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Commissioner Hester M. Peirce
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Re: Recommendations to the Crypto Task Force: Trading

Dear Commissioner Peirce and Members of the SEC's Crypto Task Force:

The Digital Chamber ("**TDC**") respectfully provides this submission in response to Commissioner Hester M. Peirce's February 21, 2025 statement soliciting public input on regulatory issues related to blockchain technology and crypto assets (the "**Statement**").[1] In particular, this letter addresses Questions 15 to 20 of the Statement relating to trading. TDC has also provided responses to the remainder of the questions posed by the Statement in separate submissions.

Question 15

Should the Commission create a new entity registration status with tailored registration for any platform that trades crypto assets that are securities? Should the Commission use or adapt the existing requirements for national securities exchange registration or the alternative trading system exemption from such registration, and if so, how?

The Commission need not, and should not, create a new entity registration status for any platform that lists and trades "tokenized securities"[2] that are equity or debt securities, whether representations of existing traditional securities[3] or securities created natively on a blockchain where the characteristics of the security are immutably embedded into the programming of the

[1] Comm'r Hester M. Peirce, *There Must Be Some Way Out of Here*, U.S. Sec. & Exch. Comm'n (Feb. 21, 2025), https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125.

[2] *See generally* Steven Gatti and Jesse Overall, Clifford Chance US LLP, on behalf of The Digital Chamber, *Tokenized Securities* (July 23, 2025), available at https://www.sec.gov/files/tdc-tokenized-securities-submission-072325.pdf (" Tokenized Securities Letter").

[3] An existing traditional security that is tokenized will be "immobilized" and no longer traded. *See* TDC Tokenized Securities Letter, at 6. Accordingly, to the extent the existing security was registered with the SEC, there would be no need for a separate registration of the tokenized version of that security.

token's smart contract.[4] For purposes of registration requirements and regulation under the federal securities laws, there is no fundamental difference between a digital asset that is a representation of an existing security and a digital asset that itself constitutes a security. Both are tokenized securities, and the approach we recommend in this letter applies to both types of tokenized securities.[5]

The existing registration framework for national securities exchanges (NSEs), alternative trading systems (ATSs), broker-dealers, and other regulated securities-market intermediaries should, however, be thoroughly reviewed and amended to encompass the trading of tokenized securities in the same way, and to the same extent, that it allows for the trading of traditionally represented securities. As stated in the Tokenized Securities Letter, TDC supports Commissioner Pierce's recent reminder to market participants that existing securities regulation applies equally to tokenized securities.[6] TDC believes the SEC should act through rulemaking to implement common sense modifications to the existing regulatory framework to accommodate the specific features of blockchain technology where appropriate. The SEC should strive for technology neutrality by reviewing current regulation with the goal of enhancing our markets through greater efficiency and without favoritism toward legacy infrastructure and business models much like the SEC did in reaction to the paperwork crisis fifty years ago.

The trading of tokenized securities plainly utilizes technology, infrastructure and operations that are different from the technology, infrastructure and operations used to trade traditional securities. Moreover, many existing SEC and FINRA regulations and rules—which were designed for traditional book-entry or certificated securities— are incompatible with or unnecessary for the trading of tokenized securities and could inhibit the development of a robust tokenized securities market in the United States.[7]

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[4] The latter category of tokenized securities encompasses blockchain-based tokens that have embedded in their smart contracts certain economic rights traditionally associated with equity, debt or other securities—such as a right to dividends payable out of profits earned by the token issuer or the underlying blockchain network, or a right to payment of interest. Like any newly issued security, such a "natively issued" blockchain-based security must be registered with the Commission by the issuer before it could be traded on NMS exchanges. Through both types of tokenized securities, distributed ledger technology opens up novel and more cost-effective ways to move financial assets between parties and across jurisdictions.

[5] We do note, however, that to the extent that a national stock exchange seeks to list and trade on-chain tokenized investment contracts, an entirely new regulatory framework would need to be developed to facilitate the trading of such securities since the existing Regulation NMS rules do not contemplate the trading of investment contracts, much less tokenized investment contracts.

