

Memorandum

SEC Issues Innovation Exemption for Tokenized Securities Venues: A New Framework for Onchain Trading of Tokenized NMS Stocks

October 7, 2026

I. Introduction

On September 17, 2026, the Securities and Exchange Commission (the “SEC”) issued an order designed to facilitate onchain trading of tokenized National Market System (“NMS”) stocks through a new category of trading venue, a Tokenized Securities Venue (“TSV”).¹ The so-called “Innovation Exemption” permits TSVs that meet certain specified conditions to trade tokenized NMS stock using permissioned automated market makers and liquidity pools² (together, “AMM Liquidity Pools”) and grants a five-year, conditional exemption to TSVs from the definition of “exchange” under the Securities Exchange Act of 1934 (the “Exchange Act”). The Innovation Exemption also grants a five-year, conditional exemption from the definition of “dealer” under the Exchange Act to liquidity providers in an AMM Liquidity Pool used by a TSV.

The Innovation Exemption is the latest in a series of actions taken by the SEC under Chairman Paul S. Atkins and his “Project Crypto” initiative, which is aimed at providing regulatory clarity for crypto asset markets. The Order was released just two days after the CLARITY Act—which proposed a legislative framework to establish comprehensive regulations for the digital asset market—failed to advance in the Senate. The Order was issued pursuant to the SEC’s existing exemptive authority, with Chairman Atkins stating that it is an interim measure that “must be followed by durable rulemaking.” This alert summarizes the key provisions of the Innovation Exemption and identifies several important open questions for market participants.

II. The Exemptions

The Innovation Exemption grants two distinct exemptions under the Exchange Act. The first exemption, the “TSV Exemption,” exempts TSVs from the definition of “exchange” in Section 3(a)(1) of the Exchange Act, permitting TSVs to operate without registering as national securities exchanges or operating as an alternative trading system under Regulation ATS. The second exemption, the “Covered Firm Exemption,” exempts certain liquidity providers in AMM Liquidity Pools from the definition of “dealer” in Section 3(a)(5) of the Exchange Act. Both exemptions

¹ See Order Granting Conditional Exemptive Relief, Pursuant to Section 36(a)(1) of the Securities Exchange Act of 1934, from the Definition of “Exchange” in Section 3(a)(1) of the Exchange Act for the Use of Certain Distributed Ledger Trading Venues for Tokenized NMS Stocks and from the Definition of “Dealer” in Section 3(a)(5) of the Exchange Act for Certain Liquidity Providers for Tokenized NMS Stock, and Request for Comment, [Release No. 34-106402](#) (Sept. 17, 2026) (the “Order”).

² A liquidity pool is a portfolio of crypto assets that is algorithmically bound and traded based on the terms of the smart contracts that compose the AMM Liquidity Pool.

are temporary, expiring on September 17, 2031 (five years from issuance), and are subject to extensive conditions, as explained below.

1. The TSV Exemption

a. Definitions

Definition of TSV. The Innovation Exemption defines a TSV as an organization, association, or group of persons that brings together buyers and sellers of Tokenized NMS Stock by: (1) providing one or more AMM Liquidity Pools for permissioned participants to interact and agree to terms of a trade, and (2) setting standards for persons to access trading on such AMM Liquidity Pools.

Because TSVs are exempt from the “exchange” definition, they are not required to register as national securities exchanges or comply with Regulation ATS, which otherwise provides an exemption from exchange registration for alternative trading systems.³ According to the SEC’s release, TSVs offer potential benefits to investors by enabling investor self-custody, around-the-clock trading, fractional ownership of shares, and near-instantaneous settlement.

