April 6, 2026

Via E-mail (crypto@sec.gov)

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549–1090

Re: Citadel Securities Letter re: Tokenized U.S. Equity Securities & DeFi Trading Protocols

Dear Ms. Countryman:

Blockchain Association ("BA") submits this letter to the Securities and Exchange Commission (the "SEC" or the "Commission") in response to the letter submitted by Citadel Securities ("Citadel") concerning tokenized U.S. equity securities and decentralized finance ("DeFi") trading protocols,[1] Citadel's subsequent response to the DeFi Education Fund and its co-signatories,[2] and the supplemental letter from James Overdahl submitted on Citadel's behalf.[3] BA is the leading nonprofit membership organization dedicated to advancing a pro-innovation policy environment for the digital asset industry. BA is composed of over 100 members, including leading software developers, infrastructure providers, investors, and others supporting the public blockchain ecosystem. BA works with its broad-based membership to achieve regulatory clarity and to educate policymakers, regulators, and the courts about how blockchain technology can pave the way for a more secure, competitive, and consumer-friendly digital marketplace. Alongside advocates such as the DeFi Education Fund,[4] BA submits this letter to explain how Citadel overstates the legal and policy obstacles to trading tokenized U.S. equities through DeFi protocols and why the Commission may use its existing statutory tools to create a targeted framework consistent with existing law and practice.

Citadel's submission treats a wide range of neutral or non-custodial technology participants as if they necessarily perform regulated exchange, broker, or dealer functions. In practice, Citadel is asking the Commission to ignore the distinction between infrastructure and intermediaries, a distinction that is a bedrock principle under federal securities laws, longstanding SEC positions, judicial precedent, and common sense. The Securities Exchange Act of 1934 (the "Exchange Act") regulates persons who engage in certain activities, such as effecting

---

[1] Citadel Securities, Letter to the SEC on Tokenized U.S. Equity Securities & DeFi Trading Protocols (Dec. 2, 2025), https://www.sec.gov/files/citadel-securities-120225.pdf ("Citadel Letter").

[2] See Citadel Securities, Letter to the SEC re: DeFi Education Fund Response (Dec. 31, 2025) ("Citadel Response Letter").

[3] James Overdahl, Tokenized U.S. Equities: Economic Considerations for the SEC (Jan. 22, 2026), submitted to the SEC on behalf of Citadel Securities.

[4] See DeFi Education Fund et al., Letter to the SEC re: Citadel Securities Letter (Dec. 12, 2025), https://www.sec.gov/files/citadel-securities-letter-121225.pdf.

transactions for the account of others, buying and selling securities as a business, or bringing together buyers and sellers through discretionary methods. It does not extend to the neutral infrastructure (inanimate and autonomous software) through which transactions pass. Citadel's letter takes the opposite position, claiming that anyone who creates software that touches a transaction should be regulated under the Exchange Act, regardless of whether that person actually acts like an intermediary.

As shown below, this is plainly wrong. Validators and node operators who participate in consensus pursuant to fixed protocol rules do not effect transactions, custody assets, solicit transactions, select counterparties, or exercise discretion over execution, clearing, or settlement. Rather, they provide network security and maintenance. Autonomous smart contracts do not match buyers and sellers through managerial or discretionary control; they operate according to predetermined rules to user-submitted instructions. Likewise, the development, publication, and maintenance of open-source software—even where that software facilitates financial activity—is not brokerage or dealer conduct. Absent custody, agency, or discretionary intermediation, regulatory obligations under the securities laws do not attach to those who merely build or maintain the technological rails on which others transact.

Second, Citadel treats broad relief and no relief as the only options to address the trading of tokenized equities, overlooking the possibilities of targeted, conditional, and architecture-specific pathways that preserve substantive investor protections under the Commission's existing authority. In doing so, Citadel frames the issue as though the Commission must either deny any meaningful pathway for tokenized equities to trading absent full-scale rulemaking or else create an unregulated parallel market. That is incorrect. The Commission may assess specific tokenized equities frameworks on their own terms and, where appropriate, tailor relief to the actual regulatory mismatch presented, with a focus on preserving core investor protections and avoiding the unnecessary extension of intermediary status to actors that do not themselves perform regulated securities functions.

As outlined in this submission, the Commission should continue on the path that Chairman Atkins and Commissioner Peirce have charted: an iterative, innovation-friendly approach that protects investors and allows American capital markets to benefit from the transformative potential of blockchain technology.

I. Components of DeFi Infrastructure Are Not Securities Intermediaries Absent Covered Market Functions

BA does not contend that no tokenized equities platform could ever fall within the scope of the Exchange Act. When a person in fact operates a trading venue, effects transactions for the accounts of others, or otherwise performs a regulated securities function, registration obligations may apply. The relevant question is where those lines are drawn. Citadel's error is that it avoids a fundamental doctrine found in case law: the fact that a tokenized security is a security does not render every software layer through which that security may be traded a regulated intermediary

any more than the existence of a listed stock makes the fiber-optic cables over which trading data travels a regulated entity.

A. Citadel Overstates How the Exchange Act Applies to DeFi Architecture

Citadel's letter asserts that DeFi trading protocols "often meet the exchange definition" under the Exchange Act, arguing that "many DeFi trading protocols appear to 'bring together buyers and sellers' using 'established, non-discretionary methods,'" and that a sprawling array of DeFi participants—from wallet providers and front-end interfaces to automated market makers, liquidity providers, validators, Maximal Extractable Value ("MEV") searchers, and oracle providers—potentially satisfy the statutory definitions of a "broker" or "dealer."[5] These assertions are inconsistent with both the statutory definitions and the case law that applies them.