[6] Comm'r Hester M. Peirce, *Enchanting, but not Magical: A Statement on the Tokenization of Securities,* U.S. SEC & Exch. Comm'n (July 9, 2025) https://www.sec.gov/newsroom/speeches-statements/peirce-statement-tokenized-securities-070925.

[7] Separate considerations apply to blockchain-based transactions involving investment contracts, where the facts and circumstances surrounding the offer and sale of a crypto asset satisfies the test set forth in *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946). Some courts, and the Commission itself, have suggested that although the tokens in question were the *subject* of a securities transaction, the tokens are not themselves securities. *See, e.g.*, *SEC v. Payward, Inc.*, 2024 WL 4511499, *12 (N.D. Cal. Aug. 23, 2024); *SEC v. Ripple Labs, Inc.*, 682 F. Supp. 3d 308, 324 (S.D.N.Y., 2023); *SEC v. Telegram*, 448 F. Supp. 3d 352, 379 (S.D.N.Y. 2020); Memorandum of Law, *SEC v. Binance Holdings Ltd.*, No. 23-cv-01599 (D.D.C. Sept. 12, 2024), ECF No. 273-1, at 24 n.6; *see also* Digital Asset Market Clarity Act of 2025, § 201, https://www.congress.gov/bill/119th-congress/house-bill/3633 (distinguishing an "investment contract asset" from an "investment contract"). The significance of these authorities is that such tokens would not be considered securities for purposes of their trading in secondary markets.

Accordingly, we recommend that the Commission, in conjunction with FINRA and with input from the industry, commence the development of a clear framework and roadmap for existing NSEs, ATSs, broker-dealers, and other regulated intermediaries to acquire or develop the technology and infrastructure necessary for the trading of tokenized securities, including the pairs trading of tokenized securities and traditional securities. This will require common sense modifications to the current regulatory framework to accommodate features of blockchain technology.

The Commission could, for example, direct the Division of Trading and Markets to commence efforts on a new initiative in the tradition of its landmark report *Market 2000: An Examination of Current Equity Market Development*[8], exploring and investigating the potential for blockchain technology in the U.S. equity markets. The Commission should also consider how its current market infrastructure rules, including Regulation NMS, can be amended, clarified, or adapted to embrace the benefits of blockchain technology, to facilitate innovation, and remove barriers to competition.

It is clear that the Commission will need to update a wide range of existing rules and regulations that currently address only centralized intermediaries and infrastructure and do not contemplate a trading ecosystem that embraces blockchain technology. To the extent that existing non-SEC registered crypto asset trading platforms have or develop the technology and infrastructure necessary for the trading of tokenized securities, the Commission should also provide a clear path for such platforms to become registered as NSEs or ATSs to enable those platforms to trade both crypto assets that are securities and not securities. Likewise, NSEs, ATSs and broker dealers should be provided a pathway to be similarly permitted to trade crypto assets that are not securities.

As also discussed in the Tokenized Securities Letter, the Commission should consider changes to, or exempted relief from, Regulation NMS in the context of trading in tokenized securities. The Commission should (a) consider changes or clarifications to its recordkeeping rules to make clear that blockchain ledgers can serve as the definitive record of securities ownership and transactions and (b) consider changes or clarifications to its custody rules to make clear that custody can be established by control of a tokenized security in a wallet.

As we also stated in our Tokenized Securities Letter, the Commission's approach to the trading of tokenized securities should always be technology-neutral and agnostic as to the investment merits of any particular security. In addition, the Commission should be indifferent to (or perhaps, embrace) efforts by both traditional exchanges and broker-dealers, and existing crypto trading platforms, to develop the necessary technology and infrastructure to trade tokenized securities. As we also recommend in our other letters, the Commission should provide expanded options for broker-dealers seeking to provide good control locations for tokenized securities. The Commission should also consider whether NSEs and ATSs should also be able to

[8] SEC Division of Market Regulation, *Market 2000: An Examination of Current Equity Market Developments* (Jan. 1994), https://www.sec.gov/divisions/marketreg/market2000.pdf.

provide regulated custody solutions for tokenized securities to facilitate trading on such platforms.[9]

Question 16

What updates to the Commission rulebook are needed for side-by-side pairs trading of securities and non-security crypto assets to allow for enhanced interoperability and composability in finance?

