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SEC INNOVATION EXEMPTION

On September 17, 2026, the Securities and Exchange Commission (the "SEC") issued an order (Release No. 34-106402; File No. 4-927) (the "Order") granting five-year, temporary exemptive relief allowing (1) qualifying tokenized securities venues ("TSVs") that provide innovative automated market makers ("AMMs") and liquidity pools (together referred to as "AMM Liquidity Pools") to facilitate trading of National Market System ("NMS") stocks onchain an exemption from the definition of "exchange" under Section 3(a)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (the "TSV Exemption") and (2) qualifying liquidity providers in an AMM Liquidity Pool that supply liquidity in the form of tokenized NMS stocks an exemption from the definition of "dealer" under Section 3(a)(5) of the Exchange Act (the "Covered Firm Exemption").

These exemptions, discussed in detail below, are effective from September 17, 2026 through September 17, 2031, subject to modification as the SEC may determine necessary or appropriate in the public interest and to protect investors.

BACKGROUND

The SEC's Innovation Exemption comes during a period of focused engagement on digital-asset regulation. On January 21, 2025, Acting SEC Chairman Mark T. Uyeda established the Crypto Task Force to provide greater clarity on the application of the federal securities laws to crypto asset markets and designated Commissioner Hester M. Peirce to lead it. The Task Force has since hosted roundtables, requested and received written input, and held numerous meetings with members of the public.

The broader policy context includes the White House's January 23, 2025 executive order on digital assets; the President's Working Group on Digital Asset Markets' July 2025 report, "Strengthening American Leadership in Digital Financial Technology;" and SEC Chairman Paul S. Atkins' launch of "Project Crypto" to modernize the federal securities laws and enable the U.S. financial markets to move onchain. In addition, the SEC proposed rescinding the Rule 611 trade-through rule for NMS stocks, along with related Regulation NMS provisions, on June 11, 2026 (Release No. 105655). Discussions and debate regarding the contours of an Innovation Exemption have been ongoing for quite some time; we do not address these topics here. Against this backdrop, this Order has been positioned as a temporary, targeted interim measure while the SEC considers future rulemaking and other regulatory actions.

At the same time, Congress was pursuing a comprehensive legislative framework. On July 17, 2025, the House passed the Digital Asset Market Clarity Act of 2025 (the "CLARITY Act") to establish a comprehensive statutory framework for digital assets, dividing oversight between the SEC and the Commodity Futures Trading Commission ("CFTC"). However, on September 15, 2026, the CLARITY Act failed to receive the requisite votes in the Senate to proceed. It is unclear whether the bill will be revived ahead of the November midterm elections.

On September 17, 2026, the same day that the SEC issued the Innovation Exemption, the CFTC issued a broad CFTC No-Action Position (Staff Letter No. 26-25) providing relief to qualifying passive software providers ("PSPs") from introducing broker registration. The position applies broadly to all qualifying PSPs, not only providers of crypto asset-related software. The CFTC also submitted a prerule filing titled "Regulation Crypto Asset Transactions and Regulation Crypto Asset Markets" (RIN 3038-AF80) that day. Together with the SEC's Innovation Exemption, these CFTC actions represent a coordinated agency effort to provide interim clarity while comprehensive legislation remains pending.

TSV EXEMPTION

The TSV Exemption exempts qualifying TSVs from the definition of "exchange" under Section 3(a)(1) of the Exchange Act, subject to certain conditions. A qualifying TSV would therefore not be required to register as a national securities exchange or to operate under the exemption from such registration available to an alternative trading system ("ATS").

TSVs are organizations that bring together buyers and sellers of Tokenized NMS Stock by providing one or more AMM Liquidity Pools for permissioned participants to interact and agree to trade terms, and setting standards for persons to access trading on such AMM Liquidity Pools.

"Tokenization" is the process of creating a digital representation of a tangible or intangible asset using distributed ledger technology. "Tokenized NMS Stock" means any NMS security (excluding options, warrants and rights) that is (1) a security tokenized by, or on behalf of, the issuer of the underlying NMS stock, or (2) a security tokenized by a third party that is unaffiliated with the issuer of the underlying NMS stock. "Tokenized NMS Stock" does not include securities as to which a third party issues a crypto asset representing its own security that provides synthetic exposure to an underlying security, such as a tokenized linked security or a tokenized security-based swap.

