

CLIENT ALERT

Tickers to Tokens: SEC Clears Tokenized Stock Trading

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For the first time, the Securities and Exchange Commission (the “SEC” or “Commission”) has cleared the way for stocks to trade on blockchain-based venues. In [Release No. 34-106402](#) (the “Order”),¹ issued September 17, 2026, the Commission granted temporary exemptive relief under Section 36(a)(1) of the Securities Exchange Act of 1934 (the “Exchange Act”) that enables two novel market structures. First, certain distributed ledger trading venues (“Tokenized Securities Venues” or “TSVs”) that facilitate permissioned trading of tokenized national market system (“NMS”) stocks (“Tokenized NMS Stock”) are exempted from the definition of “exchange” under Section 3(a)(1) of the Exchange Act (the “TSV Exemption”).² Second, certain liquidity providers (“Covered Firms”) that supply assets to automated market maker (“AMM”) liquidity pools (“AMM Liquidity Pools”) are exempted from the definition of

¹ Exchange Act Release No. 34-106402, 91 Fed. Reg. 60168 (Sept. 22, 2026) (granting temporary conditional exemptive relief pursuant to Section 36(a)(1) of the Exchange Act, 15 U.S.C. § 78mm(a)(1)).

² 15 U.S.C. § 78c(a)(1).

“dealer” under Section 3(a)(5) of the Exchange Act (the “Covered Firm Exemption”).³ Both exemptions are effective for five years through September 17, 2031. The Order also solicits public comment.

The Order follows several recent regulatory developments, including the SEC’s Crypto Task Force,⁴ Executive Order 14178 directing federal agencies to support digital financial technology,⁵ the President’s Working Group report,⁶ Chairman Atkins’s “Project Crypto” initiative,⁷ the joint SEC-CFTC Interpretive Statement on crypto asset classification,⁸ and NASDAQ’s approved rule change enabling tokenized securities trading.⁹ Chairman Atkins described the Order as “a significant step forward, within [the Commission’s] statutory authority, to bring America’s capital markets into the digital age by facilitating on-chain trading of certain tokenized stocks.”¹⁰

This alert identifies key takeaways for market participants, summarizes the TSV Exemption and Covered Firm Exemption, discusses Investment Company Act considerations, and provides guidance for issuers of publicly traded securities.

Key Takeaways

- **Trading Platforms and Technology Firms.** Firms interested in establishing a TSV should carefully review the exemption’s conditions, including public notice requirements, distributed ledger transparency, volume and symbol limitations, issuer objection procedures, and books and records obligations. Early engagement with legal counsel and Commission staff is advisable.
- **Broker-Dealers and Liquidity Providers.** Firms considering participation as Covered Firms should assess the scope of permissible activity, including the limitation to proprietary accounts and the prohibition on holding customer assets. Because a Covered Firm’s securities activities must be limited to activities related to trading Tokenized NMS Stock in an AMM Liquidity Pool operating under the TSV Exemption, a firm that conducts other securities business, such as a registered broker-dealer, would not appear to be eligible to rely on the Covered Firm Exemption. Broker-dealers may, however, participate on a TSV as verified or

³ 15 U.S.C. § 78c(a)(5).

⁴ See U.S. Securities and Exchange Commission, Crypto Task Force, <https://www.sec.gov/about/crypto-task-force>; see also Crypto Task Force Designation Letter from Acting Chairman Mark T. Uyeda (Feb. 4, 2025), available at <https://www.sec.gov/files/crypto-task-force-designation-letter.pdf>.

⁵ Exec. Order No. 14,178 (“Strengthening American Leadership in Digital Financial Technology”), 90 Fed. Reg. 8647 (Jan. 31, 2025).

⁶ See The President’s Working Group on Digital Asset Markets, Strengthening American Leadership in Digital Financial Technology, dated July 30, 2025, available at <https://www.whitehouse.gov/wp-content/uploads/2025/07/Digital-Assets-Report-EO14178.pdf> (the “PWG Report”).

⁷ See Chairman Paul S. Atkins, “American Leadership in the Digital Finance Revolution,” July 31, 2025, available at <https://www.sec.gov/newsroom/speeches-statements/atkins-digital-finance-revolution-073125>.

