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SEC’s Peirce: Tokenized Securities Must Obey Rules

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In a clear message to the rapidly evolving digital asset space, United States Securities and Exchange Commission SEC Commissioner Hester Peirce, often referred to as “Crypto Mom,” reminded the industry that even advanced innovations must adhere to existing regulatory frameworks.

Speaking on Wednesday, Peirce addressed growing excitement around tokenization, a method of transforming traditional assets, such as stocks, into digital tokens that can be traded on blockchain platforms. While the technology holds promise for modernizing financial markets, she stressed that tokenized securities are still, