CITADEL | Securities

July 21, 2025

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

Re: Tokenized Equity Securities

Dear Ms. Countryman:

Citadel Securities appreciates the opportunity to provide input to the Securities and Exchange Commission's (the "Commission") Crypto Task Force.[1] The digital asset product landscape is diverse and evolving, and a key focus of the Crypto Task Force is to provide greater clarity to market participants regarding which digital assets are considered "securities" under federal law.[2] However, certain digital assets—such as tokenized U.S. equities—clearly fall within the definition of a "security,"[3] and the Commission should resist self-serving requests for broad exemptions from longstanding securities regulations for these products. Simply put, while we strongly support technological innovations designed to address market inefficiencies, seeking to exploit regulatory arbitrage for "look-a-like" securities is not innovation.

While targeted refinements may be required to a limited set of Commission rules and regulations to accommodate specific immutable characteristics of a tokenized U.S. equity, the overarching objective should be to treat tokenized U.S. equities in the same manner as traditional equity securities from a regulatory perspective—particularly when it comes to bedrock principles such as best execution, fair access, and pre- and post-trade transparency. And to the extent the Commission determines that the current regulatory framework for U.S. equities can be improved, those improvements should be applied market-wide. It is critical that the Crypto Task Force and the Commission proceed in a deliberative and transparent manner as it tackles these issues, with a focus on investor protection, capital formation, and market liquidity and efficiency.

For clarity, references in this letter to "tokenized U.S. equities" mean the issuance on a blockchain of new "look-a-like" products that are being marketed as an *alternative* to listed equity securities (as opposed to leveraging a blockchain to improve operational workflows when trading traditional equity securities, such as by enhancing clearing and settlement efficiency).

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[1] Commissioner Hester M. Peirce, "There Must Be Some Way Out of Here" (Feb. 21, 2025), available at https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125.

[2] *See, e.g.,* Staff Statement on Stablecoins (Apr. 4, 2025), available at https://www.sec.gov/newsroom/speeches-statements/statement-stablecoins-040425.

[3] Commissioner Hester M. Peirce, "Enchanting, but Not Magical: A Statement on the Tokenization of Securities" (July 9, 2025), available at https://www.sec.gov/newsroom/speeches-statements/peirce-statement-tokenized-securities-070925.

I. Ensuring Tokenized U.S. Equities are Appropriately and Consistently Regulated

A. Procedural Considerations

The regulatory framework for listed equity securities has been fine-tuned over decades, and has served as the foundation for the deepest, most liquid capital markets in the world. While targeted refinements to a limited set of rules may be required to accommodate tokenized U.S. equities, certain firms have instead requested that the Commission grant broad exemptive relief that would disapply a large portion of the Commission's rules and regulations. It is incumbent that the Commission pursue a deliberative and transparent process as it evaluates these exemptive requests, including providing an opportunity for public notice and comment and adequately assessing the costs and benefits.

The Commission should not grant a handful of firms broad exemptive relief from regulations that are central to the SEC's mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. Tokenized securities must achieve success by delivering real innovation and efficiency to market participants, rather than through self-serving regulatory arbitrage that preferences tokenized U.S. equities over listed equity securities. The Commission should not allow token purveyors to profit simply by avoiding the Commission's time-tested framework for protecting the interests of retail and institutional investors.

Furthermore, these proposals by large, well-established firms seeking to introduce "look-a-like" securities cannot be characterized as limited, small-scale projects appropriate for an "innovation sandbox" largely free from Commission regulation.[4] Instead, we recommend that the Crypto Task Force and the Commission hold additional roundtables on this topic, with representation from various segments of U.S. equity markets (e.g. retail investors, institutional investors, market makers, exchanges, and issuers[5]), and pursue formal rulemaking to the extent that regulatory changes for tokenized U.S. equities are deemed appropriate.

