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WRITTEN TESTIMONY OF
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BEFORE THE
United States House of Representatives Committee on Financial Services Subcommittee on
Digital Assets, Financial Technology and Inclusion

IN A HEARING ENTITLED
Next Generation Infrastructure: How Tokenization of Real-World Assets Will Facilitate Efficient
Markets

Chairman Hill, Ranking Member Lynch, and Esteemed Members of the Subcommittee:

Thank you for the opportunity to testify at today's hearing. My name is Carlos Domingo. I am the co-founder and Chief Executive Officer of Securitize, a leader in the compliant tokenization of financial assets using blockchain technology, which we refer to as tokenized securities.¹ I co-founded Securitize in November 2017 with the vision to provide a regulated path for companies to tokenize their financial assets and issue, sell, and trade securities on the blockchain for the broader capital markets.

Early in our journey, we recognized the need to become a registered entity to provide those services lawfully. In July 2019, we filed for registration as a transfer agent with the SEC, which was deemed effective shortly after that. We intended to create a modern digital transfer agent that uses the most advanced ledger technology, blockchain, to track beneficial ownership of securities, automatically enforce compliance rules for transfers using smart contracts, and provide more efficient lifecycle management for securities, such as faster and more accurate dividend payments and more efficient redemptions to mention a few.

Subsequently, in September 2020, we acquired broker-dealer and ATS (Alternative Trading System) licenses to legally sell and provide a regulated marketplace for the trading of tokenized securities. In January 2021, we filed a Change of Membership Application (CMA) with FINRA to utilize the so-called 3-step settlement process to settle trades of digital asset securities in our ATS, which was approved in August 2021 after an eight-month review process.

To date, Securitize has been primarily focused on realizing the efficiencies of blockchain in private capital markets. This large and growing part of our capital markets lacks modern,

¹ The terms "tokenized securities" as used herein and "digital asset securities," as defined by the SEC, are considered interchangeably, where these tokens (i) meet the definition of a "security" under the federal securities laws; (ii) are issued lawfully, i.e., were either registered with the SEC or met an exemption from registration; and (iii) are issued and capable of being transferred using distributed ledger or blockchain technology. See, for example, Custody of Digital Asset Securities by Special Purpose Broker-Dealers, Securities Exchange Act Release No. 90788 (Dec. 23, 2020), p.5; hereafter, "SPBD Statement;" <https://www.sec.gov/files/rules/policy/2020/34-90788.pdf>.

standardized digital infrastructure. It is encumbered by meaningful inefficiencies, outdated intermediaries, lack of accessibility to individual investors, and liquidity issues. We believe this is the most optimal place to start and expand the tokenization of securities ecosystem. But while the private markets present the best use case right now, it is only the beginning.

Securitize is currently the largest blockchain-based transfer agent in the US and has pioneered the tokenization of securities in many respects. We have issued dozens of tokenized securities valued at close to a billion dollars. We work with several large asset managers on tokenization projects, including BlackRock, Hamilton Lane, and KKR. Recently, Securitize tokenized and distributed a private money market fund issued by BlackRock, which is now the largest-ever tokenized fund in the industry.

Tokenization is the process of representing the ownership of a real-world asset on a blockchain using a token or digital asset that provides ownership and an underlying economic interest in the asset. This is equivalent to deeds, stock certificates, bank notes, or book-entry securities, which serve a similar purpose but use either physical formats or outdated electronic ledger entries. The benefits of tokenization extend to several types of assets, including commodities and securities, with securities potentially being the largest and most promising use case. Tokenization of securities involves representing actual securities (equity, debt, fund units, etc.) in tokenized form on a blockchain. The tokenization of other real-world assets (RWAs), such as real estate, is typically done via a securitization process where RWAs are repackaged into securities (tokenized securities) that carry the underlying economic interest of the asset.

Securities Tokenization. The tokenization of securities and the issuance of traditional asset classes in tokenized form can bring substantial efficiency improvements in the sale of securities, their issuance, trading, and post-trade processes, and everything related to the asset servicing of those securities. When appropriately implemented, these efficiency improvements enhance – not undermine – investor protections, fair and equitable markets, and capital formation. They also have the potential to broaden accessibility, eliminate or reduce the role of intermediaries, provide more utility to those securities, and provide greater transparency, traceability, and auditability. Moreover, the ability to represent cash and securities on the same ledger and with the same technological representation, once payment stablecoins become regulated, will improve settlement times and reduce counterparty risk.