As crypto asset markets continue to grow, customers (retail and institutional) will undoubtedly want to trade traditional and tokenized securities and non-security crypto assets (including payment stablecoins, bitcoin, and other commodity tokens) on the same platform. Moreover, such customers will undoubtedly want to engage in "pairs trading" of securities and non-security crypto assets. Integrating blockchain-based trading may mean permitting traditional trading platforms to use blockchain-based infrastructure (e.g., smart contracts, stablecoin settlement) alongside traditional intermediated trading mechanisms. Trading systems should not be segregated for different asset types merely because of differences in the underlying technology. We believe that such an expanded scope of trading will widen the range of investment opportunities for customers and will increase the efficiency of the markets.

To achieve this salutary result, the Commission will need to make some basic, common-sense changes or clarifications to its policies and rules. To start, to the extent that existing non-SEC registered crypto asset trading platforms have or develop the technology and infrastructure necessary for the trading of tokenized securities, the Commission should provide a clear path for such platforms to become registered as NSEs or ATSs. And to the extent such crypto asset trading platforms wish to develop the technology and infrastructure necessary for the trading of traditional securities, the Commission should permit them to do so. With respect to existing, registered NSEs and ATSs, the Commission, in conjunction with FINRA and with input from the industry, should develop and publish a clear framework and roadmap for them to acquire or develop the technology and infrastructure necessary for the trading of tokenized securities.

More substantively, for the benefit of both existing and future NSEs and ATSs, the Commission should clarify or amend its rules to make clear that such platforms are permitted to trade both securities and non-securities, including non-security crypto assets like payment stablecoins, bitcoin, and other commodity tokens. Relatedly, the Commission should clarify or amend its rules to make clear that NSEs and ATSs can engage in pairs trading of securities and non-securities. In such pairs trading, the transaction as a whole should be treated as the purchase or sale of a security. The non-security aspect of the transaction—i.e., the exchange of the security for a payment stablecoin, bitcoin, or other commodity token—should be treated like the

[9] See letter submitted by Matthew Comstock, Wilkie Farr & Gallagher on behalf of TDC to Crypto Task Force, *Re: Broker Dealer Custody and Other Requirements* (May 12, 2025), available at https://www.sec.gov/files/response-letter-digital-chamber-051225.pdf and letter submitted by Matthew Comstock, Wilkie Farr & Gallagher on behalf of TDC to Crypto Task Force, *Re: Special Purpose Broker-Dealers and Financial Responsibility Matters* (June 20, 2025) available at https://www.sec.gov/files/ctf-written-digital-chambers-response-questions-24-26-06202025.pdf.

exchange of the security for cash. Plainly, Commission rules will need to be updated to provide for settlement of securities transactions in payment stablecoins, bitcoin, and other commodity tokens. Moreover, because commodities beyond cash will be involved, the transaction might implicate provisions of the Commodity Exchange Act. Accordingly, we recommend that the Commission work with the CFTC to clarify or amend its rules in the areas of side-by-side and pairs trading of securities and non-securities.

With respect to broker-dealers, we believe that, as in trades of securities for cash, broker-dealers should be involved on both sides of the transaction when a security is exchanged for a non-security such as a payment stablecoin, bitcoin, or other commodity token. But if an NSE or a ATS handles an exchange of a non-security for a non-security—e.g., purchase of a commodity token for cash, or exchange of bitcoin for payment stablecoins—then no broker-dealer would need to be involved because no securities transaction has occurred.

