

Re: File No. 4-927; Release No. 34-106402
Innovation Exemption for Tokenized Securities Venues

Dear Commissioners and Staff,

I am writing in response to the Commission's request for comment on the Innovation Exemption, and particularly Question 4:

"Should the TSV Exemption be modified to permit a TSV to trade securities other than Tokenized NMS Stock?"

I believe it should. I respectfully suggest that the Commission consider a controlled pilot allowing Tokenized Securities Venues to support additional classes of bona fide securities, including appropriately issued interests in private investment funds and other securities that have been lawfully issued under the Securities Act.

I offer the experience of BostonTrading as a practical case study. BostonTrading has managed diversified digital-asset investment portfolios since 2016. Our objective has been relatively simple: rather than asking an investor to select, purchase, custody and continually manage numerous individual digital assets, we provide professionally managed portfolios with different risk profiles.

In the United States, however, our private offering structure means that participation is restricted to investors satisfying the applicable investor qualification requirements.

This creates an interesting distinction. An ordinary American investor can invest relatively small amounts in listed stocks, ETFs and exchange-traded products providing exposure to digital assets. Yet the same investor may be unable to invest a similarly modest amount into a professionally managed private investment fund because of the regulatory pathway under which that fund has been issued.

I understand that the Innovation Exemption does not change those Securities Act requirements. The Commission's Order correctly states that offers and sales of securities must continue to be registered under the Securities Act or qualify for an applicable exemption, and that primary issuance is not permitted on a TSV.

I am therefore not suggesting that tokenization should circumvent Regulation D, the Securities Act, the Investment Company Act, the Investment Advisers Act or other applicable investor protections.

Instead, I encourage the Commission to consider a separate but related question:

Could the market infrastructure being tested through the Innovation Exemption eventually be extended to lawfully issued private-fund interests and other securities, including securities issued under registration or an exemption that permits participation by smaller or non-accredited investors?

This distinction is important. The legal authority to issue a security and the

technology used subsequently to own, transfer and trade that security are separate questions.

Tokenization does not need to remove investor protection. Properly designed, it may provide additional tools for investor protection. For example, a tokenized fund security could potentially incorporate permissioned participation, identity verification, KYC/AML controls, transfer restrictions, investor eligibility requirements and investment limits. Smart contracts could be public and auditable. Ownership and transactions could be recorded in a manner accessible to regulators. Independent custody, valuation, reporting and audit requirements could continue to apply.

In other words, rather than removing the gate, technology may allow regulators to build a better gate. This is particularly relevant to smaller investors. Historically, serving an investor purchasing \$500 or \$1,000 of a private investment product may have been economically impractical. Account establishment, investor verification, ownership records, subscriptions, redemptions, distributions, reporting and compliance all create costs.

Distributed-ledger technology has the potential to reduce some of those administrative costs substantially. If those savings are achieved while appropriate investor protections remain in place, investment products that historically required relatively large minimum investments may eventually become economically practical at much smaller investment amounts.

The Commission itself recognizes in this Order that TSV participants may include retail investors, institutional investors and registered entities. I therefore encourage the Commission to consider whether investor protection in a future tokenized-securities market can increasingly be achieved through a combination of disclosure, diversification, investment limits, verified identity, custody safeguards, transparent ownership records and programmable transfer restrictions, rather than relying primarily upon an investor's wealth as the gatekeeper.

BostonTrading's experience illustrates why this could be useful. We have spent approximately ten years managing diversified digital-asset portfolios through several complete crypto market cycles. One lesson from that experience is that many ordinary investors do not necessarily want access to more speculative investments. They want diversification, professional management, understandable reporting, sensible custody arrangements and the ability to invest an amount appropriate to their circumstances.

There is therefore a potentially useful policy distinction between giving retail investors unrestricted access to speculative private securities and allowing smaller investors controlled access to professionally managed, diversified investment products under clearly defined conditions. I suggest that the Commission consider testing that distinction.

Specifically, I respectfully propose that the Commission consider a limited "Tokenized Investment Fund Pilot" within, alongside, or as a future extension of the Innovation Exemption. Such a pilot could permit secondary trading of tokenized

interests in qualifying investment funds and other appropriate securities where the underlying securities have first been lawfully issued pursuant to registration or an applicable Securities Act exemption.

Participation could initially be subject to conditions such as:

- verified investor identity and KYC/AML;
- permissioned wallet access;
- clearly defined investment limits for non-accredited investors;
- appropriate financial and risk disclosure;
- independent or otherwise appropriately regulated custody of underlying assets;
- regular independent calculation and publication of net asset value where applicable;
- transparent disclosure of management, performance and other fees;
- public and auditable smart contracts;
- programmable transfer restrictions reflecting applicable securities laws;
- clear legal rights between the token and the underlying fund interest;
- appropriate books and records available to the Commission;
- cybersecurity and operational safeguards;
- restrictions on leverage where appropriate;
- transaction and ownership reporting sufficient for regulatory oversight; and
- limits on initial pilot size, investor exposure and secondary trading volume while the Commission gathers evidence.