⁸ Securities Act Release No. 33-11412 (Mar. 17, 2026), 91 Fed. Reg. 13714, 13716 (Mar. 23, 2026) (“Crypto Asset Interpretive Statement”).

⁹ See Securities Exchange Act Release No. 34-105047 (Mar. 18, 2026), 91 Fed. Reg. 13900 (Mar. 23, 2026) (SR-NASDAQ-2025-072) (approving NASDAQ rule change to enable trading of securities in tokenized form).

¹⁰ Press Release, U.S. Securities and Exchange Commission, SEC Issues “Innovation Exemption” to Facilitate the Trading of Tokenized NMS Stock and Request for Comment (Sept. 17, 2026), available at <https://www.sec.gov/newsroom/press-releases/2026-90-sec-issues-innovation-exemption-facilitate-trading-tokenized-nms-stock-request-comment>.

credentialed users and liquidity providers (“TSV Participants”), subject to their existing registration and self-regulatory organization obligations.

- **Issuers of NMS Stocks.** Third parties may tokenize securities without the issuer’s involvement. The Order provides issuers the right to object within 30 calendar days of receiving a written notice to the issuer of the underlying NMS Stock (an “Issuer Notice”). Notably, the objection mechanism operates on a per-TSV basis: an issuer receiving notices from *multiple* TSVs must respond to each separately, and an objection to one TSV does not carry over to another. If an issuer objects, the TSV must publicly disclose the objection and the issuer’s identity within five business days. Issuers should confirm that the address listed in their Exchange Act filings is monitored by personnel who will recognize and escalate a TSV notice promptly.
- **Comment Period.** The Commission is soliciting public comment on all aspects of the exemptions. Firms affected by the Order’s scope or limitations should consider submitting comments.
- **Key Limitations.** The Order does not address decentralized trading protocols lacking an identifiable operator, the securities law status of liquidity pool tokens (“LP tokens”) representing entitlements to pool assets and fees, or central limit order book protocols (the exemption covers only AMM-based trading). A registered entity may operate an affiliate as a TSV, but must keep the TSV operation separate from any registered activity; broker-dealers transacting on a TSV remain subject to existing best execution and reporting requirements applicable to over-the-counter transactions.

TSV Exemption

Under the Exchange Act and Rule 3b-16, an “exchange” is any organization that brings together purchasers and sellers of securities.¹¹ A TSV brings together buyers and sellers of “Tokenized NMS Stock” through one or more “AMM Liquidity Pools” for permissioned participants. Tokenized NMS Stock is a security tokenized by (or on behalf of) the issuer, or by an unaffiliated third party with issuer objection rights. Absent the exemption, a TSV would need to register as a national securities exchange or operate as an alternative trading system. The SEC has published a [list](#) of persons that have provided written notice to the Commission that they intend to operate pursuant to the TSV Exemption.¹²

- **AMM Liquidity Pools.** AMM Liquidity Pools are smart contract-based portfolios that automate execution and set prices based on asset ratios. Liquidity providers deposit assets and receive “LP tokens” proportionate to their contribution; users trade against the pool rather than specific counterparties. Trading is permitted only in “pairs” coupling a Tokenized NMS Stock with another Tokenized NMS Stock, a non-security crypto asset, or a tokenized money market fund. Every trade in a pool is a swap of one asset in the pair for the other, and, while pairs may have more than two legs, one side must always be a Tokenized NMS Stock. A

¹¹ “NMS stock” means any NMS security other than an option. 17 C.F.R. § 242.600(b)(65). “NMS security” means any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan. *Id.* § 242.600(b)(64).

¹² Div. of Trading & Mkts., U.S. Sec. & Exch. Comm’n, Innovation Exemption, <https://www.sec.gov/about/divisions-offices/division-trading-markets/innovation-exemption> (last visited Oct. 23, 2026).

trade can only be: (1) a tokenized stock for another tokenized stock, (2) a tokenized stock for a non-security crypto asset, and, (3) a tokenized stock for a tokenized money market fund.

