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Submitted via SEC Website

Commissioner Hester M. Peirce
Chair of SEC Crypto Task Force
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U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Re: Tokenized Securities (Questions 40-46)

Dear Commissioner Peirce and Members of the SEC 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 securities regulatory issues related to blockchain technology and crypto assets (the "Statement").¹ Specifically, this letter addresses Questions 40-46 of the Statement related to the tokenization of securities. TDC has and will continue to provide submissions to other questions in the Statement under separate cover.

Overview

TDC applauds Chair Atkins, Commissioner Peirce, and the Securities and Exchange Commission ("SEC") Crypto Task Force for their focus on tokenized securities,² and is grateful for the opportunity to provide its views on Questions 40-46 of the Statement following consultation with its members.

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 For purposes of the Chamber's responses to questions 40-46, the term "tokenized security" means a tokenized, blockchain-based form or representation of a traditional security (e.g., equity, debt, etc.) that is listed in the definition of "security" contained in Section 2(a)(1) of the Securities Act of 1933 (the "Securities Act"), or Section 3(a)(10) of the Securities Exchange Act of 1934 ("Exchange Act"). TDC's response addresses the tokenization of both publicly and privately offered and traded securities.

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The tokenization of securities is central to the continued evolution of the U.S. capital markets and sits at the intersection of traditional securities regulatory frameworks, technological innovation, and emerging digital asset markets. The current administration has recognized the crucial role of digital financial technology in the continued global leadership of the United States, and has declared its support for the responsible growth and use of digital assets and blockchain technology across all sectors of the economy.³ Since their passage more than ninety years ago, U.S. securities laws have been designed to preserve and strengthen the U.S. capital markets, and that national ambition must keep pace with technological innovation.⁴ While the U.S. capital markets are the deepest and most liquid in the world, as SEC leaders have warned over the years, the United States cannot take its leadership position for granted.⁵

Question 40

Tokenization enables dematerialized securities to be mobilized (i.e., not held in and confined to a single centralized ledger). Are there any provisions under the federal securities laws that prevent these securities from being used in new blockchain-based transactions and applications, and, if so, what steps should the Commission consider taking to facilitate this innovation while mitigating any related risks? Are there amendments or new rules that the Commission should consider to ensure a merit- and technology-neutral approach to tokenization? Does the type of blockchain used (i.e., permissioned versus permissionless) bear on this risk assessment?

Question 41

How do the programmability and composability properties of blockchain technology and blockchain-based technologies, such as smart contracts, affect the role of a transfer agent? Are there provisions in the transfer agent rules that prevent transfer agents from using blockchain technology for this purpose to the fullest extent possible? Is an offchain record still needed as an official or a complementary record in a tokenization arrangement? Are there any legal or regulatory impediments to using onchain identity solutions?

TDC believes that the SEC's regulatory approach to the continued growth of blockchain technology in the securities markets, including tokenization, should be fit for purpose, and should serve the SEC's tripartite mission of investor protection, maintaining fair, orderly, and efficient

³ Presidential Actions, *Strengthening American Leadership in Digital Financial Technology* (Jan. 23, 2025) <https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology>.

⁴ See Exchange Act Section 11A(a)(1)(A), 15 USC 78k-1(a)(1)(A) (stating that "Congress finds that the securities markets are an important national asset which must be preserved and strengthened.")

⁵ See e.g., former SEC Chair Gary Gensler's Speech to SIFMA Conference, *Modernizing Equity Markets: Even the Leader Must Keep Training* (Oct. 21, 2024) <https://www.sec.gov/newsroom/speeches-statements/gensler-sifma-102124>.

