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Evaluating Nasdaq Tokenization Rule's Potential Impact

By **James Brady** (November 19, 2025, 3:38 PM EST)

On Sept. 8, The Nasdaq Stock Market LLC **filed** a proposed rule with the U.S. Securities and Exchange Commission that could transform how stock trades are settled in the U.S.[1]

The proposed rule would enable the settlement of tokenized equity securities and exchange-traded products using blockchain technology. Specifically, it would allow investors to choose whether to settle trades in the traditional digital form or a tokenized blockchain form on a trade-by-trade basis, with the first token-settled trades potentially occurring by the end of the third quarter of 2026.



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Nasdaq's proposal arrives as distributed ledger technology and blockchain have moved from experimental projects into mainstream financial services. Major banks and asset managers have launched tokenized product offerings, and market participants increasingly view blockchain-based settlement as a realistic component of future capital markets infrastructure.

Yet tokenization remains a term laden with both promise and speculation. Proponents envision dramatic improvements in market efficiency, settlement speed and market access, but what tokenization can deliver within the existing regulatory frameworks is more modest than popular enthusiasm suggests.

Importantly, Nasdaq's proposal operates within the existing framework of the U.S. securities laws, including the Securities Exchange Act, as amended; the SEC's Regulation National Market System; and a complex web of rules governing broker-dealers, clearing agencies and transfer agents that have been refined over decades.

The proposal seeks to apply existing rules to blockchain-based settlement of equity securities rather than asking regulators to create new exemptions or adopt novel rules. This approach contrasts with some tokenization initiatives that seek to operate outside traditional regulatory structures or establish alternative market infrastructure.

How Nasdaq's Tokenization Proposal Would Work

If the proposed rule is adopted, investors will be able to trade securities in either traditional form or tokenized form. The traditional and tokenized securities will trade together on the same order book with the same execution priority, as long as the tokenized securities are fungible with traditional shares by sharing the same Committee on Uniform Security Identification Procedures, or CUSIP, number and providing shareholders the same material rights and privileges, including voting rights and dividend rights.

Market participants will continue to trade securities on the Nasdaq the same way they currently trade. However, market participants will have the option to settle the resulting transactions in either traditional digital form — a digital representation of ownership and rights, but without utilizing blockchain technology — or tokenized form, a digital representation of ownership and rights that utilizes blockchain technology.

If a market participant flags an order for tokenized settlement and a trade results, Nasdaq will communicate this instruction to the Depository Trust Co., which is developing infrastructure to convert positions into token form and deliver tokens to market participants' DTC-registered wallets on a blockchain. Trades would continue to settle on a T+1 basis, and order types, market data feeds and fee schedules will remain unchanged.

Nasdaq's proposal is notable for not requesting exemptions from Regulation NMS or changes to investor protections. Instead, Nasdaq proposes integrating tokenized securities into the current regulatory framework while leveraging blockchain technology to improve efficiency.

The Settlement Infrastructure Challenge

Nasdaq emphasizes that the proposal becomes effective only once the DTC establishes the requisite infrastructure and post-trade settlement services with all required regulatory approvals. However, neither the DTC nor its parent company, the Depository Trust & Clearing Corp., or the DTCC, has published any formal statement or detailed operational road map specifically addressing Nasdaq's proposal or confirming readiness for the third-quarter of 2026 timeline.

In April, the DTCC announced a digital collateral management platform built on the DTCC AppChain, demonstrating technological progress in tokenized asset management. However, digital collateral management and tokenized equities settlement are distinct operational challenges, and the DTCC has not publicly disclosed how its systems will specifically handle the settlement mechanics for tokenized securities trading on the Nasdaq.

This lack of transparency has drawn industry criticism. In October, Ondo Finance Inc. submitted a letter to the SEC arguing that Nasdaq's proposal relies on a "preliminary sense" of what DTC is contemplating, with "no direct evidence ... on the record" of how tokenized securities settlement would actually function.[2]

Ondo further emphasized that market participants need timely access to relevant information on tokenization to allow for meaningful comment on the proposed rule. The letter called on the SEC to either compel DTC to publicly disclose its tokenized securities settlement procedures or delay approval of Nasdaq's proposal pending public disclosure.

Nasdaq's proposal is contingent on DTC infrastructure. While Nasdaq and DTC have presumably coordinated extensively, the lack of public disclosure creates uncertainty about the third-quarter of 2026 implementation timeline.

Implications for Investors

For institutional and retail investors, Nasdaq's proposal offers potential infrastructure improvements while leaving many anticipated tokenization benefits to future development.

The proposal maintains existing trading frameworks. Securities would continue to trade during regular market hours and settle on a T+1 basis. However, the blockchain infrastructure could provide for improved transparency through immutable ledger records of transaction history and ownership, reducing fraud and errors and strengthening regulatory surveillance tools.

The proposal also maintains full compliance with Regulation NMS, ensuring that all trades, including trades settled in traditional or tokenized form, contribute to the national best bid and offer and receive full trade-through protections under Rule 611 of Regulation NMS, addressing potential market fragmentation concerns.

Many benefits commonly associated with tokenization are not part of Nasdaq's current proposal. Fractional share ownership, while technically feasible on blockchain infrastructure, is not addressed in the filing, and would require separate implementation by brokers, custodians or other market participants.

Likewise, the proposal does not enable or contemplate 24-hour trading, so securities would continue trading only during Nasdaq's existing market hours unless separate proposals to expand trading hours to 23-plus hours a day are implemented. Market participants are hopeful that the expansion of

trading hours will go into effect in late 2026.