- *Regulation NMS Relief.* TSVs face challenges complying with Regulation NMS, including the trade-through rule (Rule 611), quotation obligations (Rule 602(a)), and minimum pricing increments (Rule 612). The TSV Exemption provides that a qualifying TSV will not be considered an “exchange,” “trading center,” or “market center” under Regulation NMS. The exemption does not relieve a TSV from registration under the Securities Act of 1933 or the anti-fraud and anti-manipulation provisions of the Exchange Act.
- *General Conditions.* A TSV must be a “U.S. person” and comply with all economic and trade sanctions administered by the Office of Foreign Assets Control (OFAC) as well as all applicable AML/CFT requirements. Though a TSV must be permissioned and sets standards for persons to access trading, smart contracts must be auditable, public, and deployed on a permissionless distributed ledger.¹³ Each TSV must publish a plain-English public notice on its website at least 30 calendar days before operating and notify the SEC within one business day of the publication. The Order does not provide an exemption for other applicable laws such as the anti-fraud provisions of the federal securities laws. The SEC’s Division of Trading and Markets staff published FAQs (the “FAQ”) that addressed a TSV’s public notice. The FAQ states that a TSV should publish the notice only after its operations and access standards are established and are ready for production, and that it must then be amended to stay current.¹⁴
- *Issuer Notice and Objection Rights.* Before trading a third-party tokenized stock, the TSV must notify the issuer at the address in its Exchange Act filings. Trading may not commence until 30 calendar days after receipt, during which the issuer may object. The FAQ states a TSV whose Issuer Notice objection period has not run yet may still list those third-party Tokenized NMS Stocks in its public notice, as long as it marks the objection period as pending. However, once that period ends, the notice must be amended and the stock cannot be made available for trading if the issuer objects in time.¹⁵ All Tokenized NMS Stock must provide holders the same rights as traditional NMS stock (dividends, voting, liquidation), and third-party tokenizers must distribute proxy materials and other issuer communications at no cost to the issuer or holders. Notably, the Order does not specify the mechanism by which holders of tokenized securities will receive periodic Exchange Act filings (Forms 10-K, 10-Q, and 8-K) or other corporate action notices, leaving

¹³ A “permissioned” token is a digital asset on a blockchain or distributed ledger where the issuer, or a designated administrator, controls who can hold, transfer, or interact with it. A permissionless distributed ledger is a shared, cryptographically secured ledger that anyone can use without approval from a central operator. See Dylan Yaga, Peter Mell, Nik Roby & Karen Scarfone, Blockchain Technology Overview, NISTIR 8202 at v (Nat’l Inst. of Standards & Tech., Oct. 2018) available at <https://nvlpubs.nist.gov/nistpubs/ir/2018/NIST.IR.8202.pdf> (“In a permissionless blockchain network anyone can read and write to the blockchain without authorization. Permissioned blockchain networks limit participation to specific people or organizations and allow finer-grained controls.”).

¹⁴ Div. of Trading & Mkts., U.S. Sec. & Exch. Comm’n, Frequently Asked Questions on the Innovation Exemption, <https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions/frequently-asked-questions-innovation-exemption> (last visited Oct. 23, 2026).

¹⁵ Div. of Trading & Mkts., U.S. Sec. & Exch. Comm’n, Frequently Asked Questions on the Innovation Exemption, <https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions/frequently-asked-questions-innovation-exemption> (last visited Oct. 23, 2026).

open the question of how the existing disclosure infrastructure will integrate with distributed ledger-based ownership records.

- *Volume and Symbol Limitations.* The Order imposes two-tier limits based on the LULD Plan:¹⁶ *Tier 1* (S&P 500, Russell 1000, certain exchange-traded products) permits 75 symbols and 0.25% of prior-month average daily volume; *Tier 2* (other NMS stocks, excluding rights and warrants) permits 250 symbols and 2.5% of prior-month average daily volume. The first time a TSV exceeds a volume threshold in a Tokenized NMS Stock, it need only ensure that it does not exceed the threshold going forward; each subsequent exceedance requires an immediate three-month pause in trading that stock. Exceeding symbol thresholds means the TSV no longer satisfies the exemption.
- *Transparency and Operational Requirements.* TSVs must make USD-denominated transaction data freely available (updated within 10 minutes), halt trading when the primary listing exchange halts, notify participants and the SEC of significant operational events, and maintain books and records for the exemption period plus three years. The public notice must disclose how the TSV addresses maximal extractable value (“MEV”).¹⁷ A TSV may not borrow or hypothecate assets, extend credit, or represent that it is “registered” or “approved” by the SEC.

