

# The SEC’s Embrace of Tokenization Must Prioritize Investor Protection, Not the Interests of the Crypto Industry

---

By Benjamin Schiffrin | *Director of Securities Policy*

March 24, 2026

## Introduction

In the world of finance, the word “tokenization” is everywhere. Tokenization [means](#) putting the record of ownership for traditional real-world assets on a blockchain. In the context of securities, tokenization [means](#) the digital representation on a blockchain of assets such as stocks and bonds. Tokenization is often touted as the [future of finance](#) because blockchain technology supposedly makes assets easier to access, trade, and manage. But the only way that future will be realized is if the same investor protections that are found in the federal securities laws—and that have made our securities markets the envy of the world—apply to tokenized securities.

Just last week, the SEC took a step in that direction. The SEC [approved](#) Nasdaq’s proposal to amend its rules to enable the trading of securities on its exchange in tokenized form during the pendency of a tokenization pilot program. The most significant part of the approval order was the SEC’s recognition that it based its approval on Nasdaq’s representation in its proposal that the tokenized securities would trade “within the confines of existing securities laws and rules.”

Tomorrow, the House Financial Services Committee will hold a [hearing](#) entitled “Tokenization and the Future of Securities: Modernizing Our Capital Markets.” It is imperative that, as Congress and the SEC consider tokenization, they do so in a manner that subjects tokenized securities to the same rules as traditional securities. There are reasons to be [wary](#) of tokenization. But if our policymakers insist on “tokenizing” our securities markets, they must envision the modernization that tokenization potentially represents as a better recordkeeping system for securities transactions and not as a reason to exempt tokenized securities from the federal securities laws. Otherwise, tokenized securities will only endanger investors.

## Tokenization is not Crypto

The fact that tokenization is properly understood as a way to [record](#) the ownership of securities means that it need not have anything to do with crypto. Almost any asset [can be tokenized](#) on a blockchain, which is just a [technology](#) that is essentially a shared digital ledger for recording transactions and tracking assets on a network . So one could envision a world in which there are tokenized securities—stocks and bonds that live on a blockchain—without crypto assets.

Yet tokenization is too often conflated with crypto. Crypto also lives on a blockchain, which leads to the idea that tokenization is the process of turning real-world assets [into crypto assets](#). It is not. Crypto assets are things like Bitcoin—[highly speculative and volatile assets that have no real-world utility](#). So it is not really right to say that the “[next big thing in crypto will be tokenized stocks](#).” The next big thing in securities trading may be tokenized stocks, but that future really has nothing to do with crypto and should not be intertwined with the crypto industry.

Now, the crypto industry likes to [tout](#) tokenization because it seems to have realized that crypto assets themselves have no real worth. So the crypto industry wants to [update the conversation](#) from talking about crypto as the [future of money](#) to talking about tokenization as the [future of crypto](#). Crypto firms have all launched tokenized products as the market for crypto assets themselves has [cratered](#). It is understandable that crypto firms, given their promotion of blockchain-based assets, want to profit from tokenization. It may be that crypto firms turn into tokenization firms. But that is no reason to treat tokenized securities like crypto assets.

## The Federal Securities Laws Must Apply to Tokenized Securities

This matters because the SEC has decided to treat most crypto assets as outside the reach of the federal securities laws. The crypto industry has long sought to exclude crypto assets from the investor protections of the federal securities laws, and now the SEC has given it what it wants. It issued [guidance](#) last week that declared most crypto assets to be digital commodities rather than securities, despite the fact that people [overwhelming purchase them as speculative investments](#).

Fortunately, the SEC has said repeatedly recently that tokenized securities are subject to the federal securities laws. Last July, Commissioner Peirce—the head of the SEC’s Crypto Task Force—[said](#) that “tokenized securities are still securities” and that market participants “must consider-and adhere to-the federal securities laws when transacting in these instruments.” Then, Chair Atkins [said](#) in November that “a stock is still a stock whether it is a paper certificate, an entry in a DTCC account, or represented by a token on a public blockchain.” And this past January, the Divisions of Corporation Finance, Investment Management, and Trading and Markets issued a joint statement [saying](#) that the “format in which a security is issued or the methods by which holders are recorded (e.g., onchain vs. offchain) does not affect application of the federal securities laws.”

Unfortunately, the SEC has also cast doubt recently about whether these statements will matter. Chair Atkins has talked repeatedly about an “[innovation exemption](#)” that would allow issuers to “quickly go to market with new business models and services that do not neatly fit within our existing rules and regulations.” The innovation exemption would prevent issuers from having to [comply](#) with “incompatible or burdensome prescriptive regulatory requirements that hinder productive economic activity.” Issuers of tokenized securities, according to Chair Atkins, would get “[relief from some of our rules](#)” and “certain other requirements that may not be relevant in light of how this technology works.” These repeated references to exemptions from the federal securities laws suggest that it may not matter if tokenized securities are considered securities.

There is no real value to investors of saying tokenized securities are securities to which the federal securities laws apply if the SEC is just going to then exempt them from the federal securities laws.