We look first to the statutory definitions. The Exchange Act defines an "exchange" as "any organization, association, or group of persons . . . which constitutes, maintains, or provides a market place or facilities" of an exchange.[6] DeFi trading protocols do not categorically satisfy this definition.[7] The Exchange Act defines "broker" to mean "any person engaged in the business of effecting transactions in securities for the account of others."[8] As the Exchange Act does not define what it means to be "engaged in the business" or to "effect transactions in securities," we look to the courts for guidance, which shows that DeFi participants do not necessarily fit within this definition.[9] Lastly, "dealer" is defined as "any person engaged in the business of buying and selling securities . . . for such person's own account through a broker or otherwise."[10] Again, Citadel's assertion that many types of DeFi participants satisfy the "dealer" definition is simply incorrect.[11]

These statutory definitions each contemplate a specific kind of intermediary relationship, a "place" or organization that brings together buyers and sellers through human management and discretion, a person that effects transactions for the account of others, or a person that buys and sells securities for its own account as a regular business.[12] DeFi smart contracts do not bring together buyers and sellers through human management; they execute according to pre-programmed mathematical functions. Front-end interfaces that allow users to interact with

---

[5]Citadel Securities, Letter to the SEC on Tokenized U.S. Equity Securities & DeFi Trading Protocols at 2–3 (Dec. 2, 2025) ("Citadel Letter"). See also Citadel Letter at 4–6 (listing DeFi Trading Apps, Wallet Providers, Validators and Sequencers, AMMs and Liquidity Providers, MEV Searchers, Oracle Providers, Bridges, and Protocol Developers as potential "brokers" or "dealers").

[6]15 U.S.C. § 78c(a)(1).

[7]Others have described this definitional overreach as "tantamount to changing the definition of a "baseball team" to include its fans." DeFi Education Fund, Letter to the SEC on Supplemental Information and Reopening of Comment Period for Amendments Regarding the Definition of "Exchange" at 5 (June 12, 2023).

[8]15 U.S.C. § 78c(a)(4)(A).

[9]See SEC v. Coinbase, Inc., 726 F. Supp. 3d 260, 305-06 (S.D.N.Y. Mar. 27, 2024), articulating how courts consider the application of the "broker" definition, especially in the context of DeFi and digital assets.

[10]15 USC § 78c(a)(5).

[11] See also Bd. of Trade of City of Chicago v. SEC, 923 F.2d 1270, 1273 (7th Cir. 1991) (Posner, J.) (in the context of interpreting the "exchange" definition, "[o]ne must question an interpretation of the definitional provision that would automatically prevent competition").

[12]See 15 U.S.C. § 78c(a)(1); 15 U.S.C. § 78c(a)(4); 15 U.S.C. § 78c(a)(5).

those contracts do not "effect transactions" any more than a web browser "effects" the transactions conducted through the websites it renders.[13] Liquidity providers who deposit tokens into an algorithmic pool are engaged in a form of market participation, not "dealing." The case law confirms that courts respect these distinctions—and have done so with increasing clarity as DeFi technology has come before them.

The most directly relevant precedent is *SEC v. Coinbase*, which addressed broker applicability in the context of a swapping interface embedded in a non-custodial wallet.[14] Here, the court found that, as described by the SEC, Coinbase's non-custodial wallet product did not plausibly engage in "broker" activity.[15] Coinbase Wallet is a separate product which provides software enabling users to self-custody their assets.[16] As a self-custody product, Coinbase Wallet does not custody user assets, nor does any developer at Coinbase have control over assets traded through its swap functionality at any point in the transaction cycle.[17] The Coinbase Wallet product was not alleged to have negotiated terms for the transaction, made investment recommendations, custodied funds, processed trades, independently valued assets, or performed any other functions expected of a broker.[18] While Coinbase Wallet users could access other software protocols such as decentralized exchanges ("DEXs") through the interface, the court found that this did not equate to any control on Coinbase's part. Providing price comparisons similarly did not rise to the level of routing or investment recommendation services. Moreover, the fact that Coinbase received a commission or other fees associated with Coinbase Wallet services, even when viewed in light of the other alleged functionality, did not turn Coinbase into a broker.[19]

The court's holding with regard to Coinbase Wallet confirms that non-custodial wallets with an embedded trading interface are not de facto brokers. This decision draws the line between intermediation and passive connectivity precisely where such a distinction concerns DeFi protocols and front-end interfaces. *Coinbase* confirmed that neutral, non-custodial software and software developers that neither control customer assets nor perform core trading functions are not securities intermediaries. If a non-custodial wallet interface through which users access a DEX (even if that wallet product charges a fee and compares prices for the user) is not a broker, then neither is a front-end interface to a DEX. Both the wallet and the DEX front-end are passive

[13]See below for an analysis of Risley v. Universal Navigation Inc., 690 F.Supp.3d 195 (S.D.N.Y. 2023) (Failla, J.), affirmed in relevant part, vacated and remanded in part, 23-1340 (2d Cir. Feb. 2025) (summary order).
[14]SEC v. Coinbase, Inc., 726 F. Supp. 3d 260 (S.D.N.Y. 2024), motion to certify appeal granted, 761 F. Supp. 3d 702 (S.D.N.Y. 2025).
[15]Id. at 304.
[16]Crypto wallets can reside on devices that are connected to the internet (a "hot wallet"), or on devices that are not connected to the internet (a "cold wallet"). In a cold wallet, one's private key (the key required to transfer crypto assets) is stored locally on the user's device. Therefore, only the person who physically has access to that device, can transact on that user's behalf. Not even the creator of a wallet application could access a truly cold wallet. It is for this reason that crypto wallet applications are frequently described as "self-custodial." Coinbase, Inc., 726 F. Supp. at 305.
[17]Id.
[18]Id. at 306.
[19]Id. at 307; see also Rhee v. SHVMS, LLC, No. 21 Civ. 4283, 2023 WL 3319532, at *9 (S.D.N.Y May 8, 2023) ("Commission-based payment, standing alone, is not dispositive of whether a party acts as a broker-dealer under the Exchange Act.") (quoting Quantum Cap., LLC v. Banco de los Trabajadores, No. 14 Civ. 23193 (UU), 2016 WL 10536988, at *7 (S.D. Fla. Sept. 8, 2016)).

interfaces that translate computer language so the wallet-holder can communicate with the blockchain.