TSVs may make Tokenized NMS Stock available for trading in pairs with other Tokenized NMS Stock, non-security crypto assets (e.g., a payment stablecoin issued by a permitted payment stablecoin issuer under the GENIUS Act), or tokenized money market funds.[1] A trading "pair" may include two or more legs, and each leg must be a Tokenized NMS Stock, a non-security crypto asset, or a tokenized money market fund. Any non-security crypto asset or tokenized money market fund must be directly paired and traded alongside a Tokenized NMS Stock. The Order does not provide any interpretation as to whether TSVs are, or could be,

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[1] Payment stablecoins issued by a permitted payment stablecoin issuer categorically will not be securities by operation of statute after the effective date of the GENIUS Act, as provided in section 2(22) of the GENIUS Act. The Order does not address whether a TSV would be a digital asset service provider under the GENIUS Act.

"digital asset service providers" under the GENIUS Act. The TSV Exemption does not otherwise limit the type of non-security crypto asset that may be paired with Tokenized NMS Stock.

The Order does not provide an exemption for purposes of the Investment Company Act of 1940, as amended (the "1940 Act"); the SEC expressly notes that activities related to tokenized investment companies may raise issues under the 1940 Act. A registered investment company that issues shares in multiple formats, including in tokenized format on different crypto networks, may raise multi-class issues under Section 18 of the 1940 Act. In addition, Section 22(d) of the 1940 Act generally requires dealers to sell redeemable securities only at the current public offering price described in the prospectus, which may conflict with onchain trading of tokenized fund shares at market-determined prices. Similarly, Rule 22c-1 under the 1940 Act requires forward pricing of redeemable securities at the next-computed net asset value, which may be difficult to reconcile with the continuous, ratio-based pricing mechanisms used by AMM Liquidity Pools.

DEFINITION OF TOKENIZED SECURITIES VENUE

A "TSV" is defined as an organization, association, or group of persons that brings together buyers and sellers of Tokenized NMS Stock by: (1) providing one or more AMM Liquidity Pool(s) for permissioned participants to interact and agree to terms of a trade and (2) setting standards for persons to access trading on such AMM Liquidity Pool(s). An AMM Liquidity Pool typically operates pursuant to programmed rules and algorithms to set the prices of assets offered to users based on the ratio of assets committed by liquidity providers. Liquidity providers commit assets to the liquidity pool and receive LP tokens proportionate to their contributions. A TSV sets standards to allow only permissioned TSV Participants, such as retail investors, institutional investors, or registered broker-dealers, to access trading. Permissioning can be enforced through offchain management or onchain protocols, such as by white-listing or allow-listing wallet addresses.

EXEMPTION FROM, AND SCOPE OF, THE DEFINITION OF "EXCHANGE"

Today, permissioned AMM Liquidity Pools are unavailable to trade Tokenized NMS Stock, which may be a result of ambiguity surrounding the regulatory status of a TSV and how a TSV trading Tokenized NMS Stock could comply with the Federal securities laws. A TSV may face substantial challenges operating as a national securities exchange or ATS under Regulation NMS. For example, a TSV using an AMM Liquidity Pool may be unable to comply with the trade-through requirements of Rule 611 or the quotation collection requirements of Rule 602(a). A TSV that meets the conditions of the TSV Exemption would not be considered an exchange and would not be required to register as a national securities exchange or operate as an ATS. As a result, such TSV would not be considered a trading center or market center under Regulation NMS.

The TSV Exemption does not apply to securities activity conducted outside the TSV. The anti-fraud and anti-manipulation provisions of the Federal securities laws, including section 10(b) and Rule 10b-5, continue to apply. The TSV Exemption cannot be relied upon by any organization, association, or person subject to a statutory disqualification under Section 3(a)(39) of the Exchange Act (unless permitted by the SEC or relevant SRO).

