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Permission to Innovate: SEC Carves Out Path for On-Chain Stock Trading

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Temporary relief creates a notice-based pathway for qualifying tokenized securities venues and certain AMM liquidity providers while the SEC considers permanent rules

> Bottom line: The SEC is opening a controlled pathway for secondary trading of tokenized US equities through permissioned automated market makers, but the relief is temporary and conditional.

Introduction and policy context

On September 17, 2026, the Securities and Exchange Commission (SEC) issued the long-awaited "Innovation Exemption," an order under Section 36(a)(1) of the Securities Exchange Act of 1934 granting two forms of temporary, conditional relief. The first exempts qualifying tokenized securities venues (TSVs) from the definition of "exchange," while the second exempts qualifying liquidity providers, termed "Covered Firms," from the definition of "dealer" with respect to specified activity in a TSV's automated market maker (AMM) liquidity pool. The relief expires five years after its publication, subject to earlier modification by the SEC, and the SEC has solicited comment on whether and how to revise, extend or make it permanent.[1]

The Innovation Exemption arrives at a pivotal moment. Just two days before the order was issued, the Senate rejected cloture, 49 – 50, on the motion to proceed to HR 3633, the CLARITY Act. In an accompanying statement, SEC Chair Paul Atkins expressly linked the two events, describing the exemption as a "bridge toward durable rulemaking."[2] The implication is clear: With market-structure legislation stalled, the SEC intends to use rulemaking, exemptive orders and staff-level relief to facilitate on-chain securities activity within its existing authority. Commissioner Hester Peirce struck a similar chord, emphasizing that the exemptions should permit experimentation, self-custody and greater investor autonomy while generating the practical experience needed to inform permanent rules. Commissioner Mark Uyeda likewise characterized the order as a controlled, data-producing experiment designed to advance technology-neutral rulemaking without compromising investor protection or market integrity.[3]

Notably, the order comes on the heels of the SEC's separate June 2026 proposal to rescind Regulation National Market System (NMS) rules 611 and 610(e), reinforcing the view that the existing NMS framework may warrant broader structural reform.[4] The SEC's central premise is that the NMS framework is fundamentally incompatible with AMM-based trading – including because pool-ratio pricing may not accommodate Rule 611's trade-through requirements; continually shifting pool compositions and asset allocations complicate Rule 602(a)'s quotation obligations; and AMMs may quote at increments finer than Rule 612 permits. At the same time, the order acknowledges that the transaction, price movement and participant interaction transparency provided by AMMs may potentially obviate the need for certain existing regulations, and it identifies a range of potential benefits that AMM trading can provide for market participants, including self-custody, around-the-clock trading, fractional ownership, near-instantaneous settlement, improved sanctions screening, enhanced auditability and recordkeeping, lower operating and transaction costs, and reduced information asymmetries.[5]

The order also builds on a series of recent SEC staff statements addressing securities intermediaries and the trading of tokenized securities. First, the December 2025 custody statement identified conditions under Rule 15c3-3(b)(1) for broker-dealer physical possession or control of crypto asset securities. Second, the January 2026 statement set out a taxonomy of tokenized securities, including the distinction between issuer-sponsored and third-party-tokenized securities; further distinguished custodial third-party tokenization from synthetic third-party products; and confirmed that tokenization changes form, but not legal status. Third, the April 2026 interface statement provided a conditional, time-limited staff position for certain self-custodial interfaces used to prepare crypto asset securities transactions. Together, these statements address custody, product characterization and interfaces; the order addresses venues and liquidity providers.[6]

It is also noteworthy how the order marks a sharp departure from the prior commission's approach. In 2022, the SEC proposed amendments to Exchange Act Rule 3b-16 that would have expanded the definition of "exchange" to encompass systems using non-firm trading interest and "communication protocols" – capturing a broad range of blockchain and decentralized finance systems, among them the very AMMs that the Innovation Exemption now seeks to accommodate. That proposal drew extensive comment and calls for clarification and was formally withdrawn effective June 17, 2025.[7]

