

NOW THAT STOCK CAN BE TOKENIZED, HOW SHOULD PUBLIC COMPANIES RESPOND?

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What happened

On September 17, 2026, the SEC [approved](#) a 5-year trial of tokenized trading of NMS stocks, including stock exchange listed shares. The SEC views the temporary “innovation exemption” as a way to promote:

- New venues for qualified buyers and sellers to trade tokenized stock.
- Investor self-custody, 24x7 trading, fractional ownership of shares and near instantaneous settlement.
- Applications of distributed ledger technology to (1) facilitate investor verification, for example, that counterparties aren’t subject to sanctions or AML risk, and (2) improve auditability and recordkeeping, and lower operating and transaction costs.

Tokenized securities venues (TSVs) must notify public companies at least 30 days before trading of tokenized shares of their stock begins, with the company allowed one chance to object within 30 days of receipt of notice.

Takeaways

Public companies should alert relevant teams to be ready to respond if they receive notice from a tokenized securities venue (TSV) seeking to include stock to be tokenized by a third party.

- **Monitor contacts.** Notices will be sent to the physical or email address for the principal executive offices listed on the cover page of Exchange Act reports. Companies should alert staff to monitor and promptly rout notices to Legal, IR or other appropriate teams.
- **Monitor TSV public notices.** The [SEC Order](#) requires TSVs to publicly disclose tokenized stock trading on the TSV. Monitoring those notices can provide another means to track tokenization activity.

- **Determine whether to object.** Companies can prevent trading of tokenized stock by delivering written objection to the TSV on or before the 30th calendar day after receipt of notice. The TSV must publicly report that the company objected. The SEC Order does not discuss whether or how a company can change its mind after objecting, or procedures for a TSV to resubmit
- **Evaluate factors for objecting or not.** At this early stage, companies may want to watch how systems and procedures develop before allowing tokenized trading. They should get prepared to query TSVs or third parties proposing to tokenize shares about their controls and procedures. Considerations could include:
 - The company's ability to maintain its shareholder register related to tokenized transfers. This may require coordination with the transfer agent and/or DTC.
 - Potential effects on the trading price of its stock from tokenized trading, "particularly given that prices disseminated by an AMM Liquidity Pool are most likely based only on the ratio of the quantities of assets in that liquidity pool."
 - Whether token holders can effectively exercise and receive substantially equivalent rights and privileges of shareholders, including voting and dividends – in particular, the systems and procedures established by the third party effecting tokenization. Questions may arise as to various state law rights, such as appraisal or inspection.
 - Whether and how IR and communication teams can effectively identify and communicate with valid tokenized holders, and distinguish them from non-authorized holders, if any.
 - Whether and how holders of tokenized shares can become holders of underlying shares.
 - The rigor and diligence of the TSV's verification and credentialing of participants for sanctioned or restricted persons.
- **How to express an objection.** Objections by companies must be publicly reported, so consideration should be given to disclosure and reputational implications.
- **Whether to explore tokenization by the company.** Depending on how practice develops and investor interest, companies could begin to explore tokenization in collaboration with TSVs or otherwise. As the SEC Order does not exempt primary issuances, companies will not be able to sell shares itself to TSV pools under the temporary exemption.

Note that a company objection will only relate to the specific TSV does not prevent another TSV from proposing to include tokenized stock. In addition, as practice develops, tokenized trading may emerge in other jurisdictions or markets or through other types of synthetic products.

Key details

The SEC recognizes that market participants are seeking to buy and sell tokenized stock using automated market maker (“AMM”) and liquidity pool distributed ledger technology. An AMM consists of a smart contract (or smart contracts) that enforces terms of trading, including setting token prices based on the ratio of the quantities of the assets committed to a liquidity pool. AMM smart contracts act in tandem with liquidity pool smart contracts. 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.

Tokenized Securities Venue

TSVs provide AMM liquidity pools for buyers and sellers to trade tokenized stock, which will trade in a pair with another tokenized stock, a non-security crypto asset or a tokenized money market fund. TSVs will also set standards for participants to access the liquidity pool, for example, to help ensure that participants aren’t subject to economic or trade sanctions and don’t present illicit finance risks. In its [Order](#), the SEC granted TSVs a temporary exemption from the definition of “exchange”.

TSVs must be U.S. persons and thus required to comply with OFAC economic and trade sanctions programs. At least 30 days before operating, they must publish a public notice on its website with specified information and email the notice to the SEC. TSVs must also file updated notices in certain events, including:

- Within 5 business days of starting or stopping trading in tokenized stocks or pausing or resuming trading in connection with SEC volume thresholds.
- Within 5 business days of receiving timely notice of an issuer objection.
- 20 days before material changes in operations or disclosures.
- Within 30 days after any quarter to describe non-material changes to operations or disclosures.
- Within 5 days of discovery of any materially inaccurate or incomplete information in a notice.

Distributed Ledger Applications

Distributed ledger applications (i.e., smart contracts) used by a TSV must be auditable, public, and deployed on a public, permissionless distributed ledger – to allow participants to understand how trades are effected on a TSV.

Issuer Notice and Notice of Issuer Objection

Before allowing trading in a stock tokenized by a third party unaffiliated with the company, a TSV must provide written notice to the company and trading cannot begin until at least 30 calendar

days after receipt by the company. The company can prevent tokenized trading by providing written notice that it objects on or before the 30th calendar day following receipt. The TSV must update its public notice that it received the objection within 5 business days.

No Primary Issuance

The SEC Order does not exempt primary issuances or initial offerings of securities. Any offer or sale of tokenized stock must be registered under the Securities Act or conducted through an exemption.

Same Rights and Privileges of Tokenized Stock

TSVs must verify that the tokenized stock provides holders the same rights and privileges as does underlying shares, including rights to dividends, voting rights, and a right to receive the same share of the residual assets upon liquidation. This means the third party effecting tokenization of stock must distribute or make available proxy materials or other issuer communications at no cost to the company or shareholders.

Limitations on Number of Symbols and Volume of Tokenized Stock Traded

The SEC Order limits the number of companies and amount of trading volume on any TSV to mitigate risk to the broader market from the temporary exemption. Tier 1 tokenized stock traded on a TSV cannot exceed 75 symbols traded and 0.25 percent of ADSV during the prior month. Tier 2 tokenized stock traded on a TSV cannot exceed 250 symbols and 2.5 percent of ADSV during the prior month. This reflects the view that TSV trading prices could dislocate from the prices of shares in traditional trading given that AMM liquidity pools generally use the ratio of the quantities of assets in the liquidity pool to determine pricing.

Public Comment

The SEC Order solicits public comment about possible modifications to the exemptive relief and potential next steps.

Related Capabilities

- Securities & Corporate Governance

Meet The Team



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