Covered Firm Exemption

The Order also exempts “Covered Firms” from the definition of “dealer” under Section 3(a)(5) of the Exchange Act.¹⁸ A Covered Firm is a liquidity provider in an AMM Liquidity Pool that supplies liquidity in Tokenized NMS Stock using proprietary capital and may engage in additional dealing-like activities, such as quoting prices to customers or providing committed capital. The exemption is designed to encourage liquidity provision while the Commission evaluates the application of broker-dealer frameworks to these novel structures. The exemption sunsets on September 17, 2031.

The Covered Firm Exemption is subject to these conditions:

- *Limited Scope.* A Covered Firm’s securities activities must be limited to activities related to the trading of Tokenized NMS Stock in an AMM Liquidity Pool operating pursuant to the TSV Exemption. As a result, a firm engaged in securities activities outside of TSV-provided AMM Liquidity Pools, including a registered broker-dealer, would not appear to qualify as a Covered Firm. The condition applies to securities activities and does not on its face restrict a Covered Firm’s non-securities activities.

¹⁶ The Limit Up-Limit Down Plan (“LULD Plan”) establishes mechanisms to address extraordinary market volatility in NMS stocks. See Securities Exchange Act Release No. 67091, 77 Fed. Reg. 33498 (June 6, 2012) (approving LULD Plan on pilot basis); Securities Exchange Act Release No. 85623, 84 Fed. Reg. 16086 (Apr. 17, 2019) (approving LULD Plan on permanent basis).

¹⁷ “MEV” means the value that block producers and other actors can capture by choosing how transactions are ordered within a block. As the Order notes, transaction sequencing can be abused to the detriment of users (for example, through front-running) or used to protect them (for example, through price-stabilizing back-running).

¹⁸ 15 U.S.C. § 78c(a)(5).

- *Proprietary Accounts Only.* All trading must be conducted through the Covered Firm's proprietary accounts for its own account. Covered Firms may not hold customer assets.
- *Recordkeeping.* Covered Firms must maintain records of: (1) financial statements demonstrating ability to cover potential losses; (2) liquidity supplied to AMM Liquidity Pools; (3) agreements with TSVs for liquidity services; and (4) fees, rebates, or other compensation received.
- *Public Disclosure.* Covered Firms must prominently disclose on any public-facing website: (1) that they are not registered as a broker-dealer; (2) that they may enter into liquidity provision agreements with TSVs; and (3) that they may receive fees or incentives for providing liquidity.
- *SEC Notification.* Covered Firms must provide written notification to the SEC (at tradingandmarkets@sec.gov) of their reliance on the exemption, including the firm's name, business model, risk controls, regulatory contact, liquidity agreements, fees received, acknowledgment regarding statutory disqualification, consent to information requests, and acknowledgment that inconsistent operation could result in enforcement action.

A Covered Firm may not rely on the exemption if the Covered Firm or any of its affiliates is subject to a statutory disqualification under Section 3(a)(39) of the Exchange Act, unless the Commission or a relevant self-regulatory organization has permitted the Covered Firm or affiliate, by rule, order, or otherwise, to continue its membership in or participation with that self-regulatory organization, or its association with a member of that self-regulatory organization or another Commission registrant, notwithstanding the disqualification. The anti-fraud and anti-manipulation provisions of the Exchange Act continue to apply. Reliance on the exemption does not create a presumption that a person is a dealer.

Investment Company Act Considerations

In a notable footnote, the Order acknowledges that certain activities may raise Investment Company Act issues for tokenized investment companies, such as multi-class issues under Section 18 and forward-pricing issues under Section 22(d) and Rule 22c-1, and that the Order does not provide relief from the Investment Company Act of 1940 ("Investment Company Act").¹⁹ Tokenized money market funds and tokenized exchange-traded funds may be implicated under the Investment Company Act due to their potential status as NMS Stock under Regulation NMS, and relevant participants must therefore trade in compliance with Investment Company Act requirements.²⁰ The Order also does not address the investment company status of tokenized pools.

