STA Approach to Tokenized Securities [August 2025]

One of the key missions of STA is to provide representation and leadership on issues which affect the membership, including government regulations and industry practices. With the rise of blockchain technology, many STA members, brokers, depositories, and technology platforms are exploring how to leverage this technology to modernize the current financial ecosystem.

In the early days of blockchain, it was perceived as an existential threat that would eliminate the role of transfer agents (TAs). Commissioner Hester Pierce released a public statement requesting responses on how the SEC should treat tokenized securities[1], and many firms echoed the sentiment of the elimination of the transfer agent as proffered since 2008. We believe now more than ever that the role of a transfer agent in the realm of tokenization is essential to the integrity of the securities that are issued and traded on blockchains or otherwise in the financial markets.

The topic du jour in the media around this technology has been the tokenization of public equities. Every week, major players (DTCC, Robinhood, Kraken, Coinbase, etc.) are either announcing developments in the tokenization, trading, and use of tokenized stocks or are lobbying their causes to the SEC and other regulatory departments/task forces. Some of these are genuinely good ideas, some are outright circumvention of the securities law, and some pose a significant threat to the future role of the transfer agent in the new world of tokenization. In this document, we hope to educate our members on the different models being debated by these various market participants and what they mean for us, our issuers, and their shareholders.

We will start with the most rational, legal, and STA-recommended approach: **Native Tokenization (also referred to as Issuer Sponsored Tokens).**

[1] (https://www.sec.gov/newsroom/speeches-statements/peirce-statement-rfi-022125)

To keep it simple, blockchains are ledgers used to record data, and tokens issued on blockchains are another form of ownership akin to how various transfer agent software platforms are cloud-based ledgers tracking certificates or book entry positions. The SEC recently provided guidance that TAs can use blockchains as ledgers, as long as they adhere to the existing rule framework[2], so we expect to see this technology more widely adopted among our membership.

If securities are going to be tokenized on blockchains, we feel SEC-registered and STA member TAs should be the ones performing that function in concert with our issuers. Native tokenization provides the following benefits:

- Direct ownership of the securities and claim against the issuer for the investors
- Management of the securities by TAs within the existing regulatory framework
- Single source of truth of the issuers' securities on the blockchain, minimizing reconciliation errors
- Fungible assets across different markets, maximizing liquidity
- Fungibility between the Street and Register and between registered holding types (certificates, book-entry/DRS, and token)

Next, we have the most pervasive approach by non-TAs: **Intermediated Tokenization**.

This is not a new approach, and some firms have been issuing and managing intermediated tokens for years with limited adoption. This approach does not require the involvement of a TA or an Issuer, so it is very fast to market and easily replicated. There are multiple approaches to intermediation, as described below:

- **Custodial Intermediation**: custodians and depositories (brokers and DTCC) can tokenize claims against the underlying shares they already hold and issue tokens to end investors directly, i.e. securities entitlement.
- **Compliant Wrappers**: firms can create a new investment vehicle (SPV, DR, ETF) that buys the underlying securities and issues tokens to eligible investors depending on the registration or exemption of the vehicle.

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[2] https://www.sec.gov/rules-regulations/staff-guidance/trading-markets-frequently-asked-questions/frequently-asked-questions-relating-crypto-asset-activities-distributed-ledger-technology

- **Non-compliant Wrappers**: many firms are pursuing the wrapper model but are not adhering to registration requirements and/or are issuing permissionless tokens to investors without KYC or eligibility checks, more closely resembling crypto assets.

In each case, the following applies:

- The tokens do not represent true ownership or the associated rights of the underlying issuers' shares.
- There is significant counterparty risk against the firms issuing these tokens since they are the ultimate owners and controllers of the actual shares.
- Without issuer involvement, there will be multiple wrappers of the same underlying security in the market that are not fungible or inter-operable.
- Since there will be multiple wrappers of the same security, liquidity is fragmented among the original securities and the markets that develop for each wrapper.
- Public reporting, insider holdings and insider trading rules cannot be enforced or monitored by the underlying issuer, leading to potential liability.

Regulatory comfort with and/or mass adoption of these Intermediated models means transfer agents will not play any role in the management of securities held by shareholders in token format. Since the SEC and multiple states now consider tokens operating on a blockchain as an allowable form of holding alternative to certificates and book entry, it would be a catastrophic result for issuers, investors and the industry itself if transfer agents no longer maintain this essential source of truth.

STA Position

To summarize, STA takes the position that the best strategy for tokenization of securities is the native tokenization of the actual underlying securities on the TA register in concert with issuers. This requires transfer agents or their partnered technology provider to have the capability to mint and deliver tokens to wallets and the ability to execute any transfers on the blockchain (which in turn requires the transferees receiving tokens to have provided the necessary data required to be maintained by a transfer agent on the Security Master File thereby enabling a wallet transfer). Once adopted, native tokenization creates a single source of truth for the securities investors and provides investors with all rights of ownership they would have as traditional registered shareholders in other forms. It also maintains the integrity of the current securities regulatory reporting and monitoring regime.