TSV exemption from definition of 'exchange'

The order defines a "TSV" as an organization, association or group of persons that brings together buyers and sellers of "Tokenized NMS Stock" by providing one or more AMM liquidity pools for permissioned participants and setting standards for access. The definition is functional: a website, browser extension or other software application that enables a participant to enter, display or agree to trade terms may itself form part of the TSV.[8]

A TSV that satisfies the order's conditions is exempt from the definition of "exchange" for Exchange Act purposes and is therefore not required to register as a national securities exchange or operate under the alternative trading system (ATS) exemption. Because the TSV also falls outside the definitions of "trading center" and "market center" under Regulation NMS, the trade-through, access and other provisions of Regulation NMS applicable to those categories do not apply.[9]

The Innovation Exemption incorporates extensive guardrails designed to ensure investor protection, maintain fair, orderly, and efficient markets, and facilitate capital formation. These include:

- **Limited eligible securities and issuer objections.** Eligible Tokenized NMS Stock encompasses both issuer-sponsored stock and third-party-tokenized stock, but excludes synthetic linked securities, security-based swaps, rights and warrants. Before listing a third-party-tokenized security, the TSV must notify the issuer of the underlying stock and allow at least 30 calendar days to elapse following receipt. A timely issuer objection bars trading, and the TSV must publicly disclose the objection within five business days.[10] The offshore issuance and trading of synthetic linked securities without issuer consent has generated significant recent controversy; the SEC accordingly scoped the order narrowly to exclude synthetic instruments and to afford issuers an objection right with respect to third-party tokenization of their stock.
- **Equivalent holder rights.** The TSV must verify that each Tokenized NMS Stock confers the same rights and privileges as the equivalent traditional share, including economic, dividend, voting and liquidation rights. For third-party-tokenized stock, related proxy materials and issuer communications must be made available at no cost to the issuer or its shareholders. Notably, the order does not expressly require that the Tokenized NMS Stock be convertible or redeemable into a conventionally recorded share.
- **Permitted pairs.** Tokenized NMS Stock may be paired against another Tokenized NMS Stock, a nonsecurity crypto asset (including a payment stablecoin) or a tokenized money market fund. A nonsecurity crypto asset or tokenized money market fund may trade on the TSV only when directly paired with a Tokenized NMS Stock.
- **Secondary trading only; registration and participant status unchanged.** A TSV may facilitate only secondary trading; primary issuances and initial offerings of securities are not permitted. All offers and sales of Tokenized NMS Stock on a TSV must be registered or exempt under the Securities Act, and the TSV Exemption does not alter the registration status or other regulatory obligations of TSV Participants.[11]
- **Permissioned access, US nexus and eligibility.** Only verified or credentialed participants and wallet addresses may trade on a TSV, though participation is not limited to institutions or registered entities. Where a third-party provider performs permissioning services on a TSV's behalf, the TSV retains responsibility for compliance. The TSV itself must be a US person and must comply with applicable Office of Foreign Assets Control (OFAC) sanctions requirements. A TSV generally may not rely on the exemption if it includes a person subject to statutory disqualification, unless the SEC or the relevant self-regulatory organization has approved that person's continued participation.[12]
- **Volume limits and broader market controls.** The order categorizes Tokenized NMS Stock into two tiers that mirror the

established Limit Up-Limit Down Plan and sets separate symbol and volume caps for each. A TSV may trade up to 75 Tier 1 Tokenized NMS Stock symbols, with volume in each capped at 0.25% of its prior-month average daily share volume, and up to 250 Tier 2 Tokenized NMS Stock symbols, with volume in each capped at 2.5%. Affiliated TSVs must aggregate both their trading volume and their symbol counts. These differentiated thresholds are designed to reflect liquidity differences across stocks, permit meaningful experimentation, and contain potential price dislocations or other spillovers between tokenized and conventional markets during the data-gathering period. Enforcement follows a stepped approach: The first time a TSV exceeds a volume threshold for a given stock, no action is required beyond ensuring future compliance; any subsequent breach triggers an immediate three-month pause in trading of the affected security.[13]