CONDITIONS OF THE TSV EXEMPTION

The conditions of the TSV Exemption are designed to mitigate risks and challenges that might arise from a TSV performing exchange activities outside the exchange regulatory framework and the national market system. These conditions address issues including transparency regarding permissioning, fees, and trading services; cybersecurity and manipulation risks; and orderly trading during stoppages.

TSV EXEMPTION CONDITION	DESCRIPTION
TSV Distributed Ledger Applications	To ensure transparency, distributed ledger applications (i.e., smart contracts) used by a TSV must be auditable, public, and deployed on a public, permissionless distributed ledger. "Permissionless" generally means that anyone can read or write to the distributed ledger without authorization. Requiring that distributed ledger applications be deployed on a public, permissionless distributed ledger will provide information that could help TSV Participants understand how their trades are effected on a TSV, enhance transparency, support market integrity, and reduce systemic and operational risk by empowering participants and third parties to audit and report vulnerabilities.
U.S. Persons	Applicants must be a "U.S. person" (i.e., a United States citizen, permanent resident alien, entity organized under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States) in order to be eligible for the TSV Exemption. The SEC notes that, because U.S. persons are required to comply with economic and trade sanctions programs enforced by OFAC, limiting eligibility to U.S. persons should help mitigate the risk of illicit actors accessing the U.S. financial system and deter behavior that undermines U.S. national security or foreign policy.
Public Notice	At least 30 calendar days before operating, a TSV must prominently publish a Notice on its publicly available website that includes prescribed information written in plain English and presented in a clear, concise, and understandable manner. Within one business day of publication, the TSV must provide the SEC written notice at tradingandmarkets@sec.gov that it intends to operate pursuant to the TSV Exemption. Revised Notices must be published: (1) within five business days for certain events (commencement or cessation of trading, pausing or resuming trading,

TSV EXEMPTION CONDITION	DESCRIPTION
	or receipt of a Notice of Issuer Objection); (2) 20 calendar days in advance of material changes; (3) no later than 30 calendar days following the end of any calendar quarter for non-material changes; and (4) within five business days of discovering materially inaccurate or incomplete information. The Notice must include extensive information about the TSV's operations, including a disclaimer, overview of the TSV, participant access criteria, securities traded, tokenization procedures, trading procedures, fees, risk disclosures, system safeguards, and more. A TSV cannot state, publicly or privately, that it is "registered" with the SEC or that its activities or paired assets have been "approved" or "endorsed" by the SEC, or use similar language. The Notice must affirmatively state that the TSV is not registered with the SEC.
Stoppage of Trading	A TSV must stop trading in a Tokenized NMS Stock concurrently with any stoppage, including a halt or suspension, in the underlying NMS stock on its primary listing exchange. The TSV must immediately notify TSV Participants of the stoppage and of any TSV-initiated decision to cease making a Tokenized NMS Stock available for trading.
No Leverage	A TSV cannot engage in financing activities, borrow securities or non-security crypto assets, directly or indirectly hypothecate or arrange for or permit the hypothecation of securities or non-security crypto assets, or extend credit to a TSV Participant to purchase Tokenized NMS Stock.
Issuer Notice and Objection Rights	Before making available a Tokenized NMS Stock tokenized by a third party unaffiliated with the underlying issuer, a TSV must give the issuer written notice (an "Issuer Notice"), and trading may not commence until at least 30 calendar days after the issuer receives such notice. If the issuer timely objects within that period, the TSV may not make the Tokenized NMS Stock available for trading and must amend its public Notice within five business days to disclose the objection.
No Primary Issuance	Only secondary trading is permitted on a TSV: all offers and sales of Tokenized NMS Stock must be registered under the Securities Act or conducted pursuant to an available exemption, and no primary issuance or initial offering is permitted.