Courts have likewise been reluctant to expand the scope of regulated intermediaries beyond the text of the Exchange Act. In both *National Association of Private Fund Managers v. SEC* and *Crypto Freedom Alliance v. SEC*, the courts rejected overly-broad concepts of brokers and dealers.[20] The courts' analysis was, as a matter of first principle, grounded in the statutory text. The Exchange Act defines a "dealer" as a person "engaged in the business of buying and selling securities" for its own account, with an exception for persons who do so "but not as a part of a regular business." The Exchange Act separately defines a "broker" as a person "effecting transactions in securities for the account of others." The courts concluded that these definitions, read together and in historical context, contemplate dealers as market participants who both (i) have customers and (ii) hold themselves out as willing to buy and sell—not entities whose trading activity merely "has the effect of providing liquidity."[21] Such definitional overreach would, as Commissioner Peirce noted in her dissent from the challenged rule, "[turn] traders, many of whom are customers, into dealers. Doing so runs counter to the statute, as the Commission and market participants have read it for decades."[22] The Dealer Rule's singular focus on liquidity provision, the court held, "de facto remove[d] the distinction between 'trader' and 'dealer' as they have commonly been defined for nearly 100 years."[23]

Risley v. Universal Navigation Inc., the class action against Uniswap Labs, its CEO, affiliated venture capital investors, and the Uniswap Foundation, provides further guidance.[24] Plaintiffs alleged that defendants were liable under Section 12(a)(1) of the Securities Act as statutory "sellers" of unregistered securities, Section 29(b) of the Exchange Act, and control person liability claims under Sections 15 of the Securities Act and 20 of the Exchange Act. The U.S. District Court for the Southern District of New York granted the defendants' motions to dismiss on all federal claims, and the U.S. Court of Appeals for the Second Circuit affirmed. In applying the Supreme Court's framework from *Pinter v. Dahl*,[25] which limits statutory "seller" liability to persons who either pass title to a security or successfully solicit a purchase motivated at least in part by a desire to serve their own financial interest, the district court found that DeFi protocol developers who publish autonomous smart contract code do neither.

[20] Nat'l Ass'n of Priv. Fund Managers, No. 4:24-cv-00250, slip op. at 4 (concluding that the SEC exceeded its statutory authority by enacting such a broad definition of dealer untethered from the text, history, and structure of the Exchange Act).

[21] Id. at 7–10 (analyzing the text of Exchange Act § 3(a)(5) and concluding that "dealers" historically have customers and hold themselves out as willing to buy and sell, whereas "traders" buy and sell for their own account; the Dealer Rule's focus on liquidity provision "obliterates" this distinction).

[22] Id. at 5.

[23] Crypto Freedom All., No. 4:24-cv-00361, slip op. at 10 (holding that the Rule de facto removes the distinction between 'trader' and 'dealer' as they have commonly been defined for nearly 100 years).

[24] 690 F.Supp.3d 195 (S.D.N.Y. 2023) (Failla, J.) ("Risley I"), affirmed in relevant part, vacated and remanded in part, 23-1340 (2d Cir. Feb. 2025) (summary order) ("Risley II").

[25] Pinter v. Dahl, 486 U.S. 622, 644–47 (1988) (establishing that statutory "seller" liability under § 12(a)(1) of the Securities Act extends only to persons who (1) pass title or (2) successfully solicit a purchase motivated at least in part by a desire to serve their own financial interest).

Risley is instructive on several points from Citadel's letter. First, promoting a platform on social media or selling a governance token does not make the developers statutory sellers of the third-party securities traded on the protocol.[26] This is significant because Citadel's letter identifies promotional activity, fee collection, and governance token sales as hallmarks of intermediary status.[27] Second, the court found that Uniswap's smart contracts were not "contracts" under the Exchange Act since they functioned as neutral infrastructure through which transactions occur rather than as securities transactions.[28]

In light of this case law, we specifically consider DeFi's peer-to-peer architecture. When a user interacts with a DeFi protocol, the user submits a transaction to a smart contract that executes according to a mathematical pricing formula. The user typically has no knowledge of who provided the liquidity to the relevant liquidity pool. The entire premise of DeFi is to eliminate centralized counterparties whose presence is the predicate for the registration requirements Citadel invokes in its letter.

Citadel's analysis also ignores the historical context in which the Commission itself has interpreted the "exchange" definition amidst market innovation. For example, when the Commission confronted the Delta system for trading options on government securities in 1990, the U.S. Court of Appeals for the Seventh Circuit acknowledged that the Delta system differed from an exchange only "in degree and detail."[29] The Commission nonetheless declined to designate Delta as an exchange because doing so would have rendered the system "kaput."[30] Judge Posner put it best that "[t]he Securities and Exchange Commission can determine better than we generalist judges whether the protection of investor and other interests within the range of the statute is advanced, or retarded, by placing the Delta system in a classification that will destroy a promising competitive innovation in the trading of securities."[31] That history illustrates the Commission's practical approach: identify the regulated function, preserve critical investor protections, and avoid interruptions that disincentivize promising market innovation.