Definition of Tokenized NMS Stock. “Tokenized NMS Stock” means an NMS stock⁴ that is: (1) a security tokenized by, or on behalf of, the issuer of the underlying NMS stock; or (2) a security tokenized by a third party that is unaffiliated with the issuer of the underlying NMS stock. Tokenized NMS Stock does not include securities where a third party issues a crypto asset representing its own security that provides synthetic exposure to an underlying security, such as a tokenized linked security or a tokenized security-based swap.

b. Conditions

The TSV Exemption imposes a comprehensive set of conditions on TSVs, which, if met, will not subject the TSV to the same exchange regulatory framework applicable to national securities exchanges and ATSs. The following summarizes the conditions of the TSV Exemption.

- i. **Smart contract transparency.** All distributed ledger applications (*i.e.*, smart contracts) used by a TSV must be auditable, public, and deployed on a public, permissionless distributed ledger.
- ii. **U.S. person requirement.** The TSV must be a U.S. person, which subjects it to sanctions compliance obligations administered by the Office of Foreign Assets Control (“OFAC”).
- iii. **Public notice.** At least 30 calendar days before beginning operations, a TSV must publish a detailed public notice prominently on its website. The information to be included in the public

³ See 15 U.S.C. § 78c; 17 CFR §§ 242.301-304.

⁴ “NMS stock” means any NMS security other than an option and “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, or an effective national market system plan for reporting transactions in listed options. See 17 CFR § 242.600(b)(64)-(65).

notice is extensive, and the Innovation Exemption lists 30 separate categories of requirements, covering topics such as: a disclaimer that the TSV is not registered with the SEC; the TSV's structure, ownership, and governance; permissioning criteria and access eligibility; the distributed ledger technology and smart contracts used; AMM Liquidity Pool trading procedures and pricing models; fees and compensation; systems safeguards and security audits; clearance and settlement arrangements; material risks; trading oversight and surveillance; and stoppage of trading procedures. These disclosures cover some of the topics that would otherwise be covered in Form ATS-N.

- iv. **Issuer notice and objection.** Before making available for trading a Tokenized NMS Stock that is tokenized by a third party unaffiliated with the issuer, a TSV must provide written notice to the issuer of the underlying NMS stock. Trading may not commence until at least 30 calendar days after the issuer receives such notice. If the issuer objects within that period, the TSV cannot make such Tokenized NMS Stock available for trading.
- v. **No primary issuance.** No primary issuance or initial offerings of securities are permitted on a TSV; it is limited to secondary market trading. A TSV must verify that any Tokenized NMS Stock made available for trading provides holders with the same rights and privileges as traditional NMS stock of an equivalent class. A Tokenized NMS Stock would be deemed to provide the same rights and privileges as a traditional NMS stock, if, among other things, it conveys the same economic interest, right to receive dividends, voting rights, and residual claim on assets upon liquidation. In addition, Tokenized NMS Stock must trade in a pair with another Tokenized NMS Stock, a non-security crypto asset (*e.g.*, a payment stablecoin), or a tokenized money market fund, as required under the TSV definition in the Order.
- vi. **Volume and symbol limitations.** Tokenized NMS Stock traded on a TSV under the TSV Exemption is subject to limitations on the number of symbols and volumes traded and divided into two tiers:
 - Tier 1 (S&P 500, Russell 1000, and certain exchange-traded products) is limited to 75 symbols traded and 0.25% of average daily share volume during the prior month.
 - Tier 2 (all other NMS stocks, excluding rights and warrants) is limited to 250 symbols traded and 2.5% of average daily share volume during the prior month.

Under a stepped compliance approach, the first volume threshold breach in a given stock requires no action other than ensuring future compliance; each subsequent breach triggers a mandatory three-month trading pause in the applicable Tokenized NMS Stock.

- vii. **Transaction data transparency.** Transaction data (denominated in U.S. dollars) must be freely and publicly available, machine-readable, and updated within 10 minutes of execution.
- viii. **Trading halt compliance.** A TSV must stop trading in a Tokenized NMS Stock concurrently with any halt or suspension in the underlying NMS stock on the primary listing exchange.

