securities and Exchange Commission (the “Commission”) as it evaluates requests to grant exemptive relief to facilitate the trading of tokenized U.S. equities by U.S. investors. As the leading market maker in the United States, we stand at the forefront of innovation in our financial markets, deploying the latest technology to deliver unmatched liquidity and competitive pricing to our clients. We thus welcome tokenization as another innovation that has the potential to even further improve outcomes for investors and issuers, including with respect to clearing and settlement efficiency, shareholder engagement, and investor choice.

Realizing the potential benefits of tokenization requires applying the key bedrock principles and investor protections that underpin the fairness, efficiency, and resiliency of U.S. equity markets. Ultimately, tokenized securities must succeed on the merits, rather than via regulatory exemptions; therefore, while we support Commission initiatives to champion innovation and position the U.S. as the leader in digital finance, it is important not to override key investor protections when trading tokenized securities. Tens of millions of Americans rely on the U.S. equity market to secure their retirement futures, and it is imperative that they continue to benefit from efficient and liquid markets and remain protected from any new risks that may emerge.

In this letter, we recommend that the Commission:

- Identify the intermediaries that will be involved in the trading of tokenized U.S. equities, including via so-called “decentralized” trading protocols;
- Refrain from granting broad exemptive relief from the longstanding statutory definitions of an “exchange” and “broker-dealer” for those seeking to facilitate the trading of tokenized U.S. equities; and
- Pursue a path forward from a regulatory perspective that involves notice-and-comment rulemaking and a focus on improving clearing and settlement efficiency.

## I. The Commission Should Protect Investors By Accurately Classifying The Intermediaries Trading Tokenized U.S. Equities

The key bedrock principles and investor protections applicable to the secondary trading of U.S. equities should equally apply to the secondary trading of tokenized shares, particularly if transferring a digital “token” automatically results in the transfer of the underlying U.S. equity.<sup>1</sup> However, some have argued that “decentralized” trading protocols (“DeFi”) can be utilized to trade tokenized U.S. equities without implicating the statutory definitions of an “exchange”<sup>2</sup> or “broker-dealer.” In their telling, these DeFi trading protocols use smart contracts and algorithms to facilitate “peer-to-peer” trading of tokenized shares without the presence of a registered intermediary. And, if there is no registered intermediary, then nearly all of the rules governing the secondary trading of U.S. equities that are designed to protect investors would no longer apply.<sup>3</sup> Below, we explain why the suggestion that DeFi trading protocols do not involve intermediaries is often inaccurate.

### A. DeFi Trading Protocols Often Meet The “Exchange” Definition

Many trading protocols that identify as “DeFi” (including many who have self-identified as decentralized *exchanges*<sup>4</sup>) appear to bring together buyers and sellers for securities when facilitating the trading of tokenized U.S. equities, and thus meet the definition of an “exchange.” To conclude otherwise would suggest that the technology used matters more than the trading functionality supported, and would severely undermine the regulatory framework designed to protect investors and safeguard market integrity and resiliency.

The statutory definition of an “exchange” is broad and covers “any organization, association, or group of persons, whether incorporated or unincorporated, which constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities.”<sup>5</sup> The Commission further clarified that a trading system operates as an exchange if it (i) brings together the orders for securities of multiple buyers and sellers and (ii) uses established, non-discretionary methods (whether by providing a trading facility or by setting rules) under which such orders interact with each other, and the buyers and sellers entering such orders agree to the terms of a trade.<sup>6</sup>

*First*, many DeFi trading protocols have a group of persons that “constitutes, maintains, or provides” the trading protocol. This can include the founding designers, governance organizations, and “foundations” who write and update the code and smart contracts, create and modify the rules

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<sup>1</sup> See Letter from Clifford Chance, on behalf of The Digital Chamber (July 23, 2025) at 7, available at: <https://www.sec.gov/files/tdc-tokenized-securities-submission-072325.pdf> (“Clifford Chance Letter”).