Citadel asks the Commission to abandon that tradition of pragmatic flexibility and instead adopt a maximally expansive reading of the statutory definitions which captures not merely DeFi protocols but, as Part I(B) demonstrates, a vast array of third-party technology providers whose only connection to securities trading is the software they write.

---

[26]Risley II, slip op. at 5 ("Defendants' promotion of their platform on social media or use of the platform to sell their own issued token, UNI, does not render them statutory sellers of securities.").

[27]Id. (finding such conduct "too attenuated from Plaintiffs' purchase of scam tokens to show that Defendants 'successfully solicit[ed] the purchase [of a security], motivated at least in part by a desire to serve [their] own financial interests or those of the securities owner.'").

[28]Risley I, 690 F. Supp. 3d at 215-216; Risley II, slip op. at 6 (affirming).

[29]See Bd. of Trade of Chi. v. SEC, 923 F.2d 1270, 1272–73 (7th Cir. 1991) (noting that a broad reading of "exchange" that would "automatically prevent competition for the exchanges from an entity that the exchanges are unable to show poses a threat to the safety of investors" should be questioned); see also Delta Government Options Corp., SEC Release No. 34-27611, 55 Fed. Reg. 1890, 1897–98 (Jan. 19, 1990) (declining to designate the Delta system as an exchange despite acknowledging it differed from an exchange only "in degree and detail").

[30]Id.

[31]Bd. of Trade of City of Chicago, 923 F.2d at 1273.

B. Citadel's Theory Would Require Technology Vendors Across Traditional Finance to Register as Exchanges, Brokers, and/or Dealers

A central flaw in Citadel's theory is the absence of any limiting principle. Citadel treats the technologists adjacent to DeFi protocols as part of an exchange-operating "group of persons." On the broker-dealer side, Citadel lists an array of DeFi participants—front-end trading apps, wallet providers, validators, liquidity providers, oracle providers, bridges, and protocol developers—as potential registrants, while asserting that these entities are "very different from passive software vendors."[32] But if the act of writing, updating, and deploying code that facilitates non-discretionary, self-directed trading makes one an "exchange" operator or a "broker," that application goes well beyond DeFi. It ensnares a vast ecosystem of third-party vendors and contractors that build, operate, and maintain the core systems of traditional securities markets, an outcome that would destabilize decades of settled regulatory practice.

The existing regulatory framework consistently draws the same line. For example, the Financial Industry Regulatory Authority's ("FINRA") Notice to Members 05-48 recognizes that broker-dealers routinely outsource operational capabilities, including IT, communications, and core operational services. But outsourcing, FINRA emphasizes, "does not relieve" members of their regulatory responsibilities. The appropriate response is supervision and due diligence of the vendor, not registration of the vendor, according to FINRA. Critically, FINRA distinguishes between vendor activity that would itself require registration and vendors that "solely provide services such as a trade execution and reporting system or automated data services in connection with back-office functions," whom FINRA does not treat as associated persons.[33] FINRA's subsequent Regulatory Notice 21-29 reiterates this framework even as vendor usage has expanded into risk management and supervisory functions, requiring a risk-based supervisory approach rather than mandating vendor registration.[34]

These principles describe how modern securities markets function. Nasdaq provides matching engine technology and marketplace software to exchanges, clearinghouses, and broker-dealers around the world; the London Stock Exchange Group provides trading, clearing, and surveillance technology to other exchanges, including under a publicized agreement with the Qatar Stock Exchange.[35] Even the physical plant of exchange "facilities" is vendor-provided: Nasdaq leases its primary data center from Equinix, which built the colocation facility on Nasdaq's

[32]Citadel Letter at 4–6 (identifying DeFi Trading Apps, Wallet Providers, Validators and Sequencers, AMMs and Liquidity Providers, MEV Searchers, Oracle Providers, Bridges, and Protocol Developers as potential "brokers" or "dealers"); *id.* at 4 (asserting that DeFi trading apps are "very different from passive software vendors").

[33]NASD Notice to Members 05-48, Members' Responsibilities When Outsourcing Activities to Third-Party Service Providers (Aug. 2005) (stating that outsourcing "does not relieve" members of regulatory responsibility, and that vendors who "solely provide services such as a trade execution and reporting system or automated data services in connection with back-office functions" are not treated as associated persons requiring registration).

[34]FINRA Regulatory Notice 21-29, FINRA Reminds Firms of Their Supervisory Obligations Related to Outsourcing to Third-Party Vendors (June 2021); FINRA Rule 3110 ("final responsibility for proper supervision shall rest with the member").

[35]See Nasdaq, Inc., Nasdaq Eqlipse, https://www.nasdaq.com/solutions/fintech/nasdaq-eqlipse (marketing matching engine and marketplace technology to exchanges, clearinghouses, and broker-dealers globally); see also London Stock Exchange Group, Press Release: LSEG to Provide New Trading and Clearing Technology Platform to Qatar Stock Exchange (2022).

behalf and to Nasdaq's specifications.[36] On the buy side, Bloomberg markets order management systems to institutional trading desks, and Broadridge provides proxy and regulatory communications infrastructure specifically designed for banks and broker-dealers.[37] Under Citadel's theory, that writing and updating code, creating rules, and publishing documentation for a trading system makes one part of an exchange-operating "group of persons," meaning Nasdaq's technology division would qualify as an "exchange" at every venue that licenses its matching engine. Equinix would be an exchange operator because it builds and operates the facilities where buyer-seller interaction occurs. Bloomberg and Broadridge would be "brokers" because their software facilitates the routing, execution, and processing of securities transactions. These outcomes are absurd and unworkable in the modern financial ecosystem, but they follow directly from the principle Citadel advances.