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markets, and facilitating capital formation. Unfortunately, in the recent past, the SEC's reaction to innovation was not technology neutral, but rather had the purpose and effect of imposing disparate treatment on the use of blockchain technology compared to legacy platforms used for securities issuance, trading, custody, and transaction settlement. Instead of applying existing regulations fairly or providing leadership in the form of new regulation, the SEC's discriminatory policies discouraged domestic digital asset market participants from developing and deploying blockchain technology, thereby freezing the markets in place, and pushing innovation overseas. TDC has long warned the SEC that driving innovation offshore⁶ by "regulating" digital assets and blockchain technology via aggressive enforcement actions as opposed to fit for purpose regulation, would threaten U.S. leadership in the increasingly digitized global financial markets.

Unlike during prior periods of rapid technological change where the United States, under the SEC's leadership, transformed our securities markets and regulation to meet the challenges, the United States has fallen behind other countries in redesigning its market structure to accommodate the benefits of blockchain technology in the operation of our markets. Even worse, the SEC's recent technology discriminatory policies have chilled development, generated antagonism, and paralyzed digital asset market participants with uncertainty. The SEC's ill-conceived "war on crypto"⁷ over several years in the recent past jeopardized U.S. financial market leadership and stood in sharp contrast to prior times of rapid change where U.S. innovation powered, for example, the personal computer revolution, the Internet economy, and the ubiquity of the smartphone. The United States and the SEC, consistent with its tripartite mission, should again assert leadership as the global securities markets evolve into digitally native ones and increasingly move on-chain.

We are greatly encouraged by the current SEC's ambition and express willingness to develop a regulatory framework to foster securities digitization that is fit for purpose. As Chair Atkins recently emphasized in his keynote address to the SEC Crypto Task Force's Roundtable on Tokenization (the "Tokenization Roundtable"), rules and regulations designed for off-chain securities may be incompatible with or unnecessary for on-chain securities and may stifle the growth of blockchain technology. Chair Atkins continued that the SEC must keep pace with innovation and consider whether regulatory changes are needed to accommodate on-chain securities.⁸ TDC agrees, and also applauds and agrees with Commissioner Peirce's remarks during the same event stressing that tokenization cannot reach its full potential without legal clarity.⁹

⁶ See, e.g., Brief of Amicus Curiae The Chamber of Digital Commerce In Support Of Defendants' Motion To Dismiss, SEC v. Binance Holdings Ltd., et al., Case No. 1:23-cv-01599, Dkt. 159-1, at 8 *et seq.* (D.D.C. filed Oct. 19, 2023).

⁷ See, e.g., Fox News Network, *SEC commissioner backs Trump's plan to end crypto crackdown* (Nov. 7, 2024) <https://www.foxbusiness.com/markets/secs-uyeda-backs-trumps-plan-end-crypto-crackdown>.

⁸ Remarks at the Crypto Task Force Roundtable on Tokenization (May 12, 2025) <https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-crypto-roundtable-tokenization-051225>.

⁹ *Id.*

Developing A Fit For Purpose Tokenized Securities Regulatory Framework

TDC is honored to present the following recommendations to the SEC to achieve these goals.¹⁰

Constructive Engagement: TDC applauds the SEC's active and constructive engagement, fact-gathering efforts, and consultative approach by seeking industry and stakeholder input through the Statement, the Tokenization Roundtable, and the ongoing work of the SEC Crypto Task Force, and encourages the SEC to continue to ensure that the policy and rulemaking process benefits from understanding real-time innovative developments in the use of blockchain technology and digital assets in the securities markets.

Flexible, Adaptive, Principles-Based: In order to capture the benefits of tokenization consistent with its mission, TDC encourages the SEC to follow a principles-based approach to policy making that is flexible and adaptive, in order to assess technology and market practice as it evolves. U.S. tokenized securities markets are in an early developmental stage, and TDC believes that the SEC should foster the maturation of market practice through allowing differing applications to survive and compete. Rather than "one size fits all" prescriptive rules that effectively pick winners and losers among tokenization structures and business models, the SEC should avoid adopting rules, policies, or guidance that preemptively prohibits securities tokenization technology use cases.

Technology Neutral, But Common Sense: TDC supports Commissioner Pierce's recent reminder to market participants that existing securities regulation applies equally to tokenized securities.¹¹ Against that backdrop, TDC believes the SEC should act through rule making 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.