B. Reasons for a Deliberative Process

(i) Requiring Additional Transparency Regarding the Various Proposals

In connection with determining the scope of Commission rules and regulations that should be applied to tokenized U.S. equities, it is critical that there be sufficient transparency provided to the public regarding the details of the various offerings being contemplated, including, but not limited to:

[4] Establishing a "shadow" U.S. equity market completely outside of the national market system through exemptive relief is not contemplated by Section 36 of the Exchange Act.

[5] The Commission has long-recognized that a well-regulated and vibrant secondary market for trading listed equities is critically important in order for issuers to raise capital; creating an alternative regime for "look-a-like" products that are being marketed as a substitute for listed equity securities runs the risk of negatively impacting capital formation.

- The identity of the issuer of the tokenized U.S. equity, the regulatory classification of the product being issued (e.g. an equity security or a security-based swap), and key structural characteristics (e.g. whether the issuer plans to hold a share of the listed equity security for each tokenized "look-a-like" share issued);

- Any differences in rights associated with the tokenized U.S. equity compared to the listed equity security (e.g. voting rights, dividend payments and associated tax treatment);

- Details of any arbitrage mechanism designed to ensure pricing alignment between the tokenized U.S. equity and the listed equity security (e.g. a create/redeem mechanism and whether in-kind or in-cash) and what happens when U.S. equity markets are closed;

- Where the tokenized U.S. equity is expected to be traded, and the associated membership and access requirements of the relevant platform(s);

- Fees associated with trading the tokenized U.S. equity, including pre-funding requirements and transaction fees;

- The anticipated differences (costs or benefits) of an investor holding the tokenized U.S. equity compared to a listed equity security (e.g. credit risk to the issuer of the tokenized U.S. equity and the related insolvency analysis);

- Margin frameworks, including rules applicable to the close-out of positions where an investor has failed to meet a margin call; and

- Disclosures regarding the risk of fraud and how that risk will be borne (it is essential that the risk of fraud be borne solely by those market participants participating in tokenized U.S. equities and not be socialized across the broader securities market).

These details may vary significantly across different tokenization projects, and therefore it is important that the Commission and the public have a complete understanding of the various alternatives being considered before sweeping decisions are made regarding potentially exempting these products from rules and regulations that are otherwise standard for listed equity securities.

(ii) Safeguarding Capital Formation

U.S. equity markets form the bedrock of our economic strength—ensuring the efficient allocation of capital to groundbreaking companies that drive innovation and economic growth. Before endorsing "look-a-like" products that are marketed as an alternative to listed equity securities, the Commission should thoroughly consider the potential implications for U.S. equity markets, with a particular emphasis on the issuer perspective. Areas of inquiry include:

- The impact on liquidity, efficiency, transparency, and transaction costs in U.S. equity markets;

- The impact on the highly efficient ETF market if tokenized U.S. equities reference a basket of equities without detailed disclosures about fees, creation and redemption rights, and tax treatment;

- Whether tokenized U.S. equities referencing a specific company—but issued by a third party—create significant investor confusion as to the fact that they are not issued by, or otherwise endorsed by, the relevant company (and instead likely involve counterparty risk to an unregistered token issuer);

- Whether tokenized U.S. equities will siphon liquidity away from U.S. equity markets, creating new liquidity pools that are inaccessible to many U.S. equity market participants (e.g. pensions, endowments, insurance companies, banks, and other institutional investors who by regulation, prudential or fiduciary obligations, or internal risk policies cannot own loosely regulated tokenized U.S. equities or maintain assets at a digital asset trading venue);

- The impact on competition amongst markets if vertically integrated digital asset trading venues control onboarding, pre-funding and settlement rails on blockchains that are not interoperable with the rest of the equities markets;

- The impact of new pools of liquidity requiring pre-funding of obligations outside of market-wide net settlement systems;

- The impact on issuers, including through (i) decreased transparency regarding their shareholder base where voting rights are contractually provided to holders of tokenized U.S. equities and (ii) a less engaged shareholder base where voting rights are not provided to holders of tokenized U.S. equities (as the token issuer has little economic interest in the underlying company or incentive to thoughtfully consider voting matters); and

- The impact on the IPO market, and whether the offering of "look-a-like" securities products (including for private companies) will further reduce the incentives of companies to secure capital from our public markets.

