

Congress of the United States
Washington, DC 20515

October 22, 2026

The Honorable Paul S. Atkins
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Atkins:

We write regarding the Securities and Exchange Commission's (the "Commission") order granting conditional exemptive relief, under Section 36(a)(1) of the Securities Exchange Act of 1934, to "Tokenized Securities Venues" ("TSV") from the definition of "exchange," and to certain liquidity providers from the definition of "dealer" (hereinafter the "Order"). We are deeply concerned that this "Innovation Exemption" creates a parallel market for U.S. equities outside the regulatory framework Congress established to protect investors and ensure fair and orderly securities markets. In effect, the Commission is creating a regulatory carveout for the crypto industry to trade U.S. equities without many of the core oversight, market-integrity, transparency, and investor-protection requirements that apply to the existing securities markets. Therefore, we urge you to immediately rescind the Order in its entirety.

Investors and issuers bear the most immediate risks under the Order. Investors will be sold complex automated market maker ("AMM") protocols with significant fees and risks, without the protections that accompany trading on registered exchanges and alternative trading systems ("ATS"). Investors will not receive the same transaction-level disclosures regarding execution costs or the markup protections that constrain what regulated intermediaries can charge, leaving investors exposed to potentially significant and difficult-to-understand fees and expenses. The Commission acknowledges this in the Order by requiring TSVs to warn investors that they are not SEC-registered, are not subject to Regulation NMS, and are not subject to the fair-access protections applicable to regulated markets.

The AMM structure also creates a fundamentally different mechanism for determining the price of a U.S. security. Rather than relying on the consolidated market structure through which investors can compare bids and offers across regulated trading venues, an AMM can establish prices through a liquidity pool and an automated pricing formula. This creates the potential for the tokenized version of a security to trade at a price materially different from the underlying security,

creating opportunities for arbitrage and exposing less sophisticated investors to losses they may not fully understand. If the same security can trade simultaneously on registered exchanges, ATSS, and multiple TSVs operating under different rules, investors and market participants will face an increasingly fragmented market in which liquidity, pricing information, and trading activity are distributed across venues with materially different regulatory obligations.

Issuers, meanwhile, are effectively being forced to police the tokenization of their own shares. Any unaffiliated third party can seek to tokenize an issuer's stock, and a TSV is required only to provide the issuer an "Issuer Notice." Giving the issuer only 30 days to object before trading may begin. Nothing in the Order appears to prevent multiple TSVs from separately initiating this process or the same TSV from initiating the process multiple times, potentially subjecting public companies to a barrage of notices and forcing them to devote resources to prevent the fragmentation of their shares across parallel, lightly regulated markets. This creates the possibility that a public company could find its shares represented across numerous tokenized venues without having voluntarily chosen to participate in each of them. That would impose new monitoring, legal, investor-relations, and compliance costs on issuers while providing them with limited ability to control how their securities are represented and traded.

Further, the Order creates a separate trading environment for U.S. equities in which market participants will not be subject to the same rules that govern traditional securities markets. TSVs will not be subject to the full requirements applicable to registered exchanges and ATSS, including the regulatory framework established by Regulation NMS.

This creates an uneven playing field between traditional securities venues and TSVs. Registered exchanges and broker-dealers must devote substantial resources to compliance, surveillance, recordkeeping, market integrity, and investor protection. Permitting competing venues to trade the same securities while exempting them from substantial portions of that framework creates an incentive for market participants to move activity toward the venue with fewer regulatory obligations. The consequences could extend beyond tokenized securities themselves. If trading volume migrates from regulated exchanges into exempted venues, the resulting reduction in liquidity and trading activity on traditional markets could affect price discovery for the underlying securities. The Commission should not create a structure in which the growth of an exempted market itself becomes the justification for expanding or preserving the exemption.

The Order's treatment of AMM liquidity providers raises additional concerns. By providing exemptive relief from the definition of "dealer" to certain liquidity providers, the Commission is allowing market participants to perform functions that can resemble traditional dealing activity without being subject to the same regulatory framework applicable to registered dealers.