Similarly, while blockchain technology theoretically enables near-instantaneous settlement through atomic delivery-versus-payment, Nasdaq's proposal maintains the existing T+1 settlement standard. In the future, T+0 or real-time settlement might become feasible when building on tokenized infrastructure, but they are not part of what Nasdaq is currently seeking SEC approval to implement.

The proposal introduces considerations investors must evaluate. Tokenized settlement would require investors or their brokers to maintain DTC-registered wallets capable of receiving and holding tokenized securities on blockchain infrastructure. Technological complexity may create barriers for some investors, as managing blockchain-based assets differs from traditional account holdings.

However, because Nasdaq's proposal keeps tokenized securities within the existing broker-dealer and clearing agency framework, many traditional investor protections should remain in place, though the precise application of these protections to tokenized holdings may require regulatory clarification as implementation proceeds.

Implications for Public Companies

For issuers, the proposal does not alter when or how equities trade. Securities would continue to trade on U.S. securities exchanges during existing market hours on a T+1 settlement basis.

However, the proposal opens the possibility that tokenized settlement could eventually support future market innovations, including fractional share accessibility and extended trading hours, though neither feature is part of the current filing. Companies should evaluate Nasdaq's proposal based on its current technical scope, rather than on aspirational tokenization features that remain in the future.

More immediately, Nasdaq's proposal may necessitate that tokenized securities appear on issuers' official shareholder registries maintained by transfer agents. This integration would help ensure that token holders are recognized as actual shareholders with full legal rights.

The proposal's fungibility requirements mean that tokenized shares must share the same CUSIP number and provide identical economic and governance rights as traditional shares, preserving the legal clarity of ownership relationships. Companies may need transfer agents capable of maintaining blockchain-based master security-holder files. Some transfer agents are already obtaining SEC registration to operate such systems, including Plume Network, among others.

Broader Market Implications

Nasdaq's proposal is part of a larger transformation in global capital markets. The rapid growth of tokenized real-world assets is reshaping the landscape, with significant activity in U.S. Treasuries, money market funds, gold and private credit. Major institutions including BlackRock, JPMorgan, Goldman Sachs, Franklin Templeton and Apollo have launched tokenized products, signaling mainstream adoption.

As noted above, Nasdaq's proposal operates entirely within the existing securities laws and does not seek any exemptions from Regulation NMS or other securities laws and rules. As such, the SEC's response to Nasdaq's proposal will signal Chairman Paul Atkins' preferred approach to securities tokenization and other capital markets innovations.

Outside the U.S., European platforms have already launched tokenized equity products, and regulators in Asian financial hubs such as Singapore and Hong Kong are developing tokenization frameworks. If the U.S. moves too slowly, capital and innovation may flow elsewhere.

Security-Based Swaps Considerations

While Nasdaq's proposal focuses on tokenized securities fully fungible with traditional shares carrying identical rights, other proposals in the U.S. must vigilantly prevent structures inadvertently creating security-based swaps.

As background, Section 3(a)(68) of the Exchange Act defines "security-based swap" to include certain derivative instruments based on a single security. As an example, total return swaps providing economic return without actual ownership are commonly regarded as security-based swaps.

The risk of being characterized as a security-based swap arises when third parties tokenize securities without clearing agency or issuer involvement, and when token holders lack direct ownership rights. Nasdaq's proposal addresses this by requiring tokenized securities to share the same CUSIP number and afford identical material rights and privileges as traditional shares. Tokens not meeting these criteria potentially could be treated as security-based swaps and therefore not be available for trading by retail investors in the U.S.

Conclusion

Nasdaq's proposed rule represents an important step in exploring how blockchain technology might be integrated into existing U.S. capital markets infrastructure. Unlike many tokenization initiatives that operate outside traditional regulatory frameworks or seek exemptions from market structure rules, Nasdaq's proposal operates entirely within the existing securities laws, maintains compliance with Regulation NMS and seeks no special carveouts for tokenized securities trading.

However, the proposal's success depends on infrastructure development by the DTC. At the moment, the lack of public disclosure regarding how the DTC intends to settle tokenized securities, combined with ambitious implementation timelines, creates uncertainty about whether the third quarter of 2026 target date for the first tokenized-settled trades is realistic.

Nasdaq's proposal represents an incremental advance in settlement infrastructure, rather than a revolutionary transformation of equity markets. Securities would continue trading during regular market hours on a T+1 settlement basis. Many benefits commonly associated with tokenization in popular literature, including fractional ownership, 24-hour trading and instantaneous settlement, are not addressed in this proposal and would require separate regulatory and operational changes.

The precise legal and operational details of how tokenized securities will interact with existing investor protections, transfer agent obligations and clearing agency procedures remain to be resolved. Issuers, brokers and technology providers should anticipate that implementation, if approved, will require extensive operational changes and regulatory clarification on matters not fully addressed in either Nasdaq's filing or existing SEC guidance.

The tokenization of equity securities remains a promising area of market infrastructure development, but one where prudent skepticism about timelines and implementation capabilities is warranted. Success will require not only technical sophistication, but also coordination among numerous infrastructure providers, continued regulatory engagement and careful attention to ensuring that blockchain's capabilities strengthen rather than undermine the transparency, fairness and investor protections that have made U.S. capital markets the deepest and most liquid in the world.

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[1] SR-NASDAQ-2025-072 available at <https://listingcenter.nasdaq.com/assets/rulebook/nasdaq/filings/SR-NASDAQ-2025-072.pdf>; SEC Release No. 34-103989 available at <https://www.sec.gov/files/rules/sro/nasdaq/2025/34-103989.pdf>.

[2] <https://ondo.finance/blog/call-for-transparency-sec>.