TSV EXEMPTION CONDITION	DESCRIPTION
Equal Rights	A TSV must verify that Tokenized NMS Stock provides holders the same rights and privileges as the traditional NMS stock of the equivalent class, including the same interest in the company, dividends, voting rights and liquidation rights. For third-party tokenization, related proxy materials and issuer communications must be made available to token holders at no cost to the issuer or shareholders.
Limitation on Number of Symbols and Volume	The Order adopts a two-tier framework based on the tiers in the National Market System Plan to Address Extraordinary Market Volatility (the "Limit Up-Limit Down Plan" or "LULD Plan"). Tier 1 Tokenized NMS Stock includes NMS stocks in the LULD Plan's Tier 1—generally stocks included in the S&P 500 Index, the Russell 1000 Index, and certain exchange-traded products with more than $2 million in notional consolidated average daily volume. Tier 2 includes all other NMS stocks and, consistent with the LULD Plan, does not include rights and warrants. • Tier 1 is limited to 75 symbols and 0.25% of the relevant underlying NMS stock's average daily share volume during the prior month. • Tier 2 is limited to 250 symbols and 2.5% of the relevant underlying NMS stock's average daily share volume during the prior month. The percentage is calculated using a Tokenized NMS Stock's average daily share volume as the numerator and the underlying NMS stock's average daily share volume, as reported by an effective transaction reporting plan, as the denominator. A TSV must aggregate both trading volume and the number of symbols with those of its affiliated TSVs for the same Tokenized NMS Stock. The Order uses a stepped approach for volume-limit exceedances: the first exceedance in a given Tokenized NMS Stock requires no action other than ensuring future compliance, but each subsequent exceedance requires the TSV to immediately pause trading in that Tokenized NMS Stock for three months. The stepped approach applies only to volume limits; exceeding a symbol limit means the TSV no longer satisfies the exemption's conditions. A TSV may voluntarily pause trading before a threshold is triggered to avoid an exceedance, and must notify participants and update its public Notice when trading is paused.
Transaction Transparency	A TSV must make U.S.-dollar-denominated transaction data freely and publicly available in a machine-readable format for all transactions during the

TSV EXEMPTION CONDITION	DESCRIPTION
	preceding 30 days, updating the data within 10 minutes after each transaction. At minimum, the data must include the symbols for each Tokenized NMS Stock and paired asset, transaction price, transaction size, transaction time at the AMM Liquidity Pool (reported in UTC), and transaction direction. The TSV also must provide information about the AMM Liquidity Pool and its smart contract address, daily asset-pair share volume, and the end-of-day size of the AMM Liquidity Pool for each asset pair.
Books and Records	A TSV must make and keep current trading records and all information relating to compliance with the conditions of the TSV Exemption, including records of trading interest and transactions, participant and wallet screening, fees and compensation, trading stoppages, average daily share volume, operational events, and notices provided to the public, the SEC, issuers and TSV Participants. Records must be preserved while the TSV Exemption is effective and for three years after it ends, maintained in the United States, and promptly made available to SEC Staff in human-readable and reasonably usable electronic formats. The TSV must consent to SEC Staff examinations at any time. Records from a distributed ledger satisfy these requirements if they are readily accessible in both formats.

COVERED FIRMS EXEMPTION

The Covered Firm Exemption provides temporary relief from the definition of "dealer" under Section 3(a)(5) of the Exchange Act for liquidity providers that supply liquidity in the form of Tokenized NMS Stock using proprietary capital to AMM Liquidity Pools operating pursuant to the TSV Exemption.[2] The provision of liquidity alone does not constitute dealer activity, and the SEC anticipates that, absent other indicia of dealer activity, liquidity providers in an AMM Liquidity Pool typically will be engaged in "trader" rather than "dealer" activity. Depending on the facts and circumstances, however, activities such as quoting prices to customers or entering into agreements to provide committed capital may raise questions about dealer status. The SEC recognizes that these liquidity providers are necessary and integral to a TSV's core

[2] A Covered Firm may not be subject to the anti-money laundering compliance requirements that apply to SEC-registered broker-dealers. See 81 Fed. Reg. 19,086, 19,088 (Apr. 4, 2016) ("a registered funding portal would not be a person required to be registered as a broker with the Commission … and thus would not be subject to BSA regulations under the current BSA definition of 'broker-dealers.'"). Conversely, a Covered Firm may not be able to rely on the exemption from registration as a money services business that is available to SEC-registrants. See 31 C.F.R. § 1010.100(ff)(8)(ii).

functionality, because, without committed liquidity, AMM pricing and execution mechanisms cannot operate as designed. The Division of Trading and Markets is separately considering recommending amendments regarding the scope of, and exceptions from, the term "dealer."