Enablement. To date, legislative efforts related to digital assets in the US have primarily focused on “crypto” digital assets and stablecoins. There has been less focus on legislation *enabling* traditional financial services – and regulated financial products – to benefit from blockchain technology and tokenization.² Existing statutes and regulations were not designed with blockchain in mind and contain provisions that preclude or limit its use in issuing, trading, and settling tokenized securities. Basic definitions and distinctions remain unclear and opaque across regulatory agencies. This has impeded market participants from using blockchain to

² In contrast, in Europe, the European Commission has approved legislation to create a pilot DLT regime for market infrastructures, recognizing that the ‘tokenization’ of financial instruments... is expected to open opportunities for efficiency improvements in the trading and post-trading process. See: [Regulation \(EU\) 2022/858](#).

provide trading, settlement, and other services in regulated financial markets, has slowed the realization of investor benefits, and has the potential to undermine US competitiveness, given progress in other jurisdictions, including Europe, the UK³, and Asia.⁴

As a great example, the European Parliament has established a regulatory pilot regime for market infrastructures based on distributed ledger technology (DLT) for financial instruments that fall within existing regulations. The European Commission recognized years ago, in 2020, the many “provisions in existing EU financial services legislation that... preclude or limit the use of DLT in the issuance, trading, and settlement of... financial instruments” when utilizing blockchain technology. They also embraced “a policy interest in developing and promoting the uptake of transformative technologies in the financial sector, such as blockchain and distributed ledger technology.” In Europe, Securitize is a leader in participation in this Pilot regime. We are in the process of receiving a license for a Trading & Settlement System (TSS), one entity that operates both a trading system and a settlement system. Regardless of the regulatory environment in Europe, we continue to focus most of our efforts on the US because of the size and importance of the US capital markets.

While there is great promise for the eventual tokenization of several types of securities, it is important to take a pragmatic step forward in realizing the potential for security tokenization in an area of the marketplace marked by inefficiencies and limited technological solutions: *private capital markets and exempt securities (e.g., Reg A, Reg D, Reg S, and Reg CF)*. This large and growing part of our capital markets, particularly private funds, lacks modern and standardized digital infrastructure and is encumbered by inefficiencies and legacy intermediaries. Already in these areas, blockchain technology is democratizing access to a greater universe of investors in a cost-efficient, compliant, and safe way while enabling more efficient liquidity mechanisms via secondary market trading and lending platforms. 40 Act Funds and non-NMS OTC securities are also well positioned to benefit from the efficiencies of blockchain technology without introducing the additional regulatory challenges that arise with NMS securities. While registered NMS securities will also benefit substantially from blockchain technology in the future, we believe they would be better addressed in a subsequent phase due to additional regulatory and infrastructure complexities.

Regulatory challenges. Now, I'd like to share my thoughts on opportunities and suggestions for needed solutions. Below is an outline of the areas where new constructive legislation or SEC guidance would clear a path for applying blockchain technology to a broad - but not all-inclusive - set of regulated financial products. Addressing these issues would allow for the realization of substantial market efficiencies while propelling US competitiveness forward in upgrading financial markets infrastructure without sacrificing sacrosanct investor protections. At the core of these policies is a recognition of the importance of enabling the deployment of blockchain

³ See, for example, “Digital Securities Sandbox joint Bank of England and FCA consultation paper,” 3 April, 2024, at [LINK](#), and “Consultation on the Digital Securities Sandbox,” 11 July, 2023, at [LINK](#).

⁴ See, for example, two circulars related to tokenized financial instruments: “[Circular on intermediaries engaging in tokenized securities-related activities](#)” and “[Circular on tokenization of SFC-authorized investment products](#),” announced by the Hong Kong Securities and Futures Commission (SFC) on 2 November 2023.

technology to deliver benefits to US capital markets while ensuring compliance with securities laws and regulations.

1. We need clarity in the definition of digital asset securities, or tokenized securities.

- The SEC and FINRA do not always use consistent definitions of digital asset securities (tokenized securities) and, at times, also conflate crypto assets (whether they are deemed to be securities or not) with tokenized securities that are lawfully issued as securities. It is important to distinguish between these very different instruments as many risks that this Committee has sought to address with crypto assets deemed securities do not exist with tokenized securities. Compliant tokenized securities are issued only to whitelisted wallets and incorporate smart contracts that allow or prohibit transfers based on compliance rules specific to each digital asset security, e.g., investor accreditation requirements (AI or QP), holding periods (Rule 144), transferability of securities, and jurisdiction requirements. Examples include BlackRock's USD Institutional Digital Liquidity Fund ([BUIDL](#)),⁵ [INX Token](#),⁶ [Franklin OnChain US Government Money Fund](#)⁷, and [Exodus](#).⁸ The failure by regulators to differentiate among types of digital assets is impeding the development of the ecosystem for tokenized securities.

2. The SPBD framework is limited and time-bound and should be extended and expanded.

- Today, broker-dealers cannot custody tokenized securities, which has crippled the ability of brokers to participate in the application of blockchain to securities. To try to solve this, the SEC in 2020 established a regime to create so-called Special Purpose Broker-Dealers (SPBDs) authorized to custody tokenized securities. While this was a step in the right direction, it has several limitations.
- To date, only one SPBD has been approved, and that firm is focused on crypto assets that might be deemed securities, which is a substantially different problem set than regulated tokenized securities. So far, the sole approved broker-dealer has been unable to operate or launch any commercial services.
- Securitize has been exploring applying for an SPBD license and has engaged in several discussions with FINRA and the SEC towards this end. While we are working collaboratively with regulators on this process, the prospects for approval remain uncertain, given the lack of clarity on the basic definition of tokenized securities. It remains opaque what type of tokenized securities the SPBD license is intended for. We expect that FINRA will approve our application only with the blessing of the SEC.
- The SPBD framework is time-limited and expires in February of 2026. It is challenging for any business to allocate significant time and resources to obtain a license that may expire within months.