<sup>2</sup> Note that ATs are a subset of market centers that meet the definition of an “exchange.”

<sup>3</sup> Letter from Andreessen Horowitz (July 21, 2025), available at: <https://www.sec.gov/files/comments-sec-crypto-task-forces-072125.pdf> (“a16z July Letter”) at 23.

<sup>4</sup> “Top 10 DeFi Exchanges to Consider in 2025,” available at: <https://www.solulab.com/best-defi-exchanges/>.

<sup>5</sup> 15 U.S.C. § 78c(a)(1).

<sup>6</sup> Commission Rule 3b-16.

of the protocol, publish user manuals, enter into business-related contracts, engage in marketing activities through websites and advertisements, and engage in lobbying activities regarding the regulatory treatment of the trading protocol.<sup>7</sup>

*Second*, many DeFi trading protocols appear to “bring together buyers and sellers” using “established, non-discretionary methods.” Specifically, the system’s code enables buyers and sellers to execute a financial transaction in accordance with an “automated rule or algorithm that is pre-determined and non-discretionary.”<sup>8</sup> The Commission has been clear that established, non-discretionary methods” include “the use of an algorithm by an electronic trading system that sets trading procedures and priorities” and “a computer system (whether comprised of software, hardware, protocols, or any combination thereof) through which orders interact.”<sup>9</sup>

*Third*, buyers and sellers agree to the terms of the trade when using a DeFi trading protocol. In particular, when the parties give their instructions to the protocol, they effectively consent to an exchange of value according to the non-discretionary methods set forth in the protocol (i.e. the smart contract, algorithm, or other process that causes the execution of a financial transaction). The essential elements of contract formation are present—the order submission functions as an offer to trade on the protocol’s terms, execution by the protocol against available liquidity constitutes acceptance of that offer, and the transfer of the tokens for cash, stablecoins, or other value provides consideration for both parties to the transaction.<sup>10</sup> The Commission has been clear that the buyer and seller need not specifically affirm to each other that they will transact.<sup>11</sup>

Arguments to the contrary by DeFi proponents are unpersuasive, either seeking to insert new criteria into the statutory definition<sup>12</sup> or making policy arguments as to why DeFi trading protocols *should be exempted* from the longstanding definition.<sup>13</sup> Notably, the latter arguments implicitly concede that DeFi trading protocols in fact do fall within the statutory definition of an “exchange.” The original American stock exchange was simply market participants transacting around a Buttonwood tree pursuant to an agreed set of rules. Despite concerted efforts to persuade the

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<sup>7</sup> See, e.g., Uniswap Governance Proposal (Aug. 31, 2025), available at: <https://gov.uniswap.org/t/governance-proposal-establish-uniswap-governance-as-duni-a-wyoming-duna/25770> (“enabling engagement with the offchain world (e.g., entering into contracts, retaining service providers, and fulfilling any potential regulatory and tax responsibilities)”) and Letter from Orca Creative (June 17, 2025) at 12, available at: <https://www.sec.gov/files/orca-creative-061725.pdf> (“the founding team and key employees”).

<sup>8</sup> See, e.g., Digital Asset Market Clarity Act of 2025, H.R. 3633, 119th Cong. (2025) (definition of a “decentralized finance trading protocol”).

<sup>9</sup> Regulation of Exchanges and Alternative Trading Systems, 63 FR 70844 (Dec. 22, 1998) (“Regulation ATS”).

<sup>10</sup> Restatement (Second) of Contracts § 17(1) (Am. L. Inst. 1981).

<sup>11</sup> Regulation ATS at 70902.

<sup>12</sup> For example, some have argued that DeFi protocols are not exchanges because they (i) lack “an exchange operator that includes a management team,” (ii) do not “perform a self-regulatory function,” or (iii) “because investors do not entrust their assets to others.” Letter from the DeFi Education Fund (June 12, 2023), available at: <https://www.sec.gov/comments/s7-02-22/s70222-202979-407862.pdf> and Letter from Bain Capital Crypto (June 13, 2023), available at: <https://www.sec.gov/comments/s7-02-22/s70222-205619-413382.pdf>.