In short, the Commission should encourage side-by-side and pairs trading of securities and non-securities on a single platform and should avoid rules that inhibit such trading or make it inefficient. As Chairman Atkins recently stated with respect to the crypto markets, "I would like the Commission to allow SEC registrants to custody and trade both securities and non-securities under one roof."[10] And as he stated more generally, "The markets innovate, and the SEC should not be in the business of telling them to stand still."[11] We applaud the approach articulated by Chairman Atkins, and believe it would help unlock the fundamental promise of blockchain technology by enabling financial interoperability and composability, all to the benefit of both investors and the markets.

Question 17

Does execution in offchain order books or on blockchain networks pose complexities for broker-dealers in satisfying any applicable best execution obligations? Does onchain execution pose complexities for broker-dealers in satisfying their best execution obligations, given onchain complexities such as transaction ordering and block construction? Should any rules, guidelines, or disclosures be modified to address broker-dealer execution reasonably available under the circumstances in offchain and onchain trading environments?

The execution of transactions in crypto assets across both offchain order books and blockchain-based onchain networks would introduce novel complexities for broker-dealers to satisfy traditional best execution obligations. Multiple liquidity venues operate 24/7 across jurisdictions, such that prices for identical assets frequently differ across venues.[12] Although this

[10] Chairman Paul S. Atkins, Chairman, Prepared Remarks Before SEC Speaks (May 19, 2025), available at https://www.sec.gov/newsroom/speeches-statements/atkins-prepared-remarks-sec-speaks-051925.
[11] *Id.*
[12] Financial Stability Board (FSB), "Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets – Final Report," October 2022, https://www.fsb.org/2022/10/regulation-supervision-and-oversight-of-crypto-asset-activities-and-markets-final-report/.

means "best execution" may involve continuously navigating and aggregating liquidity across a dynamic landscape, it also reflects that crypto markets are global and vibrant, with price competition occurring constantly, which should ultimately benefit market participants by providing them with greater choice and a better opportunity to achieve best execution on their own terms.

Offchain Execution

The Commission and FINRA should adopt a flexible, principles-based approach to the promulgation of rules governing offchain and onchain execution, including adoption of "best execution" standards that are appropriate for crypto asset markets. The digital asset offchain trading environment increased security, stability and reliability, but centralized crypto exchanges, OTC desks, and alternative trading systems (ATSs) operate independently, often with their own distinct technology stacks, APIs, and operational procedures. Broker-dealers would face substantial complexity in establishing reliable and continuous connectivity across different venues (each using different protocols or standards) Moreover, regulatory expectations around reliability, uptime, and operational continuity, such as those articulated by the SEC's Regulation SCI[13] and FINRA's rules on trading system resilience,[14] underscore the importance of maintaining robust, continuously available infrastructure.

Understandably, this complexity has historically led some institutions to rely on exclusive relationships with a single trading counterparty or platform as a means of reducing operational risk. However, within a regulated framework applicable to broker-dealers, such exclusive relationships would generally be unacceptable from both best execution and counterparty risk management perspectives. Accordingly, broker-dealers entering this market may want to manage this complexity by leveraging specialized technology vendors. These firms provide institutional-grade trading infrastructure that aggregates liquidity sources into a unified interface. Importantly, these technology providers do not function as trading platforms themselves, but they supply the critical infrastructure and tools that would enable broker-dealers to securely and efficiently connect to various trading partners.[15]

Given these complexities, it is crucial that the SEC and FINRA adopt a principles-based approach to best execution that emphasizes transparency through robust disclosures and recognizes the full range of factors relevant to quality of execution in the digital asset market. The principle of execution "reasonably available under the circumstances" is foundational to traditional best execution and should be preserved and adapted in the crypto context. In evaluating execution quality, the SEC should affirm that best execution in crypto markets must account for multiple factors beyond nominal price. These factors include the operational integrity

[13] U.S. Securities and Exchange Commission, "Regulation Systems Compliance and Integrity (Reg SCI)," Release No. 34-73639, November 2014, https://www.sec.gov/rules/final/2014/34-73639.pdf.
[14] FINRA Rule 4370, "Business Continuity Plans and Emergency Contact Information," https://www.finra.org/rules-guidance/rulebooks/finra-rules/4370.
[15] The "build vs. buy" consideration is crucial, especially if broker-dealer in-house engineering teams do not have experience managing the intricacies and unique requirements of crypto-specific APIs, connectivity protocols, and evolving market structures. The most challenging aspect often lies not in initial development but in ongoing maintenance and management of these complex technology environments, further emphasizing the strategic value of utilizing proven third-party infrastructure.

of venues, counterparty risk, the strength of custody and asset segregation protocols, fee structures, and market impact.