General Enabling Rule: For tokenized securities, we recommend that the SEC consider adopting a technology-neutral general "enabling rule" for blockchain and distributed ledger technology ("DLT"), providing that the mere use of blockchain or DLT, in principle and standing alone, does not violate applicable U.S. securities laws and regulations. We agree with Commissioner Peirce's view that creating a digital representation of a security on a blockchain or

¹⁰ As both the technology and market practice relating to tokenization of securities continues to evolve, additional approaches may emerge and TDC expects to supplement its recommendations over time.

¹¹ 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>.

issuing a security directly on a blockchain does not change the substance of the security.¹² The Electronic Signatures in Global and National Commerce Act of 2000 (E-SIGN Act) is useful precedent, as it established that electronic records and signatures could satisfy any legal requirement affecting interstate or foreign commerce that required a writing or signed writing. Given the recent past, we believe a statement of this type by the SEC would further alleviate concerns about bias among market participants and new entrants.

Blockchain As Definitive Record: To promote regulatory clarity and advance securities tokenization in the U.S. markets, TDC recommends that the SEC establish rules that expressly permit blockchain ledgers to serve as the definitive record of securities ownership and transactions, satisfying applicable recordkeeping requirements under various SEC rules and regulations, without a requirement to maintain a duplicative off-chain record using legacy technologies and systems.

TDC applauds the staff of the Division of Trading and Markets for their recently issued Frequently Asked Questions related to blockchain issues in which they stated that a registered transfer agent may utilize distributed ledger technology as its official Master Securityholder File, as defined under Exchange Act Rule 17Ad-9(b), without the need to maintain a duplicate or “digital twin” of its master securityholder file exclusively off-chain.¹³ As discussed in TDC’s response to Question 26 of the Statement filed under separate cover, the SEC should go further and confirm that a blockchain ledger satisfies applicable broker-dealer recordkeeping requirements without requiring the maintenance of an additional off-chain record.¹⁴ The SEC should acknowledge that the inherent properties of blockchain technology – as a *distributed* ledger in which by definition multiple copies of the same record are maintained simultaneously by each node – eliminate a single point of failure and satisfy other applicable Exchange Act recordkeeping requirements, without requiring the maintenance of an additional off-chain record.¹⁵

Broker-Dealer As Qualified Custodian For Tokenized Securities: Rule 206(4)-2(d)(6) under the Investment Advisers Act of 1940 (“Advisers Act”) (“RIA Custody Rule”) recognizes a

¹² 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>.

¹³ Division of Trading and Markets: *Frequently Asked Questions Relating to Crypto Asset Activities and Distributed Ledger Technology*, FAQ #10 (May 15, 2025) <https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions/frequently-asked-questions-relating-crypto-asset-activities-distributed-ledger-technology>.

¹⁴ See Matthew Comstock, Willkie Farr & Gallagher LLP, on behalf of The Digital Chamber, *Special Purpose Broker-Dealers and Financial Responsibility Matters* (June 20, 2025) <https://www.sec.gov/files/ctf-written-digital-chambers-response-questions-24-26-062025.pdf>.

¹⁵ See e.g., Exchange Act Rule 17a-4(f)(2)(v)(B) (“other redundancy capabilities”); Exchange Act Rule 17a-4(f)(2)(v)(A) (“backup electronic recordkeeping system ...”). Similarly, registered investment advisers would benefit from confirmation that the duplicate copy requirement imposed by Advisers Act Rule 204-2(g)(2)(iii) is satisfied through the intrinsic properties of blockchain technology.

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broker-dealer as a qualified custodian. As discussed in TDC's response to Questions 21 and 22 of the Statement, filed under separate cover,¹⁶ in an effort to facilitate tokenization within the existing regulatory framework, the SEC should confirm that a broker-dealer that is able to establish possession or control of its customers' tokenized securities under Exchange Act Rule 15c3-3 ("Broker-Dealer Customer Protection Rule") may serve as a qualified custodian for a registered investment adviser ("RIA") allocating client portfolios to tokenized securities.