¹⁹ Exchange Act Release No. 34-106402, 91 Fed. Reg. 60168 at FN 22 (Sept. 22, 2026).

²⁰ Exchange Act Release No. 34-106402, 91 Fed. Reg. at 60170 at FN 22; Rule 600(b)(64) of Regulation NMS defines an "NMS security" as "any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in listed options." Accordingly, a tokenized money market fund would qualify as an NMS security if transactions in it are reported under an effective transaction reporting plan approved under Rule 601, as is ordinarily the case for funds listed on a national securities exchange, because exchanges must file plans covering transactions in listed equity securities. Reporting of transactions outside such a plan, such as on-chain or through an ATS, would not by itself make the fund an NMS security.

An AMM Liquidity Pool holding tokenized securities and issuing LP tokens to liquidity providers could potentially be characterized as an “investment company” under Section 3 of the Investment Company Act. Notably, the Order does not address the securities law status of LP tokens themselves, which represent an entitlement to the securities and fees associated with the pool. Market participants structuring or providing liquidity to AMM Liquidity Pools should evaluate whether the pool’s structure could trigger Investment Company Act registration requirements and whether LP tokens may constitute securities requiring registration or an exemption.

Solicitation of Public Comment

The Commission has solicited public comment on all aspects of the exemptions, posing questions including:

- Whether modifications to either exemption are warranted;
- Whether the exemptions should ultimately be made permanent;
- The appropriateness of the volume and symbol thresholds;
- Potential market impacts, including effects on price discovery and liquidity in the traditional NMS market;
- Challenges that may arise for regulated entities seeking to participate; and
- Whether broker-dealer TSV Participants should receive relief from certain Regulation NMS requirements.

Comments may be submitted at <https://www.sec.gov/comments/4-927>, by email to rule-comments@sec.gov including File Number 4-927 on the subject line, or by mail to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549–1090, also referring to File Number 4-927.

Considerations for Issuers of Publicly Traded Securities

The Order does not impose new disclosure or compliance obligations on public company issuers or require companies to tokenize their stock. However, issuers should be aware that third parties may tokenize their securities for trading on a TSV without issuer involvement. The following practical steps may be advisable:

- *Monitor the Notice Address.* TSVs must deliver Issuer Notices to the address in an issuer’s Exchange Act filings. Issuers should confirm this address is monitored by personnel who will recognize such a notice and escalate it promptly to the appropriate internal teams.
- *Establish an Objection Protocol.* Issuers should form a view in advance as to whether to object to tokenization. An objection does not require a stated reason and will stop the Tokenized NMS Stock from trading on the TSV, while the TSV must disclose the objection within five business days. Because the objection mechanism operates on a per-TSV basis, issuers receiving notices from multiple TSVs must respond to each separately within its own 30-day window.

- *Evaluate Tokenization Impacts.* Tokenization may introduce extended or continuous trading hours for an issuer's securities. Issuers should review insider trading and disclosure control policies for gaps created by 24/7 trading, consider potential price dislocation between exchange and TSV pricing, and assess the operational strain that around-the-clock trading may place on disclosure processes. Price dislocation may arise because a TSV can trade when the primary listing market is closed, and because AMM pricing is generally determined by the ratio of assets in the liquidity pool, without directly considering external prices, rather than by the interaction of orders in an order book. Issuers should also assess how holders of tokenized securities will receive corporate action notices and periodic filings, particularly where a third-party tokenizer, rather than the issuer's transfer agent, maintains the ownership ledger. The Order requires equivalent holder rights but does not prescribe a delivery channel for Exchange Act reports or other issuer communications beyond proxy materials. Issuers may wish to address this gap in any discussions with prospective TSVs or third-party tokenizers. Some issuers may adopt a practice of objecting to all tokenization notices by default while observing how the market develops.

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Willkie has a dedicated team of attorneys with extensive knowledge in all aspects of digital assets and SEC regulations, including experience engaging with the SEC for examinations, enforcement, no-action relief, and other advocacy. We would be pleased to assist with your matters.

If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

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