- ix. **Significant operational event reporting.** TSVs must immediately notify participants and promptly notify the SEC of events that have a significant impact on the operation of the TSV or on its participants, including system disruptions and intrusions.
- x. **No leverage.** A TSV cannot engage in financing activities and therefore may not borrow securities or non-security crypto assets, hypothecate assets, or extend credit to TSV participants for the purpose of purchasing Tokenized NMS Stock on the TSV.
- xi. **No misrepresentations.** A TSV must not misrepresent its registration status and cannot make any statements to the effect that it is registered with the SEC, or that the TSV's activities have been "approved" or "endorsed" by the SEC.
- xii. **Books and records.** TSVs must maintain current trading records, including, but not limited to, records of trading interest; transactions; participant verification methods; fees, rebates, and discounts; stoppages; trading volume; significant operational events; and all notices submitted to the public, SEC, issuers, and TSV participants in connection with the TSV Exemption. All such books and records must be maintained in the United States and preserved for the duration of the exemption plus three years thereafter.

2. The Covered Firm Exemption

a. Scope of Exemption

The Covered Firm Exemption addresses the regulatory status of liquidity providers that are necessary for the functioning of AMM Liquidity Pools. AMM Liquidity Pools operate by having liquidity providers commit assets to a pool, and liquidity providers normally earn a fee as an incentive for depositing assets in the liquidity pool.

In the release, the SEC acknowledges that liquidity provision alone does not constitute dealer activity and that persons acting as liquidity providers in an AMM Liquidity Pool would typically qualify as "traders" rather than "dealers" under the Exchange Act.⁵ However, because certain liquidity providers may also engage in additional activities carrying indicia of dealing activity, such as quoting prices to customers or asserting control over pricing and inventory of committed liquidity pursuant to agreements or other arrangements, the SEC has provided a temporary, conditional exemption from the definition of "dealer" for these "Covered Firms" to provide greater legal certainty while it evaluates the scope of the term "dealer" more broadly. The Covered Firm Exemption is limited to securities activities related to AMM Liquidity Pools operating under the TSV Exemption.

⁵ Absent an exception or an exemption, Section 15(a)(1) of the Exchange Act makes it unlawful for a "dealer" to effect any transactions in, or to induce or attempt to induce the purchase or sale of, any security unless registered with the SEC in accordance with Section 15(b) of the Exchange Act. See 15 U.S.C. § 78o. Section 3(a)(5) of the Exchange Act defines the term "dealer" as "any person engaged in the business of buying and selling securities...for such person's own account through a broker or otherwise" but excludes "a person that buys or sells securities...for such person's own account, either individually or in a fiduciary capacity, but not as a part of a regular business." See 15 U.S.C. § 78c. The so-called "trader" exception, which is a statutory exclusion from the definition of "dealer," is meant to exclude members of the public who buy and sell securities for their own account.

b. Conditions

Similar to the TSV Exemption, the Covered Firm Exemption is subject to certain specified conditions, summarized below.

- i. **TSV-provided AMM Liquidity Pool.** A Covered Firm's securities activities must be limited to activities related to trading Tokenized NMS Stock in an AMM Liquidity Pool operating pursuant to the TSV Exemption. A Covered Firm may engage in trading on more than one TSV, and the exemption does not limit a Covered Firm's non-securities activities (such as activity related to payment stablecoins).
- ii. **Proprietary accounts only.** A Covered Firm must provide liquidity through a TSV and engage in such trading activity solely for its own account. A Covered Firm must not hold or custody customer assets.
- iii. **Maintenance of records.** A Covered Firm must make and retain records relating to its ability to maintain sufficient liquid assets to cover potential losses associated with trading activity (*e.g.*, financial statements); any liquidity supplied in an AMM Liquidity Pool; any agreement, arrangement, or understanding with a TSV to provide liquidity services to an AMM Liquidity Pool; and any incentives, fees, rebates, or other form of compensation received for liquidity provision, including for achieving certain volume thresholds.
- iv. **Public disclosures.** A Covered Firm must prominently disclose on any public-facing website, if applicable: (1) that it is not registered as a broker-dealer; (2) that it may enter into liquidity provision (including market making) agreements or arrangements with a TSV to provide liquidity to an AMM Liquidity Pool; and (3) that it may receive fees, tokens, or other incentives for providing liquidity or achieving certain volume thresholds from a TSV-provided AMM Liquidity Pool.
- v. **SEC notification.** A Covered Firm must notify the SEC in writing of its role as a Covered Firm, including certain specific information.
- vi. **No statutory disqualification.** The Covered Firm Exemption cannot be relied upon if the Covered Firm or any of its affiliates is subject to statutory disqualification as defined in Section 3(a)(39) of the Exchange Act, unless such person has been permitted by the SEC or relevant self-regulatory organization, by rule, order, or otherwise, to continue its membership or participation notwithstanding the disqualification.

