

Comment Letter on Tokenized U.S. Equities

Submitted to the U.S. Securities and Exchange Commission

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Via Electronic Submission

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

Re: Response to Citadel Securities' Comments on Tokenized Equity Markets

Dear Ms. Countryman,

Thank you for the opportunity to provide comment on the topic of tokenized U.S. equities and the role of distributed ledger technologies in enhancing market transparency, accountability, and investor confidence. I write in response to the July 21, 2025 letter from Citadel Securities, which, despite its emphasis on investor protection, raises serious concerns about its underlying motives, selective framing of facts, and resistance to transparency-enhancing innovation.

1 Citadel's Opposition to Transparency

Citadel Securities expresses discomfort with tokenized equity markets that could allow “real-time post-trade transparency” via blockchain technology. In particular, their opposition to systems that could more easily confirm the existence of a “locate” behind every short sale is striking.

This objection takes on added significance in light of Citadel's regulatory history. On January 27, 2023, South Korea's Financial Services Commission fined Citadel Securities ₩11.9 billion (~US\$9.7 million) for using high-frequency algorithmic trading strategies that distorted stock prices through “immediate-or-cancel” orders and bid price manipulation between October 2017 and May 2018 [1].

While this wasn't a trading ban, it reflects how a lack of market transparency and oversight facilitates manipulative behavior—precisely the kind of behavior that blockchain-based systems are designed to prevent. Distributed ledgers could make such disruptive strategies not only visible in real time but provably accountable, due to immutable transaction histories and transparent audit trails.

The SEC should therefore interpret Citadel's aversion to this innovation as a self-preserving stance that directly conflicts with its public rationale of promoting investor protection.

1.1 Misleading Claims About Tokenized Markets

Citadel repeatedly refers to tokenized equities as a “shadow market” and suggests that offering regulatory accommodations would lead to investor harm and capital formation disruptions. This is both misleading and ironic.

- Blockchain-based markets don't circumvent regulation; rather, they automate compliance through auditable smart contracts and open data structures.
- The claim that pre-funding requirements disadvantage investors is a non sequitur. In fact, pre-funding eliminates counterparty risk and settlement failures—two issues that benefit entrenched market makers who can exploit informational asymmetries and payment-for-order-flow models.

Citadel's framing ignores that the current market structure—dominated by a few players with privileged access to order flow—is already exclusionary. Allowing new platforms with fairer, rule-based access mechanisms can enhance market diversity, reduce systemic risk, and lower costs.

1.2 Modernizing Outdated Infrastructure

Citadel accuses digital asset platforms of seeking “regulatory arbitrage,” when in reality, many of these initiatives aim to modernize outdated infrastructures such as T+2 settlement, batch reconciliation, and opaque broker-dealer relationships.

For example:

- DTCC settlement delays and hidden fails can be mitigated with blockchain-based systems where asset transfers are atomic and final.
- Best execution, a concept championed by Citadel, can be empirically tracked in a distributed system where time-stamped trade data is publicly auditable—unlike today's opaque internalizers.

The Commission should encourage innovation that enhances systemic robustness, especially when that innovation:

- Reduces counterparty risk,
- Promotes immutable audit trails,
- And improves real-time disclosure.

1.3 Risk Awareness vs. Risk Creation

Several points in Citadel's letter appear to conflate risk awareness with risk creation. For instance:

- Citadel raises the specter of “investor confusion” if tokenized equities are not issued by the companies themselves. However, existing ETFs and ADRs function similarly and do not create meaningful confusion.
- They highlight the risks of digital asset trading venues lacking interoperability or institutional participation. Yet, these are not arguments against tokenization per se—they're arguments for standardized rulemaking, which can and should be developed.

Citadel's concern over “counterparty risk” with token issuers is especially hollow, given that traditional equity markets also rely on intermediaries (brokers, clearing firms) that carry counterparty and rehypothecation risk—often without sufficient transparency.

1.4 Blockchain Surveillance Capabilities

Citadel argues that blockchains cannot replace existing market surveillance infrastructure. While it's true that blockchain is not a panacea, this point misrepresents what tokenization can achieve:

- Blockchain data can be fed into advanced regulatory analytics tools, enabling real-time alerts for front-running, wash trading, and manipulation.
- Unlike fragmented legacy systems, blockchain data is uniform, tamper-proof, and immediately accessible to authorized regulators.

This capability complements—rather than replaces—traditional surveillance tools. The key benefit is speed and certainty, not merely novelty.

1.5 Considerations for the Commission

The SEC’s mission is to protect investors, ensure fair markets, and facilitate capital formation. Tokenized equities—when implemented responsibly—advance all three goals.

Citadel’s objection to blockchain-based market models should be viewed in light of:

- Their historical regulatory infractions [1],
- Their market share dominance and vested interests,
- And their overt resistance to technologies that reduce asymmetric informational advantages.

While regulatory caution is warranted, Citadel’s sweeping dismissal of tokenization appears to be driven more by competitive fear than genuine concern for investor protection.

I urge the Crypto Task Force and the Commission to prioritize:

- Encouraging pilot programs under strict disclosure and audit standards,
- Enabling interoperability with legacy systems,
- And ensuring that any exemptions granted to digital platforms are merit-based—not granted by default, nor denied due to incumbent lobbying.

Citadel does not speak for retail investors. Nor should they dictate the terms under which future financial infrastructure is designed.

Respectfully submitted,

Aleksander Polzer

References

- [1] Reuters. (2023, January 27). S.Korea fines Citadel Securities for stock algorithm trading breaches. *Reuters*. <https://www.reuters.com/business/finance/skorea-fines-citadel-securities-stock-algorithm-trading-breaches-2023-01-27/>