SEC no-action letters have confirmed that technology platforms can be adjacent to order messaging and routing without triggering broker registration, so long as the platform is not "matching orders" or making "decisions about routing orders" through the exercise of discretion.[38] DeFi smart contracts execute according to pre-programmed mathematical formulas without discretion. Interfaces may propose a route to the end-user, but the end-user still retains full discretion in its routing decisions. By displaying a user-friendly rendering of protocol data, front-end interfaces make it easier for users to submit transactions, thereby performing a function analogous to a web browser rendering a website. Much like a Bloomberg Terminal, they translate information for human readability, but they generally do not exercise the solicitation, negotiation, or discretionary routing authority that characterizes broker activity. The fact that a front-end interface may earn a fee for facilitating access to a protocol does not, by itself, establish the requisite indicia any more than a software licensing fee transforms Microsoft into a broker because its Excel product is used by every trading desk on Wall Street.

Finally, Citadel's argument that exemptions from Regulation NMS for tokenized equities would "fracture liquidity" and "undermine core investor protections"[39] fails to hold water. The adoption of Regulation ATS in 1998 created an alternative compliance pathway for trading systems that chose not to register as national securities exchanges. The subsequent boom in alternative trading systems fragmented order flow across dozens of venues, many of which

---

[36] See SEC Comment Letter from Nasdaq, Inc. re: SR-NASDAQ-2024-013 (noting that Nasdaq leases its primary data center from Equinix, which built the colocation facility on Nasdaq's behalf and to Nasdaq's specifications); see also Equinix, Press Release: Equinix Collaborates with Nasdaq to Scale Digital Infrastructure (Dec. 15, 2021).

[37] See, e.g., Bloomberg AIM, Order Management System, https://professional.bloomberg.com/products/trading/order-management-system/aim/ (marketing OMS technology to institutional trading desks); Broadridge Financial Solutions, Proxy Services, https://www.broadridge.com (providing proxy and regulatory communications services for "banks and brokers").

[38] See CommandTRADE, SEC No-Action Letter (Dec. 28, 2005) (declining to recommend enforcement action where technology platform was not "matching orders" and was not making "decisions about routing orders"); see also S3 Matching Techs., SEC No-Action Letter (July 19, 2012).

[39] Citadel Letter at 7–8 (arguing that exemptions from Regulation NMS would "fractur[e] liquidity" and "undermin[e] core investor protections").

operate with limited pre-trade transparency.[40] Citadel Securities is one of the largest equity wholesalers in the United States and routes substantial order flow to off-exchange venues, including dark pools and its own internal processes.[41] If the fragmentation of the national market system were truly the existential threat that Citadel's letter suggests, one would expect Citadel to have opposed the ATS framework from which it profits. It did not.

Moreover, Citadel's fragmentation concern rests on a factually incorrect premise. Investors can move between tokenized and non-tokenized forms of the same security, just as they can currently move between direct registration, brokerage street-name holding, and book-entry forms. Tokenization adds a settlement rail; it does not create a separate asset class or market. The Commission accommodated that earlier innovation through precisely the kind of exemptive and iterative regulatory development that Citadel now asks the Commission to foreclose.

II. The Commission Has Ample Authority to Proceed Incrementally Through Interpretive Guidance, Conditional Relief, Exemptions, and Rulemaking, and It Has Routinely Done So to Accommodate Market Innovation

A. The SEC Has Historically Used No-Action Relief and Exemptions as a First Step, Later Formalizing Through Notice-and-Comment Rulemaking as Needed

Citadel urges the Commission to refrain from granting exemptive relief for tokenized equity trading and instead to pursue "a path forward from a regulatory perspective that involves notice-and-comment rulemaking."[42] This is presented as a matter of procedural propriety—as though the Commission would be doing something unusual by acting through exemptions and no-action relief rather than a comprehensive rulemaking. The opposite is true. The Commission's standard practice has been to regulate first through staff no-action relief and targeted exemptive orders, and only later, if needed and after a period of observation, consolidated rules via notice-and-comment rulemaking. Congress has sometimes followed thereafter with additional statutory mandates once the regulatory framework has crystallized. This iterative sequence is not an aberration; it is how the SEC adapts to innovation.

---

[40]See Regulation of Exchanges and Alternative Trading Systems, Release No. 34-40760, 63 Fed. Reg. 70844 (Dec. 22, 1998) ("Regulation ATS"); see also Concept Release on Equity Market Structure, Release No. 34-61358, 75 Fed. Reg. 3594, 3598–99 (Jan. 21, 2010) (acknowledging that "[d]ark pool trading volume has increased significantly in recent years" and noting that ATS adoption had resulted in "liquidity fragmentation").

[41]See Citadel Securities, SEC Rule 606 Reports (disclosing order routing to off-exchange venues). Citadel Securities is one of the largest equity wholesalers in the United States and routes substantial order flow to non-exchange venues, including dark pools and internalizers.

[42]Citadel Securities, Letter to the SEC on Tokenized U.S. Equity Securities & DeFi Trading Protocols at 8 (Dec. 2, 2025) ("Citadel Letter") (recommending that the Commission "[p]ursue a path forward from a regulatory perspective that involves notice-and-comment rulemaking" rather than granting exemptive relief).

The Administrative Procedure Act's ("APA's") notice-and-comment requirement does not apply to interpretive rules and general statements of policy.[43] No-action letters are a standard mechanism through which the SEC signals enforcement intent on a case-by-case basis.[44] The notion that the Commission must await a completed notice-and-comment rulemaking before responding to market innovation finds no support in administrative law and contradicts the Commission's own historical practice. Indeed, the Commission's responses to the advent of both asset-backed securities and alternative trading systems evidence a consistent approach: no-action relief followed by consolidated notice-and-comment rulemaking.

The development of Regulation AB for asset-backed securities provides a model illustration. Modern securitization markets emerged in the 1970s, but the SEC's corporate-style disclosure and periodic reporting rules were not designed for asset-backed securities ("ABS"). The SEC responded with a workable framework "first through a series of exemptive orders, and then primarily through the issuance of no-action letters and other interpretations," permitting modified Exchange Act reporting for ABS issuers rather than forcing the standard operating-company reporting model.[45] In parallel, staff no-action relief addressed ABS marketing and disclosure requirements during offerings.

Only after this extended period of staff-level accommodation did the Commission undertake a formal rulemaking when it adopted Regulation AB in 2005.[46] Congress then followed with its own mandates: the Dodd-Frank Act in 2010.[47] The complete arc from first staff no-action letter to final Dodd-Frank implementation spanned decades. The development of Regulation ATS, which created a new framework allowing alternative trading systems to choose either registration as a national securities exchange or as a broker-dealer subject to additional ATS requirements, followed a similar pattern.[48]

---

[43] See 5 U.S.C. § 553(b)(A) (exempting "interpretative rules" and "general statements of policy" from notice-and-comment requirements); see also SEC, No-Action, Interpretive and Exemptive Letters, https://www.sec.gov/rules-regulations/no-action-interpretive-exemptive-letters (organizing the Commission's practice of issuing staff-level guidance across major divisions).

[44] Courts have long recognized an agency's right to not enforce specific laws. Indeed, such discretion is a fundamental right of government agencies. See Heckler v. Chaney, 470 U.S. 821 (1985), holding that the FDA's decision not to undertake a certain enforcement action was not an agency action subject to review under the APA.

[45] Registration of Asset-Backed Securities Under the Securities Act of 1933 and Reports Under the Securities Exchange Act of 1934 ("Regulation AB Proposing Release"), Release No. 33-8419, 69 Fed. Reg. 26,650, 26,654 (proposed May 13, 2004) (describing how SEC staff developed disclosure practices for ABS "first through a series of exemptive orders, and then primarily through the issuance of no-action letters and other interpretations").

[46] Asset-Backed Securities, Release No. 33-8518, 70 Fed. Reg. 1,506 (Jan. 7, 2005) ("Regulation AB Adopting Release") (stating that SEC staff "through 'no-action letters and the filing review process' developed an evolving framework to address the different nature of ABS" and that the rules were designed to "consolidate and codify current staff positions and industry practice").

[47] See Asset-Backed Securities Disclosure and Registration, Release No. 33-9638, 79 Fed. Reg. 57,184 (Sept. 24, 2014) ("Regulation AB II") (adopting significant revisions to the ABS framework including asset-level disclosure requirements and new registration forms, while acknowledging that "staff no-action relief played a concrete historical role in practical ABS offering mechanics").

[48] Regulation of Exchanges and Alternative Trading Systems, Release No. 34-40760, 63 Fed. Reg. 70,844, 70,852 (Dec. 22, 1998) ("Regulation ATS Adopting Release") (describing the new framework allowing alternative trading systems to choose either registration as a national securities exchange or operation as a broker-dealer subject to additional requirements).

The consistent pattern across these case studies is unmistakable: the Commission uses no-action relief, interpretive positions, and tailored exemptions to respond to novel market structures. First, the Commission observes market practices and investor risks under controlled conditions; it later consolidates those practices into Commission rules after a fuller public process. This is not a deviation from sound administrative practice; it *is* sound administrative practice proven out by historical agency action. Chairman Atkins's proposed "innovation exemption" for tokenized securities trading creates a structured learning period for both market participants and the Commission and fits squarely within this historical tradition.[49] So too does Commissioner Peirce's proposed "micro-innovation sandbox."[50]

Citadel's demand that the Commission forgo exemptive relief and instead conduct a "rule-by-rule analysis" through notice-and-comment rulemaking before facilitating tokenized equity trading[51] is the anomaly, not the norm. If the Commission had followed Citadel's logic in the 1980s and 1990s, no staff-level accommodation of electronic trading systems, no iterative pathway through which alternative trading systems could develop under conditions the staff could monitor and adjust. The Commission would have been forced to undertake a comprehensive rulemaking before a single electronic trading system could operate, a process that would have delayed the development of electronic markets by years or decades. The result would not have been better investor protection; it would have been less competition, discouraged innovation, and the preservation of incumbent advantages at the expense of the market and market participants.

The Commission should understand Citadel's procedural demand for what it is: a strategy of delay. Citadel's proposal for comprehensive rulemaking would take years. During that time, the benefits of tokenization would remain unavailable to American investors and innovation in the space would relocate to more innovation-friendly jurisdictions offshore. The Commission's exemptive authority under Section 36 was designed precisely to give the agency flexibility to act promptly in response to market innovation without awaiting the completion of a multi-year rulemaking. The SEC has used these tools to accommodate every major market-structure innovation of the past four decades. There is no reason to depart from that practice now, and every reason to follow it.

B. The Overdahl Letter Misapplies the Legal Standards Governing SEC Economic Analysis

Dr. James Overdahl's letter, submitted on behalf of Citadel Securities, argues that the SEC must conduct the same rigorous cost-benefit analysis for exemptive relief that courts have

[49] Recent SEC Speech: ETHDenver Discussion Between Chairman Atkins and Commissioner Peirce (Feb. 2026) (Chairman Atkins proposing an "innovation exemption" for tokenized securities trading that would "limit trading volume and could provide relief from some of our rules and certain other requirements that may not be relevant in light of how this technology works").

[50] Commissioner Hester M. Peirce, There Must Be Some Way Out of Here (Feb. 21, 2025), https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125 (proposing a "micro-innovation sandbox" for small-scale tokenization and blockchain projects).

[51] Citadel Letter at 8–10 (arguing that the Commission should "[c]onduct a [r]ule-[b]y-[r]ule [a]nalysis to [i]dentify [i]mpediments and [a]ddress [t]hose [t]hrough [n]otice-and-[c]omment [r]ulemaking").

required for notice-and-comment rulemaking.[52] This claim misreads the statutory text, misconstrues the case law, and contradicts the Trump Administration's own deregulatory policy framework.

Section 3(f) of the Securities Exchange Act, added by the National Securities Markets Improvement Act of 1996 ("NSMIA"), provides that "[w]henever pursuant to this title the Commission is *engaged in rulemaking* . . . the Commission shall also consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation."[53] Section 23(a)(2) similarly requires the Commission to consider the competitive impact of "any *rule promulgated*" under the Exchange Act.[54] By contrast, the SEC's exemptive authority under Section 36 establishes a different legal standard—it authorizes the Commission to grant exemptions as "the Commission, *by rule, regulation, or order,* may conditionally or unconditionally exempt any person, security, or transaction, or any class or classes of persons, securities, or transactions, from any provision or provisions of this chapter or of any rule or regulation thereunder, to the extent that such exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors."[55] The case law confirms this distinction. Every case in the U.S. Court of Appeals for the D.C. Circuit line establishing heightened economic analysis requirements for the SEC involved a challenge to a rule or to regulatory requirements, not to a deregulatory exemptive order.[56] In each instance, the challenged action was a regulation adopted through the notice-and-comment rulemaking process. When courts have reviewed SEC exemptive determinations, they have applied a different and more deferential standard.[57] No court has ever vacated a deregulatory SEC exemption for inadequate economic cost-benefit analysis.

---

[52]Dr. James A. Overdahl, Letter to the SEC on Tokenized U.S. Equity Securities at 3–8 (Jan. 22, 2026) ("Overdahl Letter") (arguing that the SEC must conduct rigorous cost-benefit analysis before granting exemptive relief for tokenized equity trading and that the Commission's economic analysis obligations for exemptions are comparable to those for rulemaking).

[53]Originally added as Securities Exchange Act § 3(f), now Section 201, 15 U.S.C. § 78c(f) ("Whenever pursuant to this title the Commission is engaged in rulemaking . . . the Commission shall also consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation.") (emphasis added).

[54]Securities Exchange Act § 23(a)(2), 15 U.S.C. § 78w(a)(2) (requiring the Commission to "consider the impact that any rule promulgated under [the Exchange Act] would have on competition" and to "refrain from adopting a rule that will impose a burden on competition not necessary or appropriate in furtherance of the purposes of [the Exchange Act]") (emphasis added).

[55]Exchange Act § 36(a)(1), 15 U.S.C. § 78mm(a)(1) (authorizing the Commission "by rule, regulation, or order" to "conditionally or unconditionally exempt any person, security, or transaction . . . from any provision or provisions of this title" "to the extent that such exemption is necessary or appropriate in the public interest, and is consistent with the protection of investors").

[56]Business Roundtable v. SEC, 647 F.3d 1144 (D.C. Cir. 2011) (vacating the SEC's Rule 14a-11, the proxy access rule, for failure to adequately consider the rule's effects on efficiency, competition, and capital formation); Chamber of Commerce v. SEC, 412 F.3d 133 (D.C. Cir. 2005) (striking down the SEC's mutual fund governance rules imposing an independent chairman requirement for failure to adequately consider costs); American Equity Investment Life Insurance Co. v. SEC, 613 F.3d 166 (D.C. Cir. 2010) (overturning Rule 151A for failure to establish a proper economic baseline).

[57]Copley Fund, Inc. v. SEC, 796 F.3d 131, 137 (D.C. Cir. 2015) (reviewing denial of an exemption under arbitrary and capricious review and stating the court would "set aside the Commission's denial of an exemption only if the agency's reasons are so insubstantial as to render that denial an abuse of discretion"); Schiller v. Tower Semiconductor Ltd., 449 F.3d 286 (2d Cir. 2006) (reviewing an SEC exemptive determination under general APA standards without applying the heightened economic analysis requirements from the D.C. Circuit rulemaking cases).

