STATEMENT

Statement on the Innovation Exemption: A Bridge Toward Durable Rulemaking

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A little over a year ago, the SEC launched "Project Crypto" with the goal of modernizing the rules and regulations under the Federal securities laws to enable America's financial markets to move onchain. Earlier this week, Congress was unsuccessful in advancing the CLARITY Act despite the tireless efforts of many. So today, the Securities and Exchange Commission is taking a significant step forward, within its statutory authority, to bring America's capital markets into the digital age by facilitating onchain trading of certain tokenized stocks through the "Innovation Exemption."

Today's order grants two forms of temporary, conditional exemptive relief under Section 36(a)(1) of the Securities Exchange Act of 1934 (the "Exchange Act"). First, it exempts certain trading venues called Tokenized Securities Venues ("TSVs") from the definition of "exchange" under Section 3(a)(1) of the Exchange Act. Second, it exempts certain liquidity providers — called "Covered Firms" — from the definition of "dealer" under Section 3(a)(5) of the Exchange Act.

The Innovation Exemption is designed to resolve challenges that have prevented responsible innovation from taking root in the United States while providing investor protections and market integrity standards. Moreover, and without exception, the anti-fraud and anti-manipulation provisions of the federal securities laws apply in full to all securities activities in these markets.

The Innovation Exemption: Investor Protection Is Not Optional

This exemption is a carefully considered and structured grant of relief with tailored conditions to provide important investor protections. Key conditions include:

- Sanctions Compliance: A TSV must be a U.S. person and comply with economic and trade sanctions programs administered and enforced by the Office of Foreign Assets Control.
- Permissioned Access: A TSV must set standards of access to allow only certain participants to trade tokenized NMS stock on the TSV.
- No Synthetics: TSVs can trade tokenized NMS stocks that are tokenized by, or on behalf of, the issuer of the underlying NMS stock or a security tokenized by a third party that is unaffiliated with the issuer of the underlying NMS stock. Such tokenized NMS stock must provide holders with the same rights and privileges as the traditional securities, including rights to receive dividends and exercise voting rights.
- Issuers Can Object: Issuers must have the opportunity to object and prevent their security from trading on a TSV.

The Path to America's Continued Leadership

The Commission is not cementing today's technology as the standard for tomorrow. Instead, it is allowing the market to evolve, monitoring its development, and using that insight to inform a nimbler and future-ready regulatory framework.

The Innovation Exemption, while temporary, would allow TSVs to trade tokenized NMS stock in a permissioned environment today while the Commission considers the need for additional action to facilitate onchain trading. As we take this important first step, we invite public comment on all aspects of the Innovation Exemption to help inform the Commission as it considers further changes. Critically, this interim measure must be followed by durable rulemaking to

ensure that onchain markets remain a viable pathway as our capital markets continue to evolve.

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