3. Request for Comment

The Order solicits public comment on all aspects of the exemptions, including, among other topics: whether the exemptions should be modified or made permanent; the adequacy of the volume and symbol limitations; the broader impact of TSV trading on the liquidity, pricing, or trading of the underlying NMS stocks; whether broker-dealers need additional relief from Regulation NMS or other requirements to

participate on TSVs; and whether the exemptive framework should be expanded to cover securities other than NMS stocks.

III. Open Questions

While the Innovation Exemption is a significant step forward for onchain trading of tokenized securities, several important questions remain unanswered. Market participants seeking to establish or trade on TSVs should carefully consider the following areas of uncertainty.

1. Parameters Around the Tokenization Process

The Order defines “Tokenized NMS Stock” as NMS stock tokenized by or on behalf of the issuer, or by an unaffiliated third party, but provides limited guidance on the mechanics of the tokenization process itself. Further, the Order is silent regarding any custody arrangements required for the underlying security.

Separately, the Order does not discuss or otherwise reference the ongoing Depository Trust Company (“DTC”) Tokenization Service initiative (the “DTC Pilot Program”),⁶ which separately contemplates the tokenization of security entitlements associated with securities held through DTC. Notably, the Order does not explain how the SEC views the relationship between Tokenized NMS Stock under the TSV Exemption and DTC’s tokenized entitlement model.

2. Verification Requirement Without Guidance on What Constitutes Adequate Verification

The Order requires a TSV to “verify” that Tokenized NMS Stock made available for trading provides holders the same rights and privileges as traditional NMS stock of an equivalent class. In addition, as a condition of the exemption, the TSV operator’s public notice must describe “the steps (*e.g.*, audits, certifications, attestations) the TSV has taken” to verify that each Tokenized NMS Stock has the same rights and privileges as the underlying NMS stock. However, the Order does not establish minimum standards or specify what methods of verification are sufficient.

3. Price Discovery and Market Data Dissemination

The Order acknowledges the possibility of price dislocation between the tokenized market and the traditional market for the underlying security. However, the Order provides limited guidance regarding how market data for Tokenized NMS Stock is expected to be disseminated or integrated into the broader U.S. equity market structure.

The Order also does not discuss how a TSV should address price dislocation or volatility. Instead, the Order notes that the trading volume limitations⁷ imposed as a condition of the TSV Exemption are designed to help limit the

⁶ See Division of Trading and Markets, SEC, Re: No-Action Letter Request Related to The Depository Trust Company’s Development of the DTCC Tokenization Services (Dec. 11, 2025), available [here](#).

⁷ For Tier 1 securities (limited to 75 symbols), TSV trading volume may not exceed 0.25% of the underlying security’s average daily trading volume during the prior month. For Tier 2 securities (limited to 250 symbols), TSV trading volume may not exceed 2.5% of the underlying

potential impact of any price dislocations between the Tokenized NMS Stock and the NMS stock in traditional format and any adverse effects on market quality for NMS stocks.

4. Written Policies and Procedures

Although the Order imposes a number of operational obligations, including participant screening, issuer-notification processes, disclosure controls, transaction reporting, and volume monitoring, it does not establish a comprehensive written policies and procedures framework comparable to those applicable to registered broker-dealers, ATSS, or national securities exchanges.