Issuer Or Transfer Agent As Good Control Location For Tokenized Securities: TDC applauds the SEC's withdrawal of the Joint Staff Statement on Broker-Dealer Custody of Digital Asset Securities ("Joint Statement").¹⁷ TDC recommends that the SEC confirm that blockchain or DLT, in connection with the maintenance of the single master security holder list, establishes control of uncertificated securities by the issuer (or transfer agent) for purposes of Exchange Act Rule 15c3-3 (the Broker-Dealer Customer Protection Rule).¹⁸ While the staff of the Division of Trading and Markets recently stated their view that a registered transfer agent may utilize distributed ledger technology as its official Master Securityholder File *in satisfaction of the transfer agent rules*,¹⁹ and that a broker-dealer can establish possession or control of a crypto asset security (including a tokenized security) in satisfaction of the Broker-Dealer Customer Protection Rule,²⁰ there remains a gap that should be filled. TDC recommends that the SEC confirm that the books of a transfer agent (or issuer) who relies on blockchain technology to maintain the official Master Securityholder File is a good "control location" at which a broker-dealer is permitted to maintain tokenized securities in satisfaction of the Broker-Dealer Customer Protection Rule (specifically Rule 15c3-3(c)(7)).

Sector Mapping: There are at least two types of tokenized securities. First, a tokenized security can be a digital representation of a traditionally issued security. In this context, the typical practice is for a traditionally represented underlying security to be issued off-chain and immobilized by a broker-dealer, bank, custodian or other "securities intermediary" as defined in the Uniform Commercial Code ("UCC"), and a tokenized representation – which is no different from any other book entry securities entitlement – be created in the intermediary's books and records representing ownership of that underlying security. Second, a tokenized security could be

¹⁶ See Matthew Comstock, Willkie Farr & Gallagher LLP, on behalf of The Digital Chamber, *Broker-Dealer Custody and Other Requirements* (May 12, 2025) <https://www.sec.gov/files/response-letter-digital-chamber-051225.pdf>.

¹⁷ Discussion of Trading and Markets, U.S. Sec. & Exch. Comm'n, *Withdrawal of Joint Statement on Broker-Dealer Custody of Digital Asset Securities* (May 15, 2025) <https://www.sec.gov/newsroom/speeches-statements/joint-staff-statement-broker-dealer-custody-digital-asset-securities>.

¹⁸ Joint Staff Statement, at fn.15.

¹⁹ Division of Trading and Markets: Frequently Asked Questions Relating to Crypto Asset Activities and Distributed Ledger Technology, FAQ #10 (May 15, 2025) <https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions/frequently-asked-questions-relating-crypto-asset-activities-distributed-ledger-technology>.

²⁰ *Id.* at FAQ #2.

a natively issued digital asset, in that there is no off-chain security and the digital asset itself constitutes the security, where permitted by applicable corporate law. Regardless of the form of issuance, there are two ways registered tokenized securities can subsequently be custodied or traded: (1) through the traditional intermediated broker-dealer, exchange, clearing agency, and transfer agent system, or (2) self-custodied directly by the investor in a non-intermediated manner, and traded directly on a peer-to-peer basis, similar to existing transfers of certificated securities, but done much more efficiently when enabled by blockchain technology.

Tokenized Book Entries By Custodian Are Not Separate Securities: A tokenized security that is a digital representation of a traditionally represented underlying security can simply be a book entry reflecting a credit by a custodian such as a broker-dealer, bank, or other securities intermediary (as defined in UCC Article 8) to a customer's account. Thus, the tokenized security has a purely ministerial or clerical character (rather than the character of a separate investment). Where the tokenized security takes this form and has no substantive rights distinct from the underlying security, the token is a mere accounting entry within that custodian's bookkeeping system (which uses blockchain technology) reflecting a customer's entitlement to a security, or alternatively a custodial receipt. In this context, the tokenized security should not be deemed a separate security from the underlying, traditionally represented, security. The token is a clerical bookkeeping representation and not a separate investment and should not be treated as a separate security. Thus, the offering and sale of the underlying security by the issuer is subject to the securities laws, but the use of the tokenized *book entry* within the custodian's blockchain-based recordkeeping system should not be.

