STATEMENT

Statement on the Innovation Exemption

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Sept. 17, 2026

Tokenization has the potential to modernize core market infrastructure functions, such as issuance, trading, transfer, settlement, and recording ownership, with the potential to reduce costs, enhance transparency, and expand liquidity. This may be particularly true for assets that have historically been less liquid. The consideration and evaluation of new approaches, technologies, and ideas regarding the operation of the securities markets are nothing new. In fact, fostering the evolution of processes that support the capital markets has long been a part of the SEC's mission to protect investors, maintain fair, orderly, and efficient markets, and promote capital formation.

Today, the Commission approved a temporary, conditional exemption (the "Innovation Exemption") to allow limited trading of tokenized NMS stocks on certain onchain venues — Tokenized Securities Venues, or "TSVs." The Innovation Exemption will provide an opportunity to further develop the Commission's understanding of how these venues function with an eye to future policymaking.

A Tradition of Facilitating Innovation

Technological innovation often outpaces rulebooks. At one point, securities transactions were predominantly conducted with paper certificates, but markets and regulators eventually became satisfied that electronic processes were more efficient. While the application of existing laws and regulations is important, the Commission should not impulsively attempt to limit emerging technologies by contorting them into legacy legal frameworks. The goal should be to focus on outcomes and have technology-neutral regulation, which can effectively adapt to onchain environments while preserving investor protection and market integrity.

Congress recognized the need for regulatory flexibility when it enacted the National Securities Markets Improvement Act, which amended the Securities Exchange Act of 1934 ("Exchange Act") to give the Commission general exemptive authority. This authority allows the agency to assess situations in which existing requirements may not work as intended, and to tailor those requirements to modern needs. In the past, this authority has been used to allow the introduction of new products and services in a way that maintains investor protections and transparency, while providing observable data points to inform future policymaking. In that sense, use of the Commission's exemptive authority to allow innovation is a well-trod path. Examples of popular products and models that grew from the SEC's initial use of exemptive authority are money market funds, index funds, and exchange-traded funds.

The Innovation Exemption is the latest instance of the Commission using scoped relief to experiment responsibly, learn, and translate old protections to new contexts.

A Path to Data-Driven Rulemaking

The Innovation Exemption allows TSVs temporary relief from concerns that they may be viewed as an "exchange" under the Exchange Act when they make tokenized NMS stocks available for permissioned trading via innovative automated market makers and liquidity pools. To rely on such relief, TSVs must comply with specified conditions, including public notice, transaction transparency, stoppage coordination, books and records, technology safeguards.

The Innovation Exemption is designed to be controlled, subject to symbol limits and volume caps calibrated by limit up, limit down tiers. Additionally, U.S. dollar-denominated transaction data, including price, size, time, pool address, end-of-day pool size, daily volume, will be publicly available at regular intervals to reduce information asymmetries, support monitoring, and allow for study of securities trading using the exemption.

Importantly, the Innovation Exemption includes tailored relief for certain liquidity providers contributing proprietary capital to allow for regulatory clarity when these market participants meet certain conditions including disclosure and recordkeeping.

This approach is intended to permit the Commission to observe emerging venues and market participants as it considers long-term rules.

Public Feedback

I appreciate that public input and engagement to date have informed the scope and conditions set forth in the Innovation Exemption. Future public comment on the specific tenets of this framework will be similarly important. The Commission is expressly soliciting feedback on many aspects of the Innovation Exemption and its current design. Detailed, data-supported comments — ideally including metrics, case studies, incident analyses, and operational narratives from live or test environments — can help evaluate tradeoffs and shape future proposals.

Many thanks to the staff in the Division of Trading and Markets and the Office of the General Counsel, as well as the Crypto Task Force led by Commissioner Hester Peirce, for their work on the Innovation Exemption.

Last Reviewed or Updated: Sept. 17, 2026