The Covered Firm Exemption cannot be relied upon if the Covered Firm or any of its affiliates is subject to a statutory disqualification under Section 3(a)(39) of the Exchange Act, unless the SEC or a relevant self-regulatory organization has permitted continued participation notwithstanding the disqualification.

CONDITIONS OF COVERED FIRMS EXEMPTION

The Covered Firms exemption is subject to the following conditions, which are designed to protect investors and market integrity:

COVERED FIRMS EXEMPTION CONDITION	DESCRIPTION
TSV Provided AMM Liquidity Pool	A Covered Firm's securities activities must be limited to activities related to the trading of Tokenized NMS Stock in an AMM Liquidity Pool operating pursuant to the TSV Exemption. This includes trading of Tokenized NMS Stock on more than one TSV operating pursuant to the TSV Exemption. In addition, the Covered Firm Exemption does not limit a Covered Firm's non-securities activities, such as activity related to payment stablecoins.
Proprietary Accounts	A Covered Firm must provide liquidity through a TSV, engage in such trading activity solely for its own account, and must not hold or custody customer assets.
Maintenance of Records	A Covered Firm must make and retain records relating to: • its ability to maintain sufficient liquid assets to cover potential losses associated with trading activity (e.g., financial statements); • any liquidity supplied in an AMM Liquidity Pool; • any agreement, arrangement or understanding with a TSV to provide liquidity, including market making, services to an AMM Liquidity Pool; and • any incentives, fees, rebates, or any other form of compensation received for any liquidity provision, including for achieving certain volume threshold.
Disclosures	A Covered Firm must prominently disclose on any public-facing website, if applicable: • that it is not registered as a broker-dealer with the SEC,

COVERED FIRMS EXEMPTION CONDITION	DESCRIPTION
	• that it may enter into liquidity provision, including market making, agreements or arrangements with a TSV to provide liquidity to an AMM Liquidity Pool, and • that it may receive fees, tokens, or other incentives for providing liquidity or achieving certain volume thresholds from a TSV-provided AMM Liquidity Pool.
Notification	A Covered Firm must notify the SEC in writing at tradingandmarkets@sec.gov of its role as a Covered Firm, including: • the participant's name; • a description of its business model and an overview of its risk controls, as applicable; • its designated regulatory contact; • a description of any liquidity provision or market making agreements, arrangements, or understandings it has entered into; • a description of any fees, tokens, or other incentives it receives for providing liquidity or achieving certain volume thresholds from a TSV-provided AMM Liquidity Pool; • an acknowledgment that neither the Covered Firm nor any of its affiliates is subject to statutory disqualification; • its consent to requests for information from the SEC Staff of the Covered Firm's activities; and • an acknowledgment that use of the Covered Firm Exemption is subject to the SEC's oversight and that operating a Covered Firm in a manner inconsistent with the Covered Firm Exemption could result in an SEC enforcement action.

KEY PRACTICAL CONSIDERATIONS

Prepare public Notice early: A market participant considering operating a TSV should begin preparing the extensive, plain-English public Notice required well in advance of the 30 calendar days for which such Notice is required to be published before operations begin, together with the required SEC notification and procedures for subsequent revisions. This process may be time consuming, and market participants should leverage internal and external expertise in drafting the Notice.

Evaluate existing platforms: Entities already operating crypto trading platforms should assess whether their activities could qualify under the TSV Exemption or, for proprietary liquidity provision, the Covered

Firm Exemption, and identify activities outside of the scope of the exemptive relief that may require separate analysis or registration.

