

MEMORANDUM

To: Crypto Task Force Meeting Log
From: Crypto Task Force Staff
Re: Meeting with Representatives of the Securities Industry and Financial Markets Association

On September 10, 2025, Crypto Task Force Staff met with representatives from the Securities Industry and Financial Markets Association.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. The Securities Industry and Financial Markets Association representatives provided the attached document, which was discussed during the meeting.

SIFMA would like to request a meeting to follow up on our third response to the Crypto Task Force's Request for Information, which was submitted on August 7, 2025. We propose that the meeting cover the considerations and recommendations in that letter, as well as any other issues that the Task Force would like to raise with us. Those topics include:

- Highlighting the important benefits and protections current market structures provide to investors and why they should be utilized to allow new operating models to achieve the same level of success as the U.S. securities markets has enjoyed to-date;
- Important considerations for the design of an innovation exemption or regulatory sandbox style framework;
- Opportunities for additional innovation within existing regulatory frameworks that our members are exploring; and
- The importance of clearly defining tokenization and ensuring regulatory frameworks for issuance and trading of tokenized securities are appropriately tailored to facilitate investor protection, market confidence, and ultimately, broad and sustainable adoption of these new types of assets.

Attendees would include:

- Ken Bentsen, SIFMA CEO and President
- Joe Seidel, COO
- Peter Ryan, Managing Director and Head of International Capital Markets and Strategic Initiatives
- Charles DeSimone, Managing Director and Deputy Head of Operations and Technology;
- Steve Byron, Managing Director, Head of Operations and Technology;
- Joe Corcoran, Managing Director, Capital Markets
- Katie Kolchin, Managing Director, Capital Markets
- Kyle Brandon, Managing Director, Derivatives Policy
- Lewis Cohen, Partner at CahillNXT

We would be happy to conduct the meeting in hybrid format or fully virtual, depending on the Task Force's availability and availability of any other SEC staff that the Task Force may wish to invite to join the meeting. Most of the above SIFMA attendees would be joining virtually.



SEC Crypto Task Force: Protecting Investors and Maintaining Market Integrity in Tokenized Securities Markets

PRESENTED BY

SIFMA

September 2025

Agenda

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1 Executive Summary

- SIFMA strongly supports modernization and tailoring of existing rules to accommodate new technologies. At the same time, existing investor protections and market integrity principles must be extended to any markets that issue and trade tokenized securities and the Commission should seek to treat tokenized securities in the same manner as traditionally issued securities. Extending these protections, and avoiding creating opportunities for regulatory arbitrage, will build investor confidence in markets for tokenized securities, encouraging broad participation and their long-term success.
- As discussed in our August 7 letter, many of these protections are derived from the current broker-dealer, exchange and custody frameworks—including structural limitations on vertical integration and separation of core functions. These core protections should be utilized in tokenized securities markets – whether centralized or “decentralized” - to mitigate potential conflicts of interest, ensure market integrity, and avoid regulatory arbitrage – all while recognizing that tailoring of existing requirements will be needed to accommodate novel business and operational models.
- It is critical that the SEC consider, and seek public input on, the risks, complexities, and various legal ramifications to issuers, investors, and other market participants of various forms of “tokenization.”
- SIFMA believes that a carefully designed innovation exemption or regulatory sandbox framework can help supplement, though not replace, a broader process of regulatory modernization across all asset classes to accommodate tokenized securities. Guardrails on such a framework and projects that operate under it will be necessary to protect investors, maintain market integrity, and avoid regulatory arbitrage.

Ensuring Investor Protection and Market Integrity in Tokenized Securities Markets

- As discussed in the August 7 letter and a recent [SIFMA blog](#), the following investor protection and market integrity principles have been central to the long-term strength and success of the U.S. securities markets:
 - Market Interconnectivity and Fair Access
 - Price and Market Transparency
 - Proprietary Trading / Prohibition on Trading Ahead of Customers
 - Best Execution
 - Market Surveillance, Books-and-Records & Audits
 - Investment Recommendations
 - Conflicts of Interest/Separation of Functions
 - Customer Optionality
 - Disclosure Requirements
 - Custody, Financial Responsibility, and Clearing / Settlement
 - Anti-Fraud/Financial Crimes
- Modernization of the securities markets and regulatory frameworks to accommodate blockchain technology and tokenization should preserve these core protections i.e., specific requirements may need to be changed, but core investor protection and market integrity principles need to be maintained.
- Failure to incorporate these principles would pose significant and unnecessary risks to investors, issuers, and market quality and could create opportunities for regulatory arbitrage. This, in turn, would undermine confidence in, and the long-term viability of, tokenized securities markets.