TDC requests that the SEC consider providing exemptive relief as it has for other asset classes that recognize this principle. Although there is existing SEC guidance on custodial receipts, for instance, much of this guidance dates from the 1980s.²¹ TDC respectfully requests that the SEC consider providing renewed clarity that such tokenized representations do not constitute separate securities. Such technology-neutral guidance would reduce regulatory uncertainty for regulated market participants and thereby potentially increase adoption of tokenization in the capital markets.

Traditional Intermediated Market For Tokenized Securities: TDC recommends that the SEC undertake a comprehensive review of securities regulation and consider where modifications or amendments are necessary to permit use of blockchain technology in the issuance, execution, clearance, and settlement of blockchain-based securities transactions within the existing national market structure framework. TDC recommends that the SEC implement a tailored regulatory framework for tokenized securities intermediaries, including clarification on how the national securities exchange, Alternative Trading System, clearing agency, broker-dealer, and transfer

²¹ See, e.g., SEC No-Action Letter, *Financial Security Assurance Incorporated* (March 30, 1988); SEC No-Action Letter, *Bear, Stearns & Co.* (Jan. 28, 1992).

agent registration requirements and related compliance obligations apply to entities that facilitate tokenized securities transactions.²²

Shareholder Self-Custody For Tokenized Securities: TDC agrees with Chair Atkins that the right to self-custody personal property is a foundational American value that should not disappear when one logs onto the internet. TDC further agrees that greater flexibility is needed for market participants to self-custody crypto assets, including tokenized securities.²³ TDC recommends that the SEC develop a new regulatory framework based on investor/owner self-custody and direct peer-to-peer trading of tokenized securities without mandated third-party intermediation. TDC recognizes that self-custody of tokenized securities and self-execution of securities transactions requires a comprehensive review of the existing securities regulatory framework. Under a self-custody alternative, investors will have the ability to control their own private keys to tokenized securities without intermediation. In the short term while it develops the appropriate regulatory framework, the SEC should consider a flexible, adaptive principles-based approach to permitting shareholder self-custody and direct investor peer-to-peer trading of tokenized securities.

Securities Laws Apply At Application Level, Not Layer 1 Network Level: TDC suggests that the SEC take the opportunity to clarify that a general purpose, use case agnostic Layer 1 blockchain – the bottom of the so-called "tech stack" – is software and technology infrastructure and not a regulated securities market intermediary. TDC believes that the SEC should extend this principle to node operators, miners and validators on the Layer 1 blockchain, building on existing guidance.²⁴ TDC believes that the SEC's focus should be on applications built on top of that Layer 1 infrastructure which are *not* general-purpose but instead are devoted specifically to securities market use cases and which face the investors, shareholders, and other end users of such tokenized securities.²⁵ To reduce uncertainty, TDC suggests that the SEC consider providing guidance that software and technology developers, including Layer 1 blockchains at the *network* or *protocol*

²² As TDC has addressed in other submissions in response to the Statement, the SEC should also consider amendments to its existing disclosure rules to incorporate specific disclosures that would be material to investors in the context of tokenized securities such as the source code and governance structure of the blockchain, use of smart contracts, blockchain permissions and control, etc. See, Lilya Tessler and Sonia Barros, Sidley Austin LLP, on behalf of The Digital Chamber, *Public Offerings of Investment Contracts and Related Disclosure* (June 27, 2025) <https://www.sec.gov/files/ctf-tdc-062625.pdf>.

²³ Remarks at the Crypto Task Force Roundtable on Decentralized Finance (June 9, 2025) <https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-defi-roundtable-060925>.