Third-party tokenization considerations: Under the TSV Exemption, a third party unaffiliated with an issuer may tokenize that issuer's NMS stock and make it available for trading on a TSV. However, the TSV must first provide written notice to the issuer, and trading may not commence until at least 30 calendar days after the issuer receives that notice. Within that 30-day window, the issuer may deliver a written objection to the TSV, which blocks trading of the Tokenized NMS Stock on that TSV. Issuers should carefully evaluate whether to object. Key considerations include the risk of price dislocation between the Tokenized NMS Stock and the traditional NMS stock, particularly because AMM Liquidity Pool pricing is generally based only on the ratio of the quantities of assets in the pool rather than external market pricing, as well as the potential for complications in maintaining accurate shareholder registers due to onchain transfers, the potential for around-the-clock trading outside of regular market hours, and the fact that TSVs are not registered exchanges and are not subject to the full exchange regulatory framework or Regulation NMS. Issuers should establish internal procedures to monitor for Issuer Notices and to evaluate and timely respond to any notices received, as well as consider whether to create standardized guidelines addressing whether to object to any such notices. Allowing such trading may raise other corporate governance, disclosure controls, and information considerations for an issuer.

Assess dealer indicia: Liquidity providers should assess whether their activities, particularly customer pricing or committed-capital arrangements, may carry indicia of dealer activity, and consider whether the Covered Firm Exemption is available, including its proprietary-account, recordkeeping, disclosure, notice and disqualification conditions.

Build monitoring infrastructure: The symbol and volume caps, and required aggregation of affiliated TSVs, require careful security-level monitoring, data governance and compliance controls, including procedures to identify threshold exceedances and pauses.

Design record keeping compliance practices: TSV compliance systems should be implemented to retain books and records throughout the life of the exemption and for the three subsequent years, in the United States and in accessible formats suitable for SEC examination.

Use the comment period: The comment period gives market participants an opportunity to provide feedback on the relief, its conditions, its duration, the tiering and volume limits, and the permanent regulatory framework while the SEC evaluates future rulemaking or other actions.

COMMISSIONER STATEMENTS ON THE INNOVATION EXEMPTION

Chairman Atkins released a statement emphasizing that the Innovation Exemption is a significant step toward bringing the U.S. capital markets into the digital age by facilitating onchain trading of certain tokenized stocks. He characterized the exemption as a carefully considered and structured grant of relief with tailored conditions to provide important investor protections, including sanctions compliance, permissioned access, a prohibition on synthetic securities, and the right of issuers to object.

SEC Commissioner Mark T. Uyeda also released a statement in which he stated that tokenization has the potential to modernize core market infrastructure functions. Perhaps anticipating things to come, he noted that use of the SEC's exemptive authority to allow innovation is a well-trod path, citing money market funds, index funds, and exchange-traded funds as examples.

In her statement, SEC Commissioner Hester M. Peirce expressed support for the Innovation Exemption. She characterized the exemptions as enabling market participants to experiment in preparation for a future where trading tokenized stocks onchain is commonplace. Commissioner Peirce emphasized the order's limited nature.

REQUEST FOR COMMENTS

The order includes 10 numbered questions for public comment as well a general request for comment across all aspects of the exemptions. Comments can be submitted (i) via the comment form on the SEC's website; (ii) via e-mail to rulecomments@sec.gov, including File Number 4-927 in the subject line, or (iii) on paper to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

CONTACTS

For more information about the topics raised in this Legal Update, please contact any of the following lawyers.

PARTNER
MATTHEW BISANZ
WASHINGTON DC +1 202 263 3434
MBISANZ@MAYERBROWN.COM

ASSOCIATE
EVAN ELDRIDGE
NEW YORK +1 212 506 2698
EELDRIDGE@MAYERBROWN.COM

PARTNER
STEFFEN HEMMERICH
NEW YORK +1 212 506 2129
SHEMMERICH@MAYERBROWN.COM

COUNSEL
ALI PERRY
NEW YORK +1 212 506 2514
AKPERRY@MAYERBROWN.COM

PARTNER
ANNA PINEDO
NEW YORK +1 212 506 2275
APINEDO@MAYERBROWN.COM

COUNSEL
LIZ WALSH
WASHINGTON DC +1 202 263 3883
LWALSH@MAYERBROWN.COM

PARTNER
JENNIFER ZEPRALKA
WASHINGTON DC +1 202 263 3446
JZEPRALKA@MAYERBROWN.COM