Investor Protections Embedded in Established Entity Frameworks

- Many investor and market integrity protections derive from the regulatory responsibilities of broker-dealers *e.g.*, best execution; disclosures to clients about investor risks and conflicts of interest; customer protection and safekeeping rules; and financial crimes requirements.
- Broker-dealers as underwriters or agents also provide important protections to issuers in capital markets *e.g.*, through due diligence and offering conduct standards; underwriting and distribution responsibilities; responsibilities for orderly trading in the secondary market; and conflict management to ensure fair treatment for individual issuers and investors.
- A number of “decentralized” operating models still likely fall within existing registration and regulation frameworks under the Exchange Act.
 - Many of these operating models (such as “apps,” “routers,” and “servers”) are not, in fact, “decentralized” or intermediary-free. This is an issue we plan revisit in future inputs to the SEC.
 - Exemption / safe harbor requests should clearly describe how protections for investors and market integrity that currently derive from broker-dealer regulations would be preserved, or how the possibility of regulatory arbitrage can be mitigated.
 - The SEC should consider how these protections would be preserved before providing exemptions or safe harbors from broker-dealer registration requirements or shifting broker-dealer responsibilities to other actors with more limited capacities (*e.g.*, to transfer agents that may not be able to provide the same level of investor protection that broker-dealers currently do).

The Importance of Custody Protections for Investors

- Custodial services offered by banks and other qualified institutions have been critical to the success of modern capital markets for over 80 years, helping to manage conflicts of interest, ensure high levels of investor protection, and promoting the efficiency and stability of the markets. The custody function is premised on three key principles:
 - Segregation of Client Assets
 - Separation of Financial Activities
 - Proper Control
- These principles are technology agnostic. They do not preclude new entrants or new business models from offering these services, nor does this prevent “self-custody” of digital assets by clients (narrowly defined as referring to situations in which clients hold their own assets and keys), but they must be carefully respected.
- Custody solutions that do not incorporate these three principles are unlikely to ensure the proper protection of client assets, including in the crypto asset market. It is therefore critical that any entity offering digital asset safekeeping services adhere to these principles to protect investors and prevent the types of customer losses seen in cases such as FTX and Voyager.

The Benefits of Separating Functions and Limiting Vertical Integration

- Separation of core functions is foundational to investor protection and market quality. By assigning distinct roles and responsibilities to broker-dealers, exchanges, custodians, and clearinghouses, today's regulatory framework disperses financial, operational, and default risks and manages conflicts through a system of checks and balances.
- While there are some limited use cases in which broker-dealer and trading venue functions operate in adjacent structures (*e.g.*, broker-dealer affiliated ATSs), protections for investors are achieved in those cases through procedures, controls, and obligations that address investor suitability, manage conflicts and operational risks, and ensure robust disclosures.
- By contrast, permitting broad vertical integration without managing these conflicts would strip away protections that are currently achieved through separation, effectively re-introducing major risks and undermining investor trust—as illustrated by some integrated models in native digital-asset markets (*e.g.*, FTX).
- A better approach would be to expand existing programs and requirements for the trading and issuance of tokenized securities to allow market participants to take advantage of efficiencies offered by new technologies, while utilizing the protections for investors that the existing separation of functions structure provides.

6 Ensuring Clarity Around Tokenized Securities

- Investors need to clearly understand what they are buying when they enter into a securities transaction. We support Commissioner Peirce's July statement that "tokenized securities are still securities" i.e., the technology used does not change the fundamental characteristics of the underlying asset.
- It must be clear to investors that they are purchasing a tokenized security with legal and beneficial ownership of an operating or investment company and not, as is the case in certain models, a token that mirrors the value of the underlying security but does not grant those legal and economic rights.
- This highlights the importance of policymakers adopting a standard industry taxonomy (such as the GFMA taxonomy endorsed by the CFTC GMAC DAMS) that clearly and consistently classifies digital assets according to their underlying economic characteristics, thus allowing for the correct regulatory treatment to be applied to those assets.
- Where specific requirements prove impractical when applied to tokenized securities, the SEC should consider narrow, carefully tailored adjustments that incorporate the core investor and market protections already discussed.
- Providing a clear pathway for registered securities to be traded on-chain, whether natively issued or in tokenized form, is critical to support broad participation in digital asset markets
 - SIFMA encourages the SEC to work with industry to help market participants to clearly understand what needs to be done to bring securities on-chain and do so in compliance with the full spectrum of issuance, trading, and post-trade regulations.