²⁴ Division of Corporation of Finance, Statement on Certain Protocol Staking Activities (May 29, 2025) <https://www.sec.gov/newsroom/speeches-statements/statement-certain-protocol-staking-activities-052925>; Division of Corporation Finance, Statement on Certain Proof-of-Work Mining Activities (Mar. 20, 2025) <https://www.sec.gov/newsroom/speeches-statements/statement-certain-proof-work-mining-activities-032025>.

²⁵ For example, a securities exchange, transfer agent, or clearing agency would be expected to build applications for tokenized securities on top of the Layer 1 network, but would not operate the Layer 1 network itself, particularly where the Layer 1 network is a public permissionless blockchain with hundreds if not thousands of different applications and users built on or using it.

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level, are not subject to registration requirements under the securities laws, and that requirements are triggered at the *application* level and applicable to application providers where appropriate.²⁶

Question 42

Does the tokenization of redeemable registered investment company securities, such as those of a mutual fund or money market fund, raise any unique issues under the Investment Company Act or the rules thereunder? Would secondary transactions in these securities (e.g., peer-to-peer transactions or transactions occurring on or through an ATS) require relief from any provisions of the Investment Company Act? If so, should the Commission propose any changes to facilitate tokenization of registered investment company securities, and what should any such conditions be?

Question 43

How should the Commission approach tokenized securities that seek to maintain a stable value and may be designed to be used as a means of payment or settlement? What are the challenges and impediments to the usability and transferability of these tokenized securities, particularly securities issued by offchain entities (e.g., registered investment companies)? Should transactions involving the use of these tokenized securities as a means of payment be treated differently from other security-based transactions?

Stablecoins are often referred to as one of the first "killer apps" of blockchain technology.²⁷ Yet under the recently enacted GENIUS Act which regulates the issuance and use of payment stablecoins, "payment stablecoins" that offer yield are excluded.²⁸ Moreover, the CLARITY Act that recently passed the House defines a "permitted payment stablecoin" as one that would *not* be a tokenized security issued by a registered investment company under the Investment Company Act of 1940, as amended ("Investment Company Act"), or an entity that would be required to register as an investment company but for the private fund exclusions.²⁹

²⁶ In this vein, The CLARITY Act of 2025 which recently passed the House of Representatives would amend the Exchange Act to make clear that "a person shall not be subject to [the Exchange Act] by virtue of '[d]eveloping, publishing, constituting, administering, maintaining, or otherwise distributing a blockchain system.'" H.R. 3633, Digital Asset Market Clarity (CLARITY) Act of 2025, introduced May 29, 2025, at Section 309. <https://docs.house.gov/meetings/BA/BA00/20250604/118320/BILLS-119HR3633ih.pdf>.

²⁷ See, King's College London, *Stablecoins: the first 'killer app' for Blockchain?* (May 29, 2005) <https://www.kcl.ac.uk/news/stablecoins-the-first-killer-app-for-blockchain>.

²⁸ S. 1582, *Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS)* Act, introduced May 1, 2025, at Section 4(a)(11) ("No permitted payment stablecoin issuer or foreign payment stablecoin issuer shall pay the holder of any payment stablecoin any form of interest or yield (whether in cash, tokens, or other consideration) solely in connection with the holding, use, or retention of such payment stablecoin.")

²⁹ The CLARITY Act, at Section 101 (definition of "permitted payment stablecoin").

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TDC believes the most logical way to interpret these carveouts is that Congress intended for yield-bearing stablecoins issued by registered investment companies to be regulated by the SEC. Yield-bearing stablecoins that are structured as securities issued by registered investment companies fill a critical need in the marketplace. This is due to fact that, like a "permitted payment stablecoin," they allow a holder to use the tokenized security to make blockchain-native payments to third parties for all types of on-chain transactions without needing to first exit the blockchain network to convert the payment to fiat currency. Holders can then make an off-chain bank transfer to the recipient's bank account, while – unlike a "permitted payment stablecoin" – also earning a yield while the stablecoin is idle (*i.e.*, not being used for payments).