Even within the rulemaking context, recent D.C. Circuit decisions establish a more deferential standard than Overdahl suggests.[58] For exemptive relief involving novel technologies where empirical evidence is necessarily limited, this standard permits the Commission to rely on qualitative reasoning, analogies to prior market-structure innovations, and the kind of informed judgment that the SEC applied in accommodating every major technological evolution in securities markets. Moreover, the SEC has its greatest discretion when it acts under the 1975 Amendments to the Exchange Act, where broader statutory concepts like "fairness" and "orderly markets" confer substantially more deference than the NSMIA economic analysis standard.[59]

The Trump Administration's policy framework also contradicts Overdahl's position. Executive Order 14192, "Unleashing Prosperity Through Deregulation," requires agencies to identify at least ten existing regulations for repeal for every new regulation issued and mandates that net regulatory costs be "significantly less than zero."[60] Executive Order 14215, "Ensuring Accountability for All Agencies," extends Office of Information and Regulatory Affairs ("OIRA") review to independent agencies including the SEC for the first time,[61] but the accompanying Office of Management and Budget ("OMB") guidance emphasizes that OIRA "at all times . . . attempts to complete review as expeditiously as possible, particularly as to rules that are deregulatory in nature."[62] OMB Memorandum M-25-36, "Streamlining the Review of Deregulatory Actions," establishes an explicitly asymmetric framework: while standard OIRA review for new regulations may extend up to ninety days, deregulatory actions with factual records receive a maximum of twenty-eight days. The memorandum identifies categories of "qualitative benefits" that can justify deregulation without quantitative cost-benefit analysis, including "private-conduct liberty benefits," restoring freedom to pursue self-defined interests unfettered by regulation, and "aggregated impacts," where the collective value of deregulatory actions may exceed the sum of individual actions.[63] The entire thrust of the Administration's regulatory policy is to remove regulatory burdens, not to heighten the analytical demands of such removals. Overdahl asks the SEC to treat deregulatory exemptions as though they were new regulations, an inversion of the Administration's policy.

---

[58]Nasdaq Stock Mkt. LLC v. SEC, 34 F.4th 1105, 1111 (D.C. Cir. 2022) ("[A]n agency's duty to consider economic impacts does not necessarily require a precise cost-benefit analysis"; the Commission "need not base its every action upon empirical data" and may conduct "a general analysis based on informed conjecture").

[59]J.W. Verret, Robinhood's Threat to Sue SEC over Broker-Dealer Regulation Unlikely to Succeed, Harvard Law School Forum on Corporate Governance (Dec. 23, 2021).

[60]Exec. Order No. 14,192, "Unleashing Prosperity Through Deregulation," 90 Fed. Reg. 8,587 (Jan. 31, 2025) (requiring agencies to "identify at least 10 existing regulations to be repealed" for every new regulation issued and mandating that net regulatory costs be "significantly less than zero").

[61]Exec. Order No. 14,215, "Ensuring Accountability for All Agencies," 90 Fed. Reg. 8,233 (Feb. 24, 2025) (extending OIRA review under EO 12866 to independent agencies including the SEC for the first time).

[62]OMB Memorandum M-25-24, Interim Guidance Implementing Section 3 of Executive Order 14215, Q21, at 13 (Apr. 17, 2025) (noting that OIRA "at all times . . . attempts to complete review as expeditiously as possible, particularly as to rules that are deregulatory in nature").

[63]OMB Memorandum M-25-36, Streamlining the Review of Deregulatory Actions (Oct. 21, 2025) (establishing a 28-day maximum review period for deregulatory actions with factual records, compared to up to 90 days for new regulations; identifying categories of "qualitative benefits" that can justify deregulation without quantitative cost-benefit analysis, including "private-conduct liberty benefits," "aggregated impacts," "uncertainty of original projections," and "codifying enforcement priorities").

Finally, Overdahl conflates the costs that investors may voluntarily incur by participating in DeFi with regulatory costs of exemptive relief itself.[64] But the costs of using a product are not costs of the regulation that permits the product to exist. When the National Highway Traffic Safety Administration grants an exemption allowing a new class of vehicle, the fuel costs of operating that vehicle are not counted as regulatory costs of the exemption. When the SEC granted exemptive relief for exchange-traded funds, the management fees investors pay to ETF sponsors were not counted as regulatory costs of the exemption. Investors who find DeFi transaction costs unattractive are free not to use DeFi. The availability of an additional option does not impose a cost; it expands choice. Overdahl's attempt to recharacterize voluntary transaction costs as regulatory costs would make cost-benefit analysis of any deregulatory action logically impossible.

III. Conclusion

Citadel's letter asks the Commission to treat DeFi protocol developers, interface operators, and liquidity providers as regulated exchanges, brokers, and dealers—and to refuse exemptive relief for tokenized equity trading until the Commission completes a multi-year notice-and-comment rulemaking. As this letter has demonstrated, that request is unfounded. DeFi protocol developers who publish autonomous code do not operate "exchanges," are not "brokers" or "dealers," and cannot be shoehorned into the statutory categories designed for human-operated intermediaries. The Commission possesses evident legal authority to grant exemptive relief for tokenized equity trading through the well-established incremental process that produced Regulation AB and Regulation ATS. Congress endorsed that iterative approach by enacting Section 36 of the Exchange Act to give the Commission flexibility to act by order as well as by rule. Similarly, the Overdahl letter finds no support in the statutory text, the case law, or past Commission practice.

Blockchain Association respectfully urges the Commission to proceed with the innovation exemption framework that Chairman Atkins has directed staff to develop. The Commission should grant exemptive relief for tokenized equity trading, precisely as it did for previous financial technology innovations. This approach is consistent with the Commission's statutory and constitutional authority, decades of institutional practice, and the Administration's priorities.

*****

Blockchain Association appreciates the opportunity to submit these comments to the Commission. The staff of Blockchain Association and our counsel are available to meet and discuss these matters with the Commission and its staff and to respond to any questions.

Respectfully submitted,

Blockchain Association

[64] Overdahl Letter at 5–7 (treating DeFi transaction costs such as gas fees, MEV exposure, and impermanent loss as "costs" of exemptive relief rather than as costs of voluntary participation in a new market that investors may choose to use or not use).