<sup>13</sup> See *id.* and Letter from the DeFi Education Fund (April 18, 2025), available at: <https://www.sec.gov/files/ctf-written-input-defi-education-fund-041825.pdf>.

Commission otherwise, a DeFi trading protocol that allows market participants to transact pursuant to an agreed set of rules enforced by code is not fundamentally different.

### B. DeFi Trading Protocols Often Involve “Broker-Dealers”

There appear to be a multitude of firms involved in “DeFi” trading protocols that potentially fall within the statutory definitions of a “broker”<sup>14</sup> or “dealer”<sup>15</sup> when trading tokenized U.S. equities, in part due to the presence of securities products and other intermediaries, such as exchanges.<sup>16</sup> In particular, a “broker” effects transactions in securities for the account of others, which can include (i) actively soliciting investors to purchase securities, (ii) receiving transaction-based compensation in connection with securities purchases or sales, (iii) participating in the order-taking or order-routing process, or (iv) handling securities or funds of others in connection with securities transactions.

Importantly, this broad definition applies to firms providing DeFi trading apps that connect customers with various DeFi trading venues. In addition to receiving transaction-based compensation and participating in the order-routing process, these firms may be exercising discretion in a variety of ways, including determining which DeFi venues to connect to and the level of transparency provided to investors regarding fees, incentives, and all-in prices on the various venues, making them very different from passive software vendors.

To conclude that there are no participants that meet the definitions of a “broker” or “dealer” would again suggest that the technology used matters more than the services provided, and would potentially call into question the regulatory treatment of firms who have long registered with the Commission based on providing similar services and receiving transaction-based compensation. Consider the following list:

<u>Intermediary</u>	<u>Description</u>	<u>Fees Assessed</u>
<i>Trading and Order Routing Interfaces</i>		
<b>DeFi Trading Apps</b>	Trading interfaces that enable users to connect to DeFi trading protocols and trading venues. Many also offer order routing software and staking services.	<ul style="list-style-type: none"> <li>• Transaction-based fees</li> <li>• May also receive compensation for routing customer orders to specific venues or protocols.</li> </ul>
<b>Wallet Providers</b>	Firms that custody tokens for users or provide software to enable “self-custody.” Many also offer trading interfaces with	<ul style="list-style-type: none"> <li>• Transaction-based fees</li> </ul>

<sup>14</sup> 15 U.S.C. § 78c(a)(4)(A).

<sup>15</sup> 15 U.S.C. § 78c(a)(4)–(5).

<sup>16</sup> We note certain of these intermediaries may also meet the definition of an “exchange” as detailed above. Further, this letter is focused on tokenized U.S. equities regulated by the Commission, and does not take a position on the appropriate regulatory treatment of firms involved in DeFi trading protocols for digital assets more generally.

	connectivity to DeFi trading protocols and trading venues, order routing software, and staking services.	<ul style="list-style-type: none"> <li>• May also receive compensation for routing customer orders to specific venues or protocols.</li> </ul>
<i>Trading Intermediaries</i>		
<b>Automated Market Makers (“AMMs”)</b>	AMMs induce customers to deposit assets into a liquidity pool and allow market participants to execute against that pool in order to transact.	<ul style="list-style-type: none"> <li>• Transaction-based fees</li> </ul>
<b>Liquidity Providers Using AMMs</b>	Market participants who deposit assets into AMM liquidity pools as part of providing liquidity to others as a service.	<ul style="list-style-type: none"> <li>• Transaction-based fees</li> </ul>
<b>Searchers / Block Builders / Validators</b>	Network participants that identify, process, and confirm blockchain transactions by proposing and validating blocks.	<ul style="list-style-type: none"> <li>• Transaction-based fees</li> <li>• Prioritization / incentive fees to expedite transactions to get ahead in block ordering (and maximize MEV<sup>17</sup>)</li> </ul>
<i>Developers Receiving Trading Revenue</i>		
<b>DeFi Protocol Developers</b>	Market participants who design, create, deploy, maintain, or control the core infrastructure and governance mechanisms of blockchain protocols.	<ul style="list-style-type: none"> <li>• Fees for executing or processing trades</li> <li>• Fees for governance rights (e.g. the right to vote on system upgrades)</li> <li>• Network congestion or gas prioritization fees</li> <li>• Upgrade and maintenance fees to implement approved system upgrades</li> </ul>
<b>Smart Contract Developers</b>	Market participants that create, deploy, maintain, or control smart contracts that are integral to the functioning of a protocol or blockchain or allow users to achieve certain	<ul style="list-style-type: none"> <li>• Fees for using the algorithm</li> </ul>