While the Order indicates that prospective TSV operators should establish policies and procedures reasonably designed to ensure compliance with the express conditions of the Order, the Order provides little guidance as to whether additional supervisory, surveillance, or compliance controls would be expected by the SEC in connection with a review or examination of TSV operations.

5. MEV

The Order requires TSVs to disclose their policies and procedures, if any, for addressing Maximal Extractable Value (“MEV”).⁸ However, the Order does not mandate that TSVs adopt any specific protections or provide any guidance on how TSVs may protect against potential abuse of MEV or other forms of transaction ordering manipulation. A TSV is merely required to state in its public notice if it does not have such policies and procedures. This disclosure-only approach means that TSV participants may be exposed to front-running and other MEV-related risks and must rely on each TSV’s voluntary measures and their own due diligence to assess the risks.

6. No Clearance and Settlement Framework

The Order requires a TSV to describe in its public notice any “procedures or material arrangements undertaken to facilitate clearance and settlement of transactions on the TSV,” but does not prescribe any specific clearance and settlement framework. As noted above, the DTC Pilot Program not only contemplates a similar tokenization process as the Order but also includes a mechanism for the settlement of the underlying NMS stock represented by the tokenized entitlements associated with securities held through DTC.

The Order, however, neither requires TSVs to utilize a DTC-based settlement model nor expressly states that a DTC tokenization framework would satisfy the settlement expectations of the exemption. For TSV operators, this gap creates uncertainty about how to design settlement procedures that will satisfy both the conditions of the

security’s average daily trading volume during the prior month. Repeated exceedances may result in a three-month trading suspension for the affected Tokenized NMS Stock.

⁸ Sequencing transactions on a blockchain involves multiple actors ultimately aimed at creating a block with the highest fees to the validators or “MEV.” While this process typically leads to both the most efficient use of block space and the highest fees to the validators, the sequencing of transactions can be abused in attacks against users (such as front-running) or leveraged to protect users with price-stabilizing actions (such as back-running).

Order and the expectations of participants and regulators, particularly for a security tokenized by a third party, which would likely need to interact with traditional clearing infrastructure.

7. Absence of AML Framework

The Order does not establish a comprehensive framework addressing the applicability of the Bank Secrecy Act (“BSA”) or its implementing regulations to TSV operators, liquidity providers, or other TSV participants. Although the Order requires TSVs to disclose participant verification procedures and sanctions-screening controls, it does not address whether, or under what circumstances, a TSV operator’s activities may constitute money transmission or otherwise trigger obligations under the BSA. Existing guidance issued by the Financial Crimes Enforcement Network (“FinCEN”) provides that certain digital asset businesses may be deemed money transmitters and therefore required to register as money transmitters, maintain AML compliance programs, satisfy recordkeeping and reporting obligations, and comply with other requirements under the BSA and applicable regulations. The Order does not discuss how these existing obligations apply in the context of TSV operations or how compliance with the Order’s conditions interacts with any independent obligations arising under the BSA.

8. LP Tokens

The Order expressly contemplates that liquidity providers will receive liquidity pool tokens (“LP tokens”) representing their proportional interest in an AMM Liquidity Pool and notes that such tokens may include governance rights. However, the Order provides little guidance regarding the treatment of LP tokens under the federal securities laws. Specifically, the Order does not address whether certain LP token features, including governance rights or other economic benefits, could result in the LP token being treated as a separate security.

IV. What’s Next?

The Innovation Exemption takes effect immediately, and the SEC is soliciting public comment on the Order’s provisions and potential modifications. The five-year sunset period (expiring September 17, 2031) provides the SEC with a defined window to assess the impact of TSV trading, and the SEC expects to use the experience gained during the exemptive period, together with public comment, to inform permanent rules governing onchain securities trading. Market participants should carefully monitor the comment process and engage with the SEC to help shape the contours of any future rulemaking.

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