The Importance of a Carefully Designed Innovation Exemption

- A carefully structured “innovation exemption” framework would allow firms and other innovators to test novel digital-asset products and business models in a flexible yet controlled environment, giving the SEC real-time visibility. These insights could, in turn, be used to better design tailored regulatory regimes that foster innovation while maintaining investor protections and market integrity.
- However, it is critical that any innovation exemption or regulatory sandbox framework act as a *supplement* to a broader policymaking process, not a backdoor mechanism for rewriting key elements of the existing market structure regime.
 - Major structural changes to market structures or core investor protections should be addressed through a normal notice-and-comment rulemaking process, not through the granting of exemptive, no-action or safe harbor relief from existing rules – or through an innovation exemption framework.
- It is critical that any innovation framework should be open to all market participants; that is, it should not result in a single institution or group of firms gaining effective monopolies over a specific innovation.
- It is also critically important that any innovation exemption or regulatory sandbox framework operate within clear guardrails to avoid potential harm to investors, disruptions to the markets, and potential for regulatory arbitrage. Operating tokenized markets on platforms decoupled from the existing regime would also fragment markets and liquidity, degrade price transparency, and impair execution quality (or inhibit investors’ ability to even measure execution quality) —with knock-on negative impacts on overall market liquidity and investor outcomes.

The Importance of a Carefully Designed Innovation Exemption

- Guardrails should include:
 - Limits on the pool of investors that may participate in an innovation project, with an initial focus on more sophisticated institutional and accredited investors.
 - Caps on the size and volume of transactions and the number of customers that can participate, to mitigate against the possibility of regulatory arbitrage and market fragmentation.
 - Duration limits, which are essential to avoiding firms operating outside of the normal securities law framework for indefinite periods
- The SEC should, however, retain flexibility to adjust limits and phase up participation as systems demonstrate resilience and guardrails will also likely differ depending on which part of the securities lifecycle a particular project is focused.
- To ensure that the appropriate guardrails are put in place, the innovation exemption framework should be subject to a substantive notice-and-comment process that allows for broad industry input on its design and operation. In addition, significant project applications should also be required to disclose key information and be subject to public input prior to being approved.
 - Allowing public input on both the innovation exemption framework and specific project applications will result in better policymaking and ensure an appropriate level of transparency in the process.
- It is also crucial that there be a “smooth exit ramp” into a permanent regulatory environment, though only once a project proves it can meet the full suite of investor-protection and market-operations requirements. Projects should not be transitioned into a temporary (or permanent), lighter-touch regulatory regime e.g., one subject to exemptive relief or no-action measures.

Targeted Regulatory Modernization to Support Innovation

- SIFMA is strongly supportive of continued innovation in the securities markets and believes there are a broad range of opportunities for transformative change in the application of blockchain networks across the securities lifecycle and across a broad range of SEC-regulated products.
- At a high level SIFMA members have identified a range of opportunities for regulatory modernization across different product areas. These are outlined below; we would be pleased to come back and provide additional detail on any of them and specifics on where changes are needed to accommodate DLT operating models:

<i>Fixed Income Post-Trade</i>	<i>Equity Issuance</i>	<i>Equity Trading</i>
Settlement finality	Classification	Exchange vs ATS rules
Custody rules	Tokenized shareholder rights	Custody risks
DTCC integration	Transfer restrictions	Cross-chain execution
Regulatory perimeter	Disclosure requirements	Best execution summary standards
Books and records	Intermediary rules	Manipulation detection
Tax lot and identity tracking	Form S-1 compatibility	Pricing transparency
		Market Data

<i>Alternatives</i>
Accreditation and eligibility
Fund tokenization compliance
Valuation and NAV
Secondary liquidity
Jurisdictional conflict
Smart contract enforcement and auditability