⁵ BUIDL quickly became the largest tokenized fund on the public Ethereum blockchain shortly after launching in late March of this year. As of 6/1/2024, it has \$456.255 MM in Total Net Assets.

⁶ INX Token was the first SEC-registered security token to IPO on the blockchain.

⁷ As of 6/1/2024, this Franklin Templeton money market fund (FOBXX) had \$348.341 MM in Total Net Assets.

⁸ Exodus completed a \$75MM Regulation A offering of tokenized securities using a digital, blockchain-based platform to raise capital, onboard investors, issue shares as tokenized securities, and manage share ownership and activity.

- The SPBD framework is also substantially limited in scope. It only allows for custody of tokenized securities. SPBDs are prohibited from custodial stablecoins, which market participants resoundingly agree are critical to the efficiency of the on-chain settlement environment. This severely limits the potential for a blockchain-based financial infrastructure where tokenized cash and tokenized securities could be represented under the same ledger infrastructure and could increase efficiencies in issuance, settlement, dividend payments, and redemptions while reducing counterparty risk.
 - We strongly feel that any digital asset legislation the Committee considers should allow for SPBDs to hold payment stablecoins, which is integral to enabling efficient on-chain transactions between securities and cash.
3. **Tokenized securities must be allowed to flourish on public, permissionless blockchains, in addition to private, permissioned chains, to realize the full benefits of blockchain technology.**
- Contrary to the false narrative that some have advanced that private blockchains are the only vehicle for building out a safe and secure tokenization infrastructure, certain public blockchains should be eligible to be acceptable market infrastructure for blockchain-based securities and funds under certain conditions. Rather than distinguishing whether an eligible blockchain is permissioned or permissionless, a blockchain should be an acceptable market infrastructure for tokenized securities when satisfying conditions that ensure resilience and stability and mitigate risk. This can be accomplished by necessitating an assessment of the larger tokenization system, which would include an evaluation of susceptibility to technical issues and malicious activities, and resiliency when systems problems or malicious activities occur, among other things.
4. **Digital Transfer Agents are critical to the tokenization ecosystem and must be recognized as such.**
- Transfer Agents are SEC-registered companies that handle all shareholder-related activities for a company, primarily securities issuance, cap table management and asset servicing. They are responsible for dividend and interest payments, regulatory reporting, corporate events, annual meetings, and corporate voting. For tokenized securities, the digital TA serves other important functions, including the actual tokenization, development, and deployment of smart contracts, maintaining the master security holder file, and reconciliation of on-chain and off-chain holder information. We believe that the digital TA should be recognized as the primary provider of these services and as a qualified tokenization agent, but to do so, it must also meet certain requirements to ensure proper capitalization, insurance, and technical capabilities.
5. **ATs must continue to be Eligible Trading Platforms for Tokenized Securities**
- Alternative Trading Systems (ATs) are currently eligible trading platforms for tokenized securities and must continue to be enabled for this in perpetuity. Peer-to-

peer transfers should also be recognized as permissible for tokenized securities where other regulatory requirements and obligations are in place, as this is one of the major advantages of tokenized securities. Peer-to-peer transfers can take place between and among investors and investor wallets without the need for an ATS or SPBD or other intermediary when such investors and investor wallets have been subject to AML, KYC, KYB, and all requisite off-chain information is maintained by either an SPBD, a transfer agent, or an issuer. At such a point that the SEC has put in place a regulatory framework for national securities exchanges to support tokenized securities, such securities may also trade on a national securities exchange.

6. Registered ATs within SPBDs must be allowed to facilitate the settlement of transactions in tokenized securities.

- The DLT Pilot Regime in Europe recognizes that “the use of distributed ledger technology, with all transactions recorded in a decentralized ledger, can expedite and condense trading and settlement to nearly real-time and could enable the merger of trading and post-trading activities.” As a result, the European Commission concluded in its DLT policy that “it would be justified to allow a DLT [ATS] to perform some activities normally performed by a CSD.” In Europe, a DLT [ATS] is allowed to ensure the initial recording of DLT transferable securities, the settlement of transactions in DLT transferable securities, and the safekeeping of DLT transferable securities.”⁹ At a minimum, similar entities in the US should be able to realize similar efficiencies and capabilities.

Conclusion

The suggestions I have outlined today are critical aspects of what a tokenized securities framework should include, but they are far from exhaustive. My colleagues and I look forward to continued engagement with the Subcommittee and Subcommittee staff to hammer out the details. To realize this promise and avoid falling behind Europe and other markets where regulations for tokenized securities are already in place, I encourage you to prioritize legislation that facilitates safe, responsible, and compliant tokenization of financial assets as soon as possible.

Thank you.

⁹ Regulation (EU) 2022/858, p.13. ATS is substituted here for MTF, Multilateral Trading Facility, comparable entities in Europe.