The purpose is not to create an unregulated retail market in private securities, rather it would be to determine, through real-world evidence, whether modern technology can permit broader participation while maintaining or improving investor protection.

There is also a practical question of diversification. A \$1,000 investment in a single speculative company can result in complete loss if that company fails. A \$1,000 interest in a properly diversified investment fund may spread that exposure across numerous underlying assets.

The regulatory framework should therefore be capable of considering not merely whether an investor is wealthy, but also what the investor actually owns, how

diversified it is, what information is provided, how assets are custodied, what fees are charged and how much of the investor's capital is at risk.

I would also encourage the Commission to consider allowing fractional ownership to be tested explicitly. One of the most useful characteristics of tokenization is that an economic interest can be divided into small units without requiring the traditional administrative cost associated with maintaining large numbers of small accounts.

A future framework might therefore permit qualifying securities to be held in denominations such as \$100, \$500 or \$1,000, while separately limiting the total amount a retail investor may invest according to appropriate criteria. This could provide access without requiring unlimited exposure. The Commission could also require the token to represent the genuine underlying security rather than merely tracking its price.

That principle is already present in the Innovation Exemption's requirement that Tokenized NMS Stock provide holders the same rights and privileges as the equivalent traditional stock. I believe that principle is important and should be retained if the framework is expanded.

If an investor purchases a tokenized fund interest, the investor should own the corresponding legal and economic interest in that fund, including applicable rights to distributions, redemption, voting or other rights attached to the relevant class of security. The blockchain should be the ownership and transaction infrastructure. It should not be used to create an economically ambiguous substitute for the underlying investment.

Secondary liquidity also deserves examination. Private investment funds are often illiquid partly because there is no practical mechanism for investors to transfer relatively small interests. Permissioned Tokenized Securities Venues could potentially provide controlled secondary liquidity without converting the underlying investment into an unrestricted public security.

Investor eligibility and transfer restrictions could be checked before a transaction is permitted. This could be particularly valuable for long-term investments. An investor who knows there is a compliant mechanism through which an investment may eventually be transferred may be more comfortable committing capital for longer periods. At the same time, the Commission could impose volume limits, holding periods or other restrictions where appropriate.

I would therefore encourage the Commission to examine the Innovation Exemption not simply as a new way of trading existing public stocks. Public markets already have efficient electronic trading infrastructure. Private markets are where ownership records, transfer restrictions, limited liquidity, relatively high administration costs and investor eligibility requirements create considerably more friction.

Those characteristics may make appropriately controlled private securities one of the areas where tokenization can ultimately provide the greatest practical benefit. A limited pilot would allow the Commission to test this proposition rather than

having to resolve every policy question in advance.

The pilot could begin with a small number of issuers, restricted aggregate issuance, defined retail investment limits, qualified custodians where required, independently calculated valuations, audited smart contracts and comprehensive regulatory reporting.

The Commission could then measure actual outcomes:

Did administration costs decline?

Did smaller investors participate?

Did investors understand what they owned?

Did tokenization improve ownership records?

Did secondary liquidity improve?

Were transfer restrictions effective?

Were there material cybersecurity, custody, valuation or market-manipulation problems?

Did investor outcomes differ materially from comparable traditional investment structures?

Those results would provide evidence for permanent rulemaking.

After approximately ten years working with investors in digital assets, my experience is that technological innovation is most useful when it makes investing simpler rather than merely faster. An ordinary investor should be able to understand what he or she owns, where the assets are held, what it costs, what can go wrong, and how to get their money back.

Tokenization cannot replace those fundamentals. It may, however, make them easier to administer, verify and enforce.

Accordingly, I respectfully encourage the Commission to:

1. Modify or expand the TSV framework, whether now or through a subsequent pilot, to permit the secondary trading of appropriate securities beyond Tokenized NMS Stock.
2. Include qualifying tokenized interests in investment funds among the securities considered for such a pilot.
3. Permit participation by smaller and non-accredited investors where the underlying securities have been lawfully issued through registration or an exemption that permits such participation.
4. Consider investment limits, diversification, disclosure, custody, valuation, permissioned access and programmable compliance as investor-protection tools.
5. Permit fractional tokenized interests so that minimum investment amounts can be substantially lower than those traditionally associated with private investment funds.

6. Require tokenized securities to represent genuine legal and economic interests in the underlying security rather than merely providing synthetic price exposure.

7. Test controlled secondary liquidity through permissioned Tokenized Securities Venues.

8. Collect and publish empirical data from the pilot so that subsequent rulemaking can be based upon actual investor and market outcomes.

Finally, BostonTrading would be willing to participate in discussions with Commission staff, provide information from our experience operating diversified digital-asset investment funds since 2016, or participate in an appropriately structured pilot program should the Commission consider one.

The United States has an opportunity to combine two objectives that are sometimes treated as competing with one another: broader access to investment opportunities and stronger investor protection. Properly designed tokenization may help achieve both.

Thank you for considering these comments.

Respectfully submitted,

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