This raises serious concerns regarding conflicts of interest, pricing, inventory management, and the relationship between liquidity providers and investors. It also raises the prospect that sophisticated participants with greater technological capabilities, information, or control over liquidity pools could systematically benefit at the expense of retail investors.

The Order creates a significant gap in the AML and Bank Secrecy Act framework that protects the U.S. financial system from illicit finance. Although TSVs must permission access to their venues, the Order requires their distributed ledger applications to operate on public, permissionless blockchains. Nothing in the Order requires a tokenized security purchased on a TSV to remain within that permissioned environment or subjects subsequent transfers to the TSV's identity and transaction controls. When read together with the SEC staff's recent wallet guidance, the result is that tokenized U.S. equities can move outside the TSV through transactions in which no registered securities intermediary is necessarily present to perform the AML/KYC and other controls that protect the traditional financial system.

The Order similarly creates a dangerous blind spot for detecting insider trading and market manipulation. TSV transactions are not integrated into the consolidated surveillance framework that allows regulators to reconstruct trading across the U.S. equity markets and identify the persons behind suspicious activity. Instead, the Order creates a separate reporting regime for TSVs, requiring only specified transaction information to be made publicly available within ten minutes. Once tokenized securities move outside the TSV, subsequent transactions on a permissionless blockchain may reveal only blockchain addresses, without the regulated-intermediary records necessary to reliably identify the persons controlling those addresses. The Commission is therefore permitting trading in U.S. public-company securities to migrate outside the very surveillance architecture designed to detect and prosecute insider trading and manipulation.

The Order's volume limits do not meaningfully constrain these risks. They are monthly venue-level trading caps, not limits on the aggregate positions that any investor may acquire or hold, and aggregate only across affiliated TSVs. An actor can therefore continue accumulating a position month after month, across unaffiliated TSVs, and through subsequent transactions outside the TSV framework. Over time, sanctioned persons, terrorist organizations, money launderers, foreign adversaries, and other illicit actors could potentially accumulate significant ownership positions in U.S. public companies--including defense contractors, artificial-intelligence companies, and financial institutions--outside the AML/KYC and consolidated market-surveillance framework that protects the U.S. securities markets.

Lastly, the stated justification for this Order, that Congress was unsuccessful in advancing the CLARITY Act and that the Commission would therefore act on its own, "within its statutory authority," to move forward regardless, is wholly inadequate and irresponsible. There is a critical distinction between an agency exercising delegated statutory authority in response to a specific market event, which may be appropriate even when Congress has not acted on that particular issue, and an agency substituting its own judgment for a legislative process that has not yet run its course. Here, there is no market justification for acting beyond the fact that the CLARITY Act has not passed, and Congress's rightful reluctance to pass it is not silence. It reflects a live, unresolved legislative disagreement over exactly how such products should be regulated, including questions of jurisdiction, investor protection, and market structure that go to the heart of this Order. In the absence of the passage of the CLARITY Act, our near century old securities law framework should apply and tokenized securities venues and dealers should register with the Commission and not simply be granted exemptive relief. In *West Virginia v. EPA*, the Supreme Court ruled that federal agencies cannot decide issues of vast economic and political significance without clear congressional authorization. Congress's own conduct and the Commission's own justification

shows no such authorization exists for tokenized securities. The Commission should not substitute its own judgment for the outcome of a democratic process that has not concluded.

For these reasons, we urge you to immediately rescind the exemptive relief for tokenized securities venues and dealers. Thank you for your attention to this important matter and we look forward to your response.

Sincerely,



Brad Sherman
Member of Congress
Ranking Member,
Subcommittee on Capital
Markets



Bill Foster
Member of Congress



Stephen F. Lynch
Member of Congress



Sylvia R. Garcia
Member of Congress



Joyce Beatty
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Nikema Williams
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