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Nasdaq Proposes to Allow Trading of Tokenized Securities

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On September 8, 2025, the Nasdaq Stock Market submitted a proposed rule change to the Securities and Exchange Commission that, if implemented, would allow for the trading and settlement of tokenized securities. Nasdaq points out that even traditional securities are traded in electronic format, and that it should not be a stretch to allow settlement using distributed ledger or blockchain technology.

Significantly, the proposal would only cover tokenized securities that are fungible with a traditional security bearing materially the same rights and privileges. It seems doubtful that the scope of "traditional security" would include many tokens currently traded on non-exchange platforms, even though those tokens could in theory be traded in traditional form and settle through traditional processes. Simply put, the proposal would permit an investor to elect to settle a trade in either traditional form or tokenized form on a trade-by-trade basis.

According to Nasdaq's proposal, DTC is in the process of devising a settlement system for tokenized securities that would allow it to convert positions into token form and deliver the token to the participant's DTC-registered wallet on a blockchain. Trades in tokenized securities would continue to settle on a T+1 basis, and order types and fee schedules are expected to remain unchanged.

A major principle underlying the proposal is that trading in tokenized securities should be overseen by traditional market participants and under existing regulatory structures. In its proposing release, Nasdaq states:

> The Exchange believes the markets can use tokenization while continuing to provide the benefits and protections of the national market system. Wholesale exemptions from the national market system and related protections are neither necessary to achieve the goal of accommodating tokenization, nor are they in investors' best interests. To the contrary, they would harm investors and the markets since investors would lose access to portions of the market if platforms were not required to connect to the national market system or report trades.

The rule change, if approved, will allow tokenized trading, which, according to Nasdaq, offers a range of potential benefits to develop within the framework of an established national market system under the purview of the SEC, including the potential for all-hours trading, easy trading of fractional shares, enhanced audit trails, and the potential for near-instantaneous settlement, providing maximum protection to investors while still leveraging the benefits of tokenized securities.

The proposal will be considered by an SEC that has signaled openness to blockchain applications in capital markets, which we previewed in our post on January 6, 2025. In her July 9, 2025 remarks, SEC Commissioner Hester Peirce signaled broad support for tokenized securities while cautioning market participants to remain cognizant that they are subject to federal securities laws in the same way as traditional securities, including disclosure obligations. However, since the proposal fits within the SEC's broader review of its rules and how they apply to crypto assets, it is unclear whether that agency is yet in a position to approve the proposal or that brokers and other market intermediaries believe that the regulatory structure around trading in crypto assets is sufficiently developed to permit them to trade and custody such assets.

The full text of Nasdaq's proposed rule change is available here.

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