<sup>17</sup> See Letter from J.W. Verret (Feb. 23, 2025) at 12, available at: <https://www.sec.gov/files/ctf-input-verret-2025-02-23.pdf> (“J.W. Verret Letter”).

	goals (e.g., optimizing an allocation of securities).	<ul style="list-style-type: none"> <li>• Administrative fees for contract management and upgrades.</li> <li>• Token rewards for creating applications that drive protocol usage</li> </ul>
<b>Layer 2 Blockchain Developers</b>	Market participants who design, create, deploy, maintain, or control scaling programs that operate on top of base layer (Layer 1) blockchain protocols.	<ul style="list-style-type: none"> <li>• Transaction processing fees for use of the blockchain protocol</li> <li>• Sequencer or validator fees for ordering and batching transactions</li> <li>• Bridge fees for moving assets between Layer 1 and Layer 2 networks</li> </ul>
<i>Other Intermediaries / Service Providers</i>		
<b>Token Issuers</b>	Entities that create, issue, and manage tokenized representations of traditional securities on blockchain networks.	<ul style="list-style-type: none"> <li>• Initial token generation costs</li> <li>• Annual management fees, corporate action fees, and redemption fees</li> </ul>
<b>Yield Farming Applications</b>	Applications that enable users to earn rewards by routing customer positions to liquidity pools, AMMs, or financing arrangements. These applications often aggregate and optimize yield-generating opportunities across multiple protocols.	<ul style="list-style-type: none"> <li>• Performance fees on profits earned</li> <li>• Management fees on assets under management</li> <li>• Compensation from liquidity pools or protocols for routing orders to them</li> </ul>
<b>Liquid Staking Providers</b>	Entities that issue tokens representing staked assets so as to allow market participants to stake and retain liquidity.	<ul style="list-style-type: none"> <li>• Management fees and redemption fees</li> </ul>

As illustrated above, the notion that all DeFi trading protocols only involve “peer-to-peer” interactions without the involvement of intermediaries is untrue. As with the exchange definition, arguments to the contrary by DeFi proponents are unpersuasive, either seeking to insert new criteria into the statutory definitions<sup>18</sup> or making policy arguments as to why DeFi intermediaries *should be exempted* from the longstanding definitions.<sup>19</sup> Applying the Exchange Act in a consistent and technology-neutral manner does not “reintroduc[e] centralized intermediaries;”<sup>20</sup> rather, it appropriately recognizes the multitude of firms involved in, profiting from, and potentially introducing risk to, transactions that occur via DeFi trading protocols that should be subject to Commission oversight in order to protect investors and safeguard the U.S. equity market.

## II. The Commission Should Ensure Key Investor Protections Apply To Tokenized U.S. Equities

Conceding that their activities meet the statutory definitions of an “exchange” and “broker-dealer,” many DeFi proponents have requested exemptive relief from the Commission.<sup>21</sup> As we detail below, granting broad exemptive relief to facilitate the trading of a tokenized share via DeFi protocols would create two separate regulatory regimes for the trading of the *same security*. This outcome would be the exact opposite of the “technology-neutral” approach taken by the Exchange Act, and would instead preference one technology over all others (e.g. a “DeFi” client-facing app could be completely unregulated, in stark contrast to other client-facing apps for trading U.S. equities).<sup>22</sup>

### A. The Commission Cannot Broadly Exempt Key Investor Protections Consistent With Its Statutory Authority

Granting broad exemptive relief from the longstanding statutory definitions of an “exchange” and “broker-dealer” for DeFi trading protocols would be inconsistent with the Commission’s statutory authority.