In addition, broker-dealers could be required to document and disclose their planned execution practices, including how they would aggregate liquidity, address platform risks, manage KYC/AML and sanction list checks, and handle any venue-specific disruptions. For instance, a firm may determine that routing a client order to a venue that demonstrates consistent operational reliability and robust post-trade transparency offers a better overall execution outcome, even if that venue does not quote the lowest price. Disclosures tailored to each firm's operational approach would allow broker-dealers the flexibility to reflect their specific execution methodologies and risk management strategies, including whether their processes include the use of a blockchain analytics firm, while giving regulators the tools to assess those decisions in a transparent and consistent framework.

Onchain Execution

While blockchain-based trading environments introduce additional complexities such as transaction ordering and block construction, it is important to note that institutional trading predominantly occurs on offchain venues. According to recent industry data, the vast majority of institutional trading volume for crypto-assets occurs through centralized or OTC platforms rather than directly onchain.[16] That said, the Commission will need to adopt rules relating to onchain trading and, as with their rules relating to offchain trading, their rulemaking relating to onchain trading must remain flexible and adaptive. This is particularly important given that tokenization of securities is an evolving area, still in the early stages of development.

Nevertheless, Commission rules and guidance should recognize unique onchain characteristics like transaction latency and fee structures. The rules and guidance should also address known or potential risks. In addition, regulatory frameworks could support controlled innovation through pilot programs or safe harbors, allowing broker-dealers and trading venues to explore onchain trading strategies under SEC and FINRA oversight. Such initiatives would foster innovation while providing regulators critical data to refine future guidance.

Question 18

The crypto markets are inherently transparent because they use open-source data, from public blockchains to open application programming interfaces ("APIs"). Are there programmatic/technological ways that crypto market participants, intermediaries, potential self-regulatory organizations, or regulators can monitor crypto markets using open-source data? How would this take into consideration nested accounts on centralized exchanges, given that this activity may not appear in public ledgers? Is open-source data sufficient for the market to monitor trading and therefore what non-public information might warrant mandatory disclosure? What sort of open-source tools can be used for

[16] Coinbase Institutional, "2025 Institutional Investor Survey," January 2025, https://www.coinbase.com/institutional/research-insights/research/market-intelligence/2025-institutional-investor-survey.

enhanced transparency, such as proof of reserves, or proof of holdings? What are the limitations of such tools and such data?

The crypto markets benefit from unique forms of transparency due to open-source data, including public blockchains, publicly available smart contract activity, and APIs that support real-time monitoring of decentralized finance (DeFi) protocols and token transfers. Numerous tools already leverage this data, including blockchain forensics platforms such as Chainalysis and Elliptic, decentralized exchange (DEX) data aggregators like The Graph, and analytics dashboards from providers like Dune Analytics and Nansen. These tools allow regulators, compliance teams, market participants, and intermediaries to programmatically monitor onchain activity, track token movements and liquidity flows, detect illicit behavior, and assess market integrity in decentralized environments.

However, transparency across the market is uneven, with 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 or open APIs. Similarly, certain Layer 2 (L2) networks, particularly those relying on centralized sequencers or proprietary data pipelines, may limit real-time access to transaction-level information despite anchoring settlement data to Layer 1 chains.

Open-source data is therefore sufficient to monitor parts of the market, particularly decentralized protocols and onchain token activity, but not sufficient to ensure comprehensive market oversight. Key activities that escape public monitoring include:

- Internal account structures and proprietary trading on CEXs;
- Aggregated or delayed transaction data from L2 networks;
- Beneficial ownership of large wallets or exchange operators; and
- Offchain over-the-counter (OTC) trading activity.