These concerns only increase to the extent that broad exemptive relief is granted that would allow token purveyors to profit simply by avoiding time-tested rules and regulations that are otherwise standard for listed equity securities.

(iii) Critically Evaluating Requested Exemptions

While targeted refinements to a limited set of Commission rules may be required to accommodate specific immutable characteristics of a tokenized U.S. equity, broad exemptive requests should be rejected. It is not readily apparent why a "look-a-like" product would not be able to comply with core aspects of the carefully developed regulatory framework for listed equity securities, including:

- Exchange registration and key associated requirements, including (i) filing rule proposals for public comment and Commission approval, (ii) complying with robust cybersecurity and technological resiliency requirements, (iii) providing fair access, (iv) ensuring fees are reasonable and fairly allocated, and (v) prohibiting any discrimination against specific customers, issuers, brokers, or dealers;[6]

- Key investor protection requirements, such as:

  - FINRA rules requiring best execution, compliance with sales practice standards, prohibiting wash sales, and prohibiting frontrunning or trading ahead of customer orders, and

  - Commission rules regarding broker-dealer standards of conduct and requiring the disclosure of standardized order routing and execution quality metrics;

- The market-wide transparency regimes—for both quotations and transactions—that unify a fragmented market with many execution venues and enable investors to accurately assess execution quality;[7]

- Market surveillance infrastructure that protects against insider trading and manipulative trading practices;

- Issuer registration requirements for baskets of tokenized U.S. equities;

- Market-wide investor protections, such as LULD bands (and associated market-wide trading halts), market access requirements, and clearly-erroneous procedures;

- Core trading standards applicable to the trading of equity securities, such as minimum quoting increments and the customer limit order display rule; and

- Contributing to the funding of the Commission's budget through Section 31 fees.

II. Conclusion

Tokenized securities must achieve success by delivering real innovation and efficiency to market participants, rather than through self-serving regulatory arbitrage. The Commission should

[6] We note that the ATS framework was never intended to be the backbone of a "shadow" U.S. equity market completely outside of the national market system. Rather, the Commission established an "exchange-lite" framework for ATSs specifically to "strengthen the public markets" for U.S. equities and imposed volume thresholds to ensure that "dominant" ATSs were still required to register as an exchange. For tokenized U.S. equities, public markets do not exist and the leading platforms seeking to list these new securities must register as an exchange. *See* Regulation of Exchanges and Alternative Trading Systems, 63 FR 70844 (Dec. 1998) at 70845, 70847.

[7] We note blockchains are not a substitute for real-time post-trade transparency, as—compared to the equities consolidated tape—they are lacking in terms of both scope of transaction data (e.g. trade price) and market-wide coverage.

not allow token purveyors to profit simply by avoiding the Commission's time-tested framework for protecting the interests of retail and institutional investors. It is untenable to grant "look-a-like" products marketed as an *alternative* to listed equity securities broad exemptive relief from longstanding regulations that are core to the SEC's mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. We agree that our regulatory regime can benefit from further enhancements,[8] however, these should be pursued through the standard and transparent rulemaking process.

We also encourage the Commission to partner with the CFTC and foreign regulators to ensure global coordination and safeguard U.S. equity markets from other novel products referencing U.S. underliers that risk investor confusion and unintended consequences for U.S. market functioning.

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

[8] *See* Citadel Securities, *Enhancing Competition and Innovation in U.S. Financial Markets* (April 2025), available at https://intranet.citadel.com/api/media/secure/external/v2/raw/upload/6812183f5dcd2526ca0a82f1.pdf.