*First*, Congress has specifically directed the Commission to “facilitate the establishment of a national market system for securities,” finding that the “linking of all markets for qualified securities through communication and data processing facilities will foster efficiency, enhance competition, increase the information available to brokers, dealers, and investors, facilitate the

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<sup>18</sup> For example, some have argued that the decentralized system is not a broker-dealer since it does not “retain custody of the liquidity provided.” *See, e.g.*, Letter from Andreessen Horowitz (May 27, 2022), available at: <https://www.sec.gov/comments/s7-12-22/s71222-20129926-296181.pdf>. Separately, we note that many of these “DeFi” intermediaries appear to have “customers” in respect of the various services being provided.

<sup>19</sup> *See, e.g.*, Letter from Andreessen Horowitz (Aug 13, 2025), available at: <https://www.sec.gov/files/ctf-written-a16z-def-safe-harbor-proposal-applications-081325.pdf> (“a16z August Letter”).

<sup>20</sup> a16z July Letter at 5.

<sup>21</sup> *Supra* note 13.

<sup>22</sup> *See* a16z August Letter. *Compare* Letter from Securitize, Inc. (May 7, 2025) at 1, available at: <https://www.sec.gov/files/ctf-written-input-securitize-050725.pdf> (“Securitize Letter”) (“we do not believe that tokenized securities should be afforded special dispensation solely because of the utilization of blockchain technology”).

offsetting of investors' orders, and contribute to best execution of such orders."<sup>23</sup> While the rules governing the national market system can continue to be finetuned, facilitating the emergence of a "shadow" U.S. equity market by not requiring the registration of intermediaries that otherwise meet the Exchange Act definitions would allow tokenized U.S. equities to trade completely outside of the national market system, fragmenting liquidity and undermining core investor protections. This outcome would be directly contrary to the clear directive from Congress.<sup>24</sup>

*Second*, using exemptive relief to create a new regulatory framework for tokenized U.S. equities would constitute a "fundamental revision" to the statutory scheme without "clear congressional authorization" to do so.<sup>25</sup> Congress never delegated such "sweeping and consequential authority" to the Commission—in fact, Congress is actively debating the appropriate regulatory treatment of tokenized U.S. equities and DeFi trading protocols *right now*.<sup>26</sup> Until Congress provides further direction, the Commission must abide by the Exchange Act as currently in effect.

## **B. Broad Exemptive Relief Does Not Protect Investors**

Exemptive relief granted by the Commission must be "consistent with the protection of investors" and "appropriate in the public interest."<sup>27</sup> Granting broad exemptive relief from the longstanding statutory definitions of an "exchange" and "broker-dealer" for DeFi trading protocols does not meet those standards.

### *(i) The Exchange Definition*

Permitting a trading venue that otherwise meets the definition of an "exchange" to operate in an unregistered capacity (i.e. as neither an exchange nor an ATS) would deprive investors of key protections, including:

- **Venue Transparency.** Exchanges and ATSS must provide transparency regarding (i) fees, (ii) conflicts of interest, (iii) access, (iv) user segmentation, and (v) order handling.

There would be no equivalent requirements for unregistered DeFi trading systems, enabling bad actors to charge investors exorbitant fees and use opaque, conflicted, and discriminatory order handling practices.<sup>28</sup> In addition, there would be no obligation for

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<sup>23</sup> 78k-1(a)(2) and 78k-1(a)(1)(D).

<sup>24</sup> See also Policy Statement of the Securities and Exchange Commission of the Structure of A Central Market System (Mar. 29, 1973) (should a market develop outside of the national market system "as a means to avoid the reporting and other obligations of trading within the system, the Commission will give prompt consideration to corrective measures [. . .] to bring such transactions within the scope of the system.").

<sup>25</sup> West Virginia v. EPA, 142 S. Ct. 2587, 2596 (2022).

<sup>26</sup> See, e.g., Digital Asset Market Clarity Act of 2025, H.R. 3633, 119th Cong. (2025)

<sup>27</sup> 15 U.S. Code § 78mm.

<sup>28</sup> See a16z August Letter at 21 (DeFi trading protocols can "intermediate transactions, restrict execution access, or derive priority-based advantages.").

the venues to check prices available on other venues or route customer orders to more competitive prices.

- **Post-trade Transparency.** Exchanges and ATs must report all executed trades to the market-wide consolidated tape for immediate dissemination.

There would be no equivalent requirements for unregistered DeFi trading systems. Validators can dictate the sequencing of customer transactions, impacting when they are reported to a blockchain. In addition, many transactions may only be reported on a public blockchain on a delayed basis (if at all) due to a variety of factors, including the use of omnibus wallets, off-chain transactions, or a private Layer 2 blockchain.<sup>29</sup>

- **Technological Resiliency.** Exchanges and large ATs must comply with robust technological capacity, integrity, and resiliency standards in order to prevent disruptions to the securities markets due to automated systems failures.

There would be no equivalent requirements for unregistered DeFi trading systems. At the same time, experts warn of a host of potential cybersecurity risks, such as “51% attacks,”<sup>30</sup> “fork attacks,”<sup>31</sup> and “sybil attacks,”<sup>32</sup> that “can quickly propagate”<sup>33</sup> and directly impact the U.S. equities market.

- **Fair Access.** Exchanges and large ATs must fairly apply objective access standards to all prospective subscribers, thus removing discrimination among market participants with respect to access, functionality, order interaction, and fees.

There would be no equivalent requirements for unregistered DeFi trading systems, enabling them to limit access arbitrarily (including to a single, affiliated member) or preference certain members over others (including affiliates) with respect to order interaction and fees.

- **Market Surveillance.** Exchanges and ATs must monitor and surveil for manipulative trading activity, including (i) spoofing, (ii) frontrunning, and (iii) wash trading.

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<sup>29</sup> See Letter from CoinReg Tech (March 24, 2025) at 3, available at: <https://www.sec.gov/files/ctf-input-tupper-3-24-25.pdf> (“CoinReg Tech Letter”) (“Data pertaining to off-chain activity is extremely limited”) and Letter from Perkins Coie LLP (July 30, 2025) at 8, available at: <https://www.sec.gov/files/ctf-written-input-digital-chamber-073125.pdf> (“significant limitations when activity occurs offchain or through centralized intermediaries. Nested accounts, omnibus structures, and internal/proprietary trading by centralized exchanges (CEXs) are examples of activities that are largely invisible to public blockchains”).

<sup>30</sup> Securitize Letter at 2.

<sup>31</sup> *Id.* See also “Ethereum smart contracts used to push malicious code,” (Sept. 3, 2025), available at: <https://www.reversinglabs.com/blog/ethereum-contracts-malicious-code>.

<sup>32</sup> “Sybil Attack in Blockchain: Examples & Prevention,” (June 30, 2025), available at: <https://hacken.io/insights/sybil-attacks/>.

<sup>33</sup> Letter from Metrika, Inc. (April 11, 2025) at 6, available at: <https://www.sec.gov/files/ctf-input-metrika-041125.pdf>.

There would be no equivalent requirements for unregistered DeFi trading systems, leading to concerns about “non-compliant or even illicit protocols”<sup>34</sup> that harm investors.

- **Financial Resources.** Exchanges and ATSS must maintain a minimum level of capital in order to support operations, including required surveillance functions.

There would be no equivalent requirements for unregistered DeFi trading systems, a gap that is exacerbated by the vertically-integrated nature of many digital asset trading venues, where a single firm is providing multiple customer services. Data shows that digital asset trading venues frequently fail, and over 40% of failed platforms since 2014 left users with nothing.<sup>35</sup>

- **Execution Quality Transparency.** Exchanges and ATSS are required to publish standardized execution quality reports that enable market participants to make informed order routing decisions.

There would be no equivalent requirements for unregistered DeFi trading systems, impeding investors’ ability to compare execution quality across different trading venues.

- **Volatility Controls / Trading Halts.** Exchanges and ATSS must enforce limit-up and limit-down risk controls that provide collars to protect against drastic swings in short succession and trading halts in the event of major company news.

There would be no equivalent requirements for unregistered DeFi trading systems, increasing the risks of flash crashes and other bouts of severe volatility that could have knock-on impacts for the U.S. equity market.

#### *(ii) The Broker-Dealer Definition*

Permitting a firm that otherwise meets the definition of a “broker-dealer” to operate in an unregistered capacity would deprive investors of key protections, including:

- **Best Execution and Execution Quality Disclosures.** Broker-dealers are required to obtain best execution for customer orders and also provide extensive disclosures regarding order routing decisions and execution quality.

There would be no equivalent requirements for unregistered DeFi intermediaries, meaning that conflicts of interest can pervade the execution process, as an intermediary can “manipulate transaction ordering, impose selective fees, or advantage affiliated

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<sup>34</sup> a16z August Letter at FN 21.

<sup>35</sup> Letter from World Federation of Exchanges (March 18, 2025) at 7, available at: <https://www.sec.gov/files/ctf-input-world-federation-exchanges-3-2025-3-18.pdf>.

apps.”<sup>36</sup> There could also be “structural incentives for [a]pps to route users to opaque, non-compliant venues to gain pricing or execution advantages.”<sup>37</sup> In addition, the lack of standardized execution quality disclosure would make it extremely difficult for investors to hold these DeFi intermediaries accountable for poor results.

- **Frontrunning Prohibition.** Broker-dealers are prohibited from trading ahead of customer orders.

There would be no equivalent requirements for unregistered DeFi intermediaries. In fact, there is acknowledgement of the ability to frontrun customer orders without regulatory consequence in order to “extract profit by inserting their own transaction first or rearranging user transactions.”<sup>38</sup>

- **Capital and segregation requirements.** Broker-dealers are subject to robust net capital and segregation requirements that are designed to ensure that broker-dealers safeguard customer property and maintain sufficient liquid assets to return that property to customers promptly upon a broker-dealer liquidation.

There would be no equivalent requirements for unregistered DeFi intermediaries. While certain customers may “self-custody” digital tokens, a number of intermediaries may still obtain control of customer assets, including when (i) a customer deposits tokens with an AMM or a staking provider, (ii) a customer holds tokens with a wallet provider, or (iii) a third-party token issuer holds underlying U.S. equity shares on behalf of a customer. In addition, the Commission specifically requires net capital for broker-dealers even when they do not provide custody services in order to mitigate against market disruptions caused by the failures of intermediaries.<sup>39</sup>

- **AML/KYC.** Broker-dealer are subject to rigorous know-your-customer and anti-money laundering requirements.

There may not be equivalent requirements for unregistered DeFi intermediaries. In fact, one proponent has stated that “KYC’d DeFi is not DeFi.”<sup>40</sup>

- **Market Access Controls.** Broker-dealers are subject to extensive market access controls that are designed to prevent erroneous orders from being placed into the market in order to safeguard market stability.

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<sup>36</sup> a16z August Letter at 22.

<sup>37</sup> a16z August Letter at FN 21. Further, “a controlling party could gate user access or throttle transactions, enabling them to favor specific apps or extract economic rents from routing” *Id.* at 22.

<sup>38</sup> J.W. Verret Letter at 13.