- **Transparency and recordkeeping.** A TSV must make US-dollar-denominated transaction data – including symbols, price, size, time and direction – freely and publicly available in machine-readable format, updated within 10 minutes of each transaction. The TSV must also maintain comprehensive books and records covering, among other things, trading interest, execution details, permissioning information, fees, stoppages and daily share volume. In addition, the TSV must immediately notify "TSV Participants," and promptly notify the SEC, of any event that has a significant impact on the operation of the TSV or on its participants.
- **Stoppages.** Although a TSV may offer around-the-clock trading, it must stop trading in a Tokenized NMS Stock concurrently with any halt or suspension of the underlying stock on its primary listing exchange and immediately notify TSV Participants of the stoppage.
- **No leverage.** A TSV may not borrow securities or nonsecurity crypto assets (whether on a secured or unsecured basis), directly or indirectly hypothecate or arrange for the hypothecation of any such assets, or extend credit to a TSV Participant for the purpose of purchasing Tokenized NMS Stock.
- **Built on public infrastructure.** The distributed ledger applications (i.e., smart contracts) used by a TSV must be auditable, publicly available and deployed on a public, permissionless distributed ledger – meaning anyone can read or write to the ledger without authorization. This condition is designed to enhance transparency, support market integrity, and reduce systemic and operational risk by enabling TSV participants and third parties to inspect the applications, audit how trades are effected, report vulnerabilities and better assess the risks of trading on a particular TSV.[14]

Reliance on the TSV Exemption is notice-based and does not require affirmative SEC approval. It creates no presumption that the TSV would otherwise constitute an "exchange." In order to qualify for the TSV Exemption, the TSV must publish a detailed notice on its website at least 30 calendar days before commencing operations and, within one business day after publication, notify the SEC by email providing contact information and the notice URL. The notice must disclose, among other things, that the TSV is not registered with the SEC, is not subject to Regulation NMS, and is not subject to the fair-access requirements applicable to registered exchanges and certain ATSs. Once operational, the TSV must update its notice within five business days for new or ceased listings, volume-related pauses, issuer objections and material inaccuracies; 20 calendar days before material operational changes; and within 30 calendar days after quarter-end for nonmaterial changes.[15]

Covered firm exemption from definition of 'dealer'

The order also establishes the "Covered Firm Exemption," which provides temporary, conditional relief from the definition of "dealer" under Section 3(a)(5) of the Exchange Act for certain AMM liquidity providers. As a threshold matter, the SEC recognizes that merely supplying liquidity to an AMM pool does not, standing alone, constitute dealer activity; absent additional indicia, an AMM liquidity provider would ordinarily be characterized as a "trader" rather than a "dealer."[16] The analysis may become less clear cut, however, where a provider also quotes prices to customers, exercises control over pricing or inventory, enters into market-making arrangements, or enters into agreements, arrangements, or understandings to provide committed capital.[17]

The Covered Firm Exemption is therefore designed to provide additional certainty for liquidity providers that deploy proprietary capital into Tokenized NMS Stock in an AMM pool operating under the TSV Exemption and that may engage in those additional activities. To qualify, a Covered Firm must: trade solely for its own account; refrain from holding customer assets; maintain records documenting its financial resources, liquidity commitments, agreements and compensation arrangements; disclose on any public-facing website that it is not a registered broker-dealer and may receive liquidity incentives; notify the SEC in writing regarding its business model, controls, arrangements and compensation; confirm that neither it nor its affiliates is subject to statutory disqualification; and consent to SEC requests for information. As with the TSV Exemption, the notification is notice-based and does not require affirmative SEC approval, and reliance creates no presumption that the firm would otherwise be a dealer.[18]

What the order does not cover

Notwithstanding the breadth of the relief granted, the Innovation Exemption leaves several significant areas of securities regulation undisturbed. The following obligations and limitations remain fully in effect and are not modified, waived or otherwise affected by the order:

