FACT SHEET

Order Granting Temporary Conditional Exemptive Relief for Trading of Tokenized NMS Stock on Tokenized Securities Venues

- The order grants a five-year, conditional exemption from the definition of "exchange" in the Securities Exchange Act of 1934 ("Exchange Act") to certain trading venues that provide the use of automated market makers and liquidity pools and set standards for persons to access trading to buy and sell tokenized NMS stock ("Tokenized Securities Venues" or "TSVs").
- The order also grants a five-year, conditional exemption from the definition of "dealer" in the Exchange Act to certain liquidity providers that provide liquidity in tokenized NMS stock and may also be engaged in additional activities that are indicia of dealing activity, such as quoting pricing to customers or entering into agreements to provide committed capital.

Background

Over the past several years, advancements in distributed ledger technology have facilitated innovations in trading across non-security crypto assets. Increasingly, market participants are seeking to buy and sell tokenized NMS stock using automated market maker ("AMM") and liquidity pool distributed ledger technology. However, a TSV that trades tokenized NMS stock may face substantial challenges with complying with the Federal securities laws without potentially burdensome changes to its business model. TSVs and the use of distributed ledger technology can offer several benefits to market participants, including enabling investor self-custody, around-the-clock trading, fractional ownership of shares, and near instantaneous settlement, while improving efficiencies and providing greater transparency.

The order granting the exemptions – known as the "Innovation Exemption" – allows market participants to obtain the potential benefits of distributed ledger technology for trading tokenized NMS stock. Specifically, the order facilitates trading in tokenized NMS stock using distributed ledger technology while maintaining appropriate investor protections and fair and orderly market principles as the Commission further considers potential regulatory changes or other actions.

Highlights of the Order Granting Exemptive Relief

The order facilitates the permissioned trading of tokenized NMS stock using innovative AMMs and liquidity pools (together referred to as "AMM Liquidity Pools") on public, permissionless blockchain by exempting TSVs from the definition of "exchange" in the Exchange Act ("TSV Exemption"). A TSV is an organization, association, or group of persons that brings together buyers and sellers in tokenized NMS stock by: (1) providing one or more AMM Liquidity Pool(s) for permissioned participants to interact and agree to terms of a trade and (2) setting standards for persons to access trading on such AMM Liquidity Pool(s). Tokenized NMS stock means an NMS stock that is (1) a security tokenized by, or on behalf of, the issuer of the underlying NMS stock; or (2) a security tokenized by a third party that is unaffiliated with the issuer of the underlying NMS stock. "Tokenized NMS stock" does not include securities where a third party issues a crypto asset representing its own security that provides synthetic exposure to an underlying security, such as a tokenized linked security or a tokenized security-based swap.

The order also exempts from the definition of "dealer" in the Exchange Act any liquidity provider in an AMM Liquidity Pool that supplies liquidity in the form of tokenized NMS stock using proprietary capital, as well as engaging in additional dealer activities, such as quoting pricing to customers or entering into agreements to provide committed capital ("Covered Firm"), subject to conditions ("Covered Firm Exemption"). Among other things, for the exemption to be available, a liquidity provider's securities activities must be limited to activities related to the trading of tokenized NMS stock in an AMM Liquidity Pool operating pursuant to the TSV Exemption.

The exemptions are subject to conditions that are carefully scoped to ensure that they further the goals of protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation, which include, among others, the following conditions:

- Tokenized NMS stock traded on a TSV is subject to limits on the number of symbols and volume traded;
- A TSV must verify that the tokenized NMS stock made available for trading on the TSV provides holders the same rights and privileges as does traditional NMS stock of an equivalent class;
- Before making available for trading tokenized NMS stock that is tokenized by an unaffiliated third party, the TSV must provide written notice and an opportunity to object to the issuer of the underlying NMS stock;
- Smart contracts used by a TSV must be auditable, public, and deployed on a public, permissionless distributed ledger; and
- A TSV must provide public notice about its operations, trading activities, and the trading activities of its affiliates on the TSV.

What's Next

The order will be published on the SEC's website and in the *Federal Register*. Prior to the commencement of trading of any third-party tokenized NMS stock on a TSV, the TSV must provide to the issuer of the underlying NMS stock a notice and the ability to object to such trading. Additionally, at least 30 calendar days before operating, a TSV must publish a copy of a notice prominently on its publicly available website that includes certain information, and within one business day of publication of the notice, the TSV must provide the Commission written notice that it intends to operate pursuant to the TSV Exemption.

A Covered Firm operating pursuant to the Covered Firm Exemption must provide written notice to the Commission of its role as a Covered Firm, and disclose on any public-facing website, if applicable, certain information.

The order solicits public comment about possible modifications to the exemptive relief and potential next steps.