<sup>39</sup> 17 C.F.R. § 240.15c3-1(a)(6).

<sup>40</sup> J.W. Verret Letter at 8.

There would be no equivalent requirements for unregistered DeFi intermediaries, increasing the risks of flash crashes and other bouts of severe volatility that could have knock-on impacts for the U.S. equity market.

There are far too many investor protection concerns associated with granting broad exemptive relief from the longstanding statutory definitions of an “exchange” and “broker-dealer” for DeFi trading protocols. Incorporating conditions as part of any such exemptive relief, such as thresholds on the number of users, transactions, or symbols involved, does not address these fundamental concerns. As a result, we suggest that initiatives designed to tokenize the U.S. equity market are not appropriate for an “innovation exemption” advanced by the Commission, and, at a minimum, the Commission must engage in a notice-and-comment process in order to address the myriad concerns detailed herein.

### III. A Path Forward

Feedback to the Commission’s Crypto Task Force highlights several potential benefits of permitting U.S. investors to trade tokenized U.S. equities, including (a) the ability to “self-custody” tokenized assets, (b) the ability to transfer tokenized assets 24 hours a day, 7 days a week, (c) removing settlement risk through atomic (i.e. instantaneous) blockchain settlement, and (d) increasing the efficiency of proxy voting and other shareholder communications.<sup>41</sup>

While noting these potential benefits of tokenization, it is important for the Commission to conduct an independent assessment, as there are several different types of tokenization initiatives being contemplated.<sup>42</sup> As part of this assessment, the Commission should:

- Identify the benefits of tokenization that may be unique compared to the trading of U.S. equities by U.S. investors today;
- Determine whether any of the benefits vary depending on the form of tokenization (and ensure there is clarity regarding voting rights, dividend payments, and tax treatment); and
- Consider whether, in addition to potential benefits, any new risks are introduced and, if so, how they should be addressed from a regulatory perspective.

Below, we set forth principles that should guide the Commission’s regulatory initiatives in this area:

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<sup>41</sup> See, e.g., a16z July Letter.

<sup>42</sup> For example, compare an equity issuer tokenizing its own shares versus a third-party tokenizing U.S. equities by immobilizing existing shares and issuing digital “security entitlements” (where the securities intermediary holding shares for a customer under Article 8 of the UCC has agreed with its customer that it will represent the customer’s entitlement to those securities via tokens on a blockchain) or digital “receipts” (where a third-party acquires existing shares and issues a transferable token that entitles the holder to receive the stock through a redemption process that typically involves removing (or “burning”) the token from the blockchain).

- There should be a clear regulatory process for issuers to convert existing shares into tokenized versions without needing to create a new share class.<sup>43</sup>
- The Commission should support initiatives that improve clearing and settlement efficiency, among other potential benefits. Custody, transfer agent, and recordkeeping rules should be amended to ensure that blockchain ledgers can serve as the definitive record of ownership and that custody can be established by control of a token in a wallet.
- The Commission should ensure that any fundamental modifications to U.S. equity market trading rules are applied equally to the trading of traditionally-issued shares and tokenized shares.
- The Commission should propose rulemaking regarding the appropriate regulatory treatment of “pairs trading” involving (i) a U.S. equity and (ii) a stablecoin or digital commodity token.
  - The important investor protections enshrined in the Commission’s regulatory regime for U.S. equities (as detailed above) must be preserved, and therefore deference to the CFTC’s regulatory framework is not appropriate when the trading of U.S. equities is involved.

We look forward to continuing to engage with the Commission as it works through these complex issues through notice-and-comment rulemaking, while ensuring that core U.S. equity market participants—including issuers and the tens of millions of Americans who rely on the U.S. equity market to secure their retirement futures—remain protected.

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We thank the Commission for considering our comments.

Please feel free to call the undersigned with any questions regarding these comments.

Respectfully,

/s/ Stephen John Berger

Managing Director

Global Head of Government & Regulatory Policy

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<sup>43</sup> See Securitization Letter.