- **Antifraud and anti-manipulation laws.** The order provides no relief from Section 10(b), Rule 10b-5, insider-trading restrictions, or any other federal antifraud or anti-manipulation provision. A TSV must also disclose whether and how it monitors for spoofing, wash trading, front-running, pump-and-dump schemes and other manipulative or abusive conduct.[19]
- **No broader registration safe harbor.** The relief is limited to the exchange status of a qualifying TSV and the dealer status of a qualifying Covered Firm. It does not exempt securities offerings from Securities Act registration, provide relief under the Investment Company Act, determine the regulatory status of token issuers or TSV Participants, or extend to securities activity conducted outside the TSV.
- **Broker registration unaffected.** The Covered Firm Exemption applies solely to the definition of "dealer." Any person effecting securities transactions for others, soliciting transactions, receiving transaction-based compensation or otherwise acting in a broker capacity must independently assess its broker-dealer registration obligations. The April 2026 interface statement offers only a narrow, time-limited staff position for qualifying self-custodial interfaces that prepare user-directed transactions and satisfy detailed conditions. It does not extend to interfaces that negotiate transaction terms, solicit specific securities transactions, make recommendations or provide advice, arrange financing, process trade documentation, conduct independent asset valuations, handle user assets, execute or settle transactions, or take or route orders.[20] Registered broker-dealer participants remain subject to all applicable SEC and FINRA requirements; the order solicits comment on whether additional Regulation NMS relief may be warranted but grants none.
- **Model- and product-specific relief.** The exemption does not extend to primary offerings, synthetic tokenized products, unrestricted securities trading, leveraged activity or every on-chain trading model.

The Innovation Exemption represents a welcome and meaningful step toward enabling experimentation and innovation in the trading of tokenized securities, but significant regulatory work remains – both in refining the contours of this relief and in establishing the durable, comprehensive framework that market participants will ultimately need. Peirce separately stated that the order is "not about decentralized finance," expressed the view that truly decentralized, permissionless systems may not require the relief, and invited market participants operating under alternative models to engage directly with the SEC.[21]

[1] SEC, Order Granting Temporary Conditional Exemptive Relief, Exchange Act Release No. 34-106402, at 1 – 7, 57, 60 (Sept. 17, 2026) (the "order"); 15 USC § 78mm(a)(1).

[2] Paul S. Atkins, Chairman, SEC, Statement on the Innovation Exemption: A Bridge Toward Durable Rulemaking (Sept. 17, 2026); US Senate, Roll Call Vote No. 234 (Sept. 15, 2026).

[3] Hester M. Peirce, Commissioner, SEC, Slumber Number: Innovation Exemption Statement (Sept. 17, 2026); Mark T. Uyeda, Commissioner, SEC, Statement on the Innovation Exemption (Sept. 17, 2026).

[4] SEC, "The Trade-Through Rule and Locked and Crossed Markets Provisions of Regulation NMS," Exchange Act
Release No. 34-105655, 91 Fed. Reg. 36,656 (June 17, 2026) (proposed June 11, 2026).

[5] Order at 11 – 14, especially 12 – 13 (discussing Rules 602(a), 611, and 612, the potential redundancy of certain regulations, and potential benefits of TSVs and distributed-ledger technology).

[6] SEC divisions of Corporation Finance, Investment Management, and Trading and Markets, Statement on Tokenized Securities (Jan. 28, 2026); SEC Division of Trading and Markets, Statement on the Custody of Crypto

Asset Securities by Broker-Dealers (Dec. 17, 2025); SEC Division of Trading and Markets, Staff Statement Regarding Broker-Dealer Registration of Certain User Interfaces Utilized to Prepare Transactions in Crypto Asset Securities (Apr. 13, 2026). Staff statements have no legal force or effect and do not alter applicable law.