The SEC's statements about the innovation exemption has led to reporting that it will mean that for tokenized securities [some rules governing stock trading won't apply](#). The crypto industry [wants this result](#), as crypto firms [argue](#) that they cannot comply with the SEC's rules as written today and need exemptive relief to offer tokenized stocks. Wall Street firms such as Citadel and JP Morgan [disagree](#), saying that securities should not be allowed to trade under different rules simply because they are issued or transacted on the blockchain. SIFMA, the leading trade association for broker-dealers, has [expressed](#) "significant concern" with reports that "the requested relief would effectively allow such firms to offer customer trading in these products outside the regulatory structure established by the federal securities laws and from which many critical investor protections flow." Instead, SIFMA has consistently [taken the position](#) that tokenized securities should be subject to "the same fundamental investor protection and market integrity principles that have helped make the U.S. securities markets the largest and deepest in the world."

The Market Structure Subcommittee of the SEC's own Investor Advisory Committee (IAC) shares this view. It [recommends](#) that, with respect to tokenized securities, the SEC "not adopt a 'blanket' innovation exemption to existing SEC rules that have a long history of successfully providing strong investor protection." Instead, in its view, "any SEC reforms to existing regulations should be limited to reforms that are necessary to facilitate the tokenization of equity securities and do not compromise fundamental investor protections." The IAC believes that such reforms could "be achieved through a 'limited' or 'narrow' innovation exemption or through rule-by-rule reform" but regardless "either approach should be subject to the public notice and comment process." We wholeheartedly agree with both the substantive and procedural recommendations of the IAC.

## The Nasdaq Order

The need for the federal securities laws to apply to tokenized securities is why the SEC's order last week approving Nasdaq's proposed rule changes to facilitate the trading of securities on its exchange in tokenized form is so important. In addition to saying that these tokenized securities must trade within the confines of existing securities laws and rules, the SEC [said](#) that Nasdaq's "trading system and procedures" would "be the same regardless of whether a security is tokenized." The SEC said further that tokenized securities "must be fungible with, share the same CUSIP number and trading symbol with, and afford its shareholders the same rights and privileges as a share of an equivalent class of the traditional security for it to trade on Nasdaq." And the SEC also said that a tokenized security "and its traditional counterpart would trade on the same order book and with the same execution priority" and that "market data feeds would not differentiate between tokenized and traditional shares and market surveillance of tokenized and traditional securities would rely on the same underlying data." To the extent the SEC is going to permit tokenized securities trading, these limitations are essential for investor protection.

The SEC said that these limitations addressed the concerns raised by commenters "regarding the risks of tokenization." These risks included "prices diverging between tokenized and

traditional securities, holders of tokenized securities not receiving the same rights as shareholders in the underlying company, provisions of securities laws being potentially inapplicable, and market surveillance concerns.” We submitted [a comment letter](#) in response to Nasdaq’s proposal that raised many of these issues, and it is good the SEC recognized the risks of treating the tokenization of securities as anything other than a new recordkeeping system.

Still, the SEC did not address our biggest concern: [why it is necessary to tokenize securities](#). We agreed “that Nasdaq’s proposal is better than having tokenized securities . . . trade on unregulated crypto exchanges,” but we argued that it was “not clear why having tokenized securities trading on Nasdaq is necessary at all.” Our comment letter noted that the recordkeeping system for securities transactions already works well, that blockchain technology suffers from serious vulnerabilities, and that investors were not demanding access to tokenized securities. So it appeared tokenization was being driven not by investors but by the crypto industry. The crypto industry sees tokenization as [a business opportunity](#). Yet for tokenization to have benefits it must be treated as entirely [separate from crypto](#). There must be an answer as to why tokenization is necessary. The answer can't be because it is good for the crypto industry.

## Conclusion

The SEC’s order approving Nasdaq’s rule change to facilitate the trading of tokenized securities is an important step in the direction of subjecting tokenized securities to the investor protections of the federal securities laws. But it is essential that any of the SEC’s future forays into tokenization maintain this separation of tokenization from crypto. It was troubling when Chair Atkins, as part of the SEC’s guidance that declared most crypto assets to be digital commodities, [described](#) tokenized securities as the “one *crypto* asset class” that remains subject to the securities laws. Tokenization must not be conflated with crypto. The crypto industry wants to participate in the financial industry [without the regulations](#) that govern finance. Yet the only way for tokenization to work is if all the [traditional guardrails apply](#). As Congress and the SEC continue to consider tokenization, it is imperative that their priority is investor protection.



# BETTER MARKETS

Better Banks | Better Businesses  
Better Jobs | Better Economic Growth  
Better Lives | Better Communities

**Better Markets** is a public interest 501(c)(3) non-profit based in Washington, DC that advocates for greater transparency, accountability, and oversight in the domestic and global capital and commodity markets, to protect the American Dream of homes, jobs, savings, education, a secure retirement, and a rising standard of living.

Better Markets fights for the economic security, opportunity, and prosperity of the American people by working to enact financial reform, to prevent another financial crash and the diversion of trillions of taxpayer dollars to bailing out the financial system.

By being a counterweight to Wall Street's biggest financial firms through the policymaking and rulemaking process, Better Markets is supporting pragmatic rules and a strong banking and financial system that enables stability, growth, and broad-based prosperity. Better Markets also fights to refocus finance on the real economy, empower the buyside and protect investors and consumers.

For press inquiries, please contact us at [press@bettermarkets.com](mailto:press@bettermarkets.com) or (202) 618-6430.



[SUBSCRIBE](#) to Our Monthly Newsletter

FOLLOW US ON SOCIAL



2000 Pennsylvania Avenue NW | Suite 4008 | Washington, DC 20006 | 202-618-6464 | [www.bettermarkets.org](http://www.bettermarkets.org)  
© 2026 Better Markets, Inc. All Rights reserved.