In TDC's view, the SEC is well-suited to regulate yield-bearing stablecoins that are issued by registered investment companies because it has long regulated money market funds under Investment Company Act Rule 2a-7. Money market funds must maintain a stable value, but at the same time, they pay yield. TDC believes the SEC could apply its experience regulating money market funds and similar vehicles to tokenized registered investment company securities that maintain a stable value, but in addition, pay a yield, and – unlike traditional money market fund shares – can be used to make natively on-chain payments by the holder to third parties over a blockchain network, including a public blockchain network.

To promote innovation in digital capital markets and foster the development of a healthy and vibrant blockchain technology ecosystem in the United States, TDC suggests that the SEC consider promulgating guidance, or adopting exemptions or safe harbors, to enable the use of tokenized registered investment company securities to serve as yield bearing stablecoins used to make natively on-chain payments on a blockchain network. To ensure that such tokenized registered investment company securities can properly serve their intended function as a means of payment, which TDC believes requires them to be negotiable (in a sense) and able to be used to make third party payments, the SEC should consider making clear that the holder who is entitled to redeem the token from the registered investment company issuer for their proportionate share of the underlying assets need not be the original holder, but can instead be the equivalent of a holder in due course under the UCC. The SEC should also consider adopting other relief as necessary to ensure the tokenized registered investment company securities used as yield bearing stablecoins can function specifically as a means of payment to third parties. For example, the SEC should consider relaxing requirements that such tokenized securities be transacted only through SEC-registered intermediaries, to enable them to be deployed in a broader range of third-party payments contexts.

Question 44

Do other federal laws, or state corporate or commercial laws present challenges to firms seeking to issue tokenized securities or engage in activities involving tokenized securities?

State corporate laws and the UCC both have important implications for tokenized securities. TDC encourages the Commission to continue studying the issue and consulting industry in order to address challenges arising from the interplay between such state laws and the federal securities laws.

Question 45

The Commission recently adopted rule amendments to shorten the standard settlement cycle for most broker-dealer transactions from “T+2” to “T+1,” subject to certain exceptions. Tokenization is often characterized as an innovation that facilitates instant or simultaneous settlement (“atomic settlement”) if all parts of a transaction are executed and settled on the same blockchain. What are the benefits of atomic settlement, and what are the risks? Should the Commission consider taking any actions that would encourage adoption of atomic settlement?

The Depository Trust and Clearing Corporation (“DTCC”) has observed that a shortened settlement cycle would strengthen financial markets by lowering margin requirements for clearing agency members and reducing both pro-cyclical margin and liquidity demands, which would lessen the amount of money that needs to be collected at any one time from participants. In pursuit of such benefits, DTCC conducted an initiative to leverage distributed ledger technology for settlement of U.S. equities (“Project ION”), which was modeled around a T+0 (end of day) settlement cycle.³⁰ While Project Ion did not aim to achieve atomic (instantaneous) settlement, TDC believes atomic settlement would logically be expected to confer even more advantages than T+0 settlement.

TDC recommends that the SEC take three steps to enable market participants to explore the benefits and challenges of a shortened settlement cycle and the use of atomic settlement: (1) adoption of a regulatory sandbox that would permit regulated securities market participants to further explore the use of atomic settlement in a controlled environment, (2) further study by the SEC, including consultation with industry and stakeholders, followed by publication of a detailed report by the SEC staff, and (3) adopting a process for expedited rule changes, or promulgating guidance or exemptive relief, as needed to facilitate adoption of atomic settlement, where warranted. TDC strongly supports the conditional exemptive relief framework or “innovation exemption” proposed by Chair Atkins that would expeditiously allow registrants and non-registrants to bring on-chain products and services to market.³¹

³⁰ DTCC Project ION Case Study, May 2020, at 5 <<https://www.dtcc.com/~media/Files/Downloads/settlement-asset-services/user-documentation/Project-ION-Paper-2020.pdf>>.