[7] SEC, Amendments Regarding the Definition of "Exchange" and Alternative Trading Systems (ATSs) That Trade US Treasury and Agency Securities, National Market System (NMS) Stocks, and Other Securities, Exchange Act Release No. 34-94062, 87 Fed. Reg. 15,496 (Mar. 18, 2022); SEC, Supplemental Information and Reopening of Comment Period for Amendments Regarding the Definition of "Exchange," Exchange Act Release No. 34-97309, 88 Fed. Reg. 29,448 (May 5, 2023); SEC, Notice of Withdrawal of Proposed Regulatory Actions, Release Nos. 33-11377, 34-103247, IA-6885, and IC-35635 (June 12, 2025) (withdrawal effective June 17, 2025).

[8] Order at 1 – 3, 7 – 10 and n.28. By comparison, the prior Rule 3b-16 proposal would have replaced "orders" with the broader concept of "trading interest" and added "communication protocols" as an example of an established, nondiscretionary method, potentially reaching systems such as AMMs. See Rule 3b-16 Fact Sheet.

[9] Order at 14 – 15.

[10] Order at 8, 21 – 23; SEC divisions of Corporation Finance, Investment Management, and Trading and Markets, Statement on Tokenized Securities (Jan. 28, 2026) (distinguishing custodial third-party tokenization from synthetic linked securities and security-based swaps); Atkins, "Bridge Toward Durable Rulemaking" (identifying "No Synthetics" and "Issuers Can Object" as key conditions). The order notes that issuers may be concerned about shareholder-register administration, price dislocation and adverse effects on the underlying stock. Order at 21 – 22.

[11] Order at 15 – 17, 22 – 23. The order also does not provide Investment Company Act relief. Id. at 7 n.22.

[12] Order at 16 – 19. The exemption is unavailable if an organization, association or person within the TSV group is subject to statutory disqualification, unless the SEC or relevant self-regulatory organization has permitted continued participation. Id. at 16. Permissioned trading may be deployed on a public, permissionless blockchain. Id. at 18 n.55.

[13] Order at 23 – 28. The SEC used the established Limit Up-Limit Down tiers, set separate symbol and volume limits to reflect liquidity differences, and explained that the limits are intended to reduce the risk that price dislocations in tokenized stock affect the broader NMS market while still allowing meaningful trading. The stepped approach applies to volume breaches, not symbol-limit breaches; affiliated TSVs must pause the same security after a subsequent breach. Id. at 26 – 28 and nn.74 – 75.

[14] Order at 10 n.31, 18 – 19 and nn.54 – 55. Required applications must be auditable, public and deployed on a public, permissionless ledger, but access to the TSV remains permissioned. Public deployment is intended to facilitate independent review, vulnerability reporting, transparency, market integrity and operational resilience. A TSV remains responsible for a third-party permissioning provider.

[15] Order at 13 n.37, 19 – 21, 28 – 47. The public notice must cover operations, access standards, assets, technology, conflicts, fees, risks, safeguards, market oversight and trading stoppages. Material changes require 20 calendar days' advance notice; nonmaterial changes must be reported within 30 calendar days after quarter-end. Id. at 20 – 21.

[16] Section 3(a)(5)(B) excludes from "dealer" a person that buys or sells securities for its own account, individually or in a fiduciary capacity, but not as part of a regular business – the so-called "trader" exception. Dealer status remains a facts-and-circumstances inquiry. Order at 52 – 54 and nn.111 – 12; 15 USC § 78c(a)(5)(B).

[17] Order at 52 – 54.

[18] Order at 54 – 57. The Covered Firm Exemption runs in parallel with the TSV Exemption and expires on

September 17, 2031. Id. at 55, 57.

[19] Order at 15 – 16, 45 – 46, 55. The order requires disclosure of whether a TSV monitors for specified forms of fraudulent or manipulative activity but does not itself mandate a particular surveillance model. Id. at 45.

[20] SEC Division of Trading and Markets, Staff Statement Regarding Broker-Dealer Registration of Certain User Interfaces Utilized to Prepare Transactions in Crypto Asset Securities (Apr. 13, 2026). The statement is a time-limited staff position under Section 15 and has no legal force or effect.

[21] Peirce, Slumber Number. Peirce's statement reflects her individual views and is not an additional condition of the order.

Key Contacts

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