Several open-source tools have emerged to enhance market transparency, such as proof of reserves (PoR) systems, proof of holdings attestations, decentralized oracles, and smart contract audits. These tools offer meaningful benefits but are subject to important limitations:

- PoR implementations are often voluntary, may be based on snapshots rather than real-time data, and can be manipulated through selective reporting.
- Oracles and audit mechanisms depend on the integrity of offchain data sources or centralized actors.
- L2 transparency varies significantly, with some networks relying on proprietary infrastructure for transaction ordering or data dissemination.

In sum, while crypto markets are partially transparent through open-source data, this transparency is incomplete and sometimes inconsistent. Programmatic monitoring tools can help regulators and market participants observe portions of the market, but for full visibility the

Commission should formulate standardized disclosure obligations for SEC-registered centralized intermediaries and key infrastructure providers, similar to those that exist in traditional public markets. Enhanced, enforceable transparency measures would reduce information asymmetries, facilitate more efficient price discovery, and allow arbitrage to function as a market-stabilizing force rather than a tool for those with privileged access.

Question 19

With the understanding that both APIs and public ledgers can provide order books, what would be a good strategy for regulators to efficiently ingest and analyze order book data? How can the regulators leverage publicly available data to become more efficient and alleviate regulatory burdens?

The analysis of order book data available through APIs and public ledgers will become more efficient and accessible with the integration of artificial intelligence (AI) into trading, data surveillance, and other activity that occurs on the blockchain. Intelligent use of AI and other technology to analyze order books will help regulators to identify and target trading venues potentially engaged in suspicious activity, focus regulatory examinations, and inform document requests. Traditional surveillance methods employed currently by the SEC and the CFTC and other regulators can be enhanced with the smart use of technology and additional data sources, and regulators should work with the industry on advanced tools and techniques that can be used with respect to APIs in order to monitor for fraud or manipulation. Collaboration between centralized crypto asset exchanges and their regulators will play an important role in ensuring that market integrity remains robust during a period of significant market evolution and regulatory change.

Collaboration between regulators will also be important to promote efficiency and transparency relating to order book data. To the extent platforms are permitted to trade both securities and non-securities, some platforms may become dual registrants of both the SEC and CFTC. The two agencies will have a shared interest in accessing and analyzing relevant data, and should explore the possibility of jointly overseeing data surveillance.

Question 20

How should Commission registrants assess Maximal Extractable Value ("MEV") when they consider building or transacting in these environments? How best should Commission registrants delineate between the different types of MEV occurring onchain? In what ways is the market addressing the MEV in which MEV extractors order or re-order transactions to engage in front running, back running, or so-called "sandwich attacks"?

MEV is a constantly-evolving area that involves various participants, types of activities, and differences from protocol to protocol. The questions above do not capture the breadth or complexity of MEV, how it relates to blockchain infrastructure or token trading, and whether it involves intermediaries. No non-US regulator has sought to bring MEV within its purview and

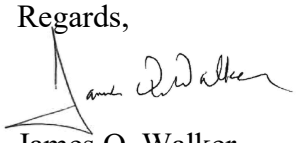
many continue to study MEV from various perspectives. So far, MEV and its participants defy easy categorization and market-based solutions are being regularly introduced. Accordingly, we recommend that the SEC continue to monitor and study MEV but not take any other action at this time.

Conclusion

TDC acknowledges the significant efforts of Lowell Ness, Arthur Greenspan and James Walker of Perkins Coie LLP, towards the preparation of this letter. TDC also thanks the many members that contributed their time and expertise towards the development of this letter, including but not limited to Josh Lawler, Partner, Zuber Lawler LLP, and Lee Schneider, General Counsel, Ava Labs.

If you have any comments or questions relating to the request or would like to arrange a meeting to discuss further, please do not hesitate to contact the undersigned at LNess@perkinscoie.com, AGreenspan@perkinscoie.com, and JamesWalker@perkinscoie.com.

Regards,



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