³¹ Remarks at the Crypto Task Force Roundtable on Decentralized Finance (June 9, 2025) <https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-defi-roundtable-060925>.

Question 46

What issues are raised by the tokenization of securities subject to National Market System (“NMS”) requirements? Should the Commission clarify any requirements or provide relief from any requirements under Regulation NMS? Are there any other SEC rules that should be clarified or amended to address the trading of tokenized equity or debt securities?

Regulation NMS raises complex issues in connection with the tokenization of securities and the market structure of on-chain trading. At the same time, the advent of tokenized securities and blockchain technology is not the first time the SEC has confronted the need to adapt to rapid technological change in the capital markets. As the SEC's Division of Market Regulation noted in its landmark report *Market 2000: An Examination of Current Equity Market Development*.³²

Technological advances have changed dramatically the way that the securities business is conducted and promise to change it further. Many of the innovations in the markets during the past 20 years have been generated by competition. It is not surprising that the introduction of new technologies which benefit investors has been the product of competition between and among markets and market participants. Congress recognized this in principle in 1975 when it instructed the Commission to facilitate, but not design, the national market system. It is as important today as it was in 1975 that the Commission cultivate an atmosphere in which innovation is welcome, without dictating a particular structure.

TDC agrees with the sentiments expressed in the foregoing extract of the Market 2000 report and encourages the SEC to study the impact of NMS requirements on a tokenized securities market structure, including continued consultation with industry and stakeholders. TDC encourages the Division of Trading and Markets to commence efforts on a new initiative in the tradition of Market 2000, exploring and investigating the potential for blockchain technology in the U.S. equity markets. The SEC 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.

In addition, TDC recommends that the SEC address the limitations inherent in Regulation NMS in the context of trading of registered tokenized equity securities: (1) adopt a regulatory sandbox that would permit regulated securities market participants to further explore trading registered tokenized equity securities that would otherwise be subject to NMS requirements in a controlled sandbox environment, and (2) adopt a process for expedited rule changes, or promulgating guidance or exemptive relief, as needed to facilitate trading of registered tokenized equity securities subject to Regulation NMS.

³² SEC Division of Market Regulation, *Market 2000: An Examination of Current Equity Market Developments* (Jan. 1994) <https://www.sec.gov/divisions/marketreg/market2000.pdf>.

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Again, TDC supports the conditional exemptive relief framework or “innovation exemption” proposed by Chair Atkins that would expeditiously allow registrants and non-registrants to bring on-chain products and services to market.³³ TDC notes that the SEC has considered similar issues before, for example, in the Paxos Settlement Service no-action letter, where the SEC granted exemptive relief from clearing agency requirements in connection with a project to use DCT in the settlement of U.S. listed equities trades.³⁴ Similar relief or guidance may be warranted in appropriate circumstances in connection with NMS requirements.

Conclusion

TDC has full confidence that the present SEC will rise to the moment and adapt our securities regulatory framework to account for new technologies and to enable innovation, and thereby preserve and strengthen U.S. capital markets leadership while fulfilling the agency's mission. Tokenization of securities will significantly advance our markets, and participants should feel confident that the United States is a safe environment to build blockchain-enabled financial services solutions for the long-term.

TDC acknowledges the significant efforts of Clifford Chance towards the preparation of this letter. TDC also thanks the many members that contributed their time and expertise towards its development. 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 Steven.Gatti@CliffordChance.com and Jesse.Overall@Cliffordchance.com.

Regards,



Steven F. Gatti

Jesse Overall

cc: Cody Carbone, Chief Executive Officer, The Digital Chamber
Annemarie Tierney, Senior Strategic Adviser, The Digital Chamber

³³ Remarks at the Crypto Task Force Roundtable on Decentralized Finance (June 9, 2025) <https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-defi-roundtable-060925>.

³⁴ SEC No-Action Letter, *Paxos Trust Company, LLC* (Oct. 28, 2019) <https://www.sec.gov/divisions/marketreg/mr-noaction/2019/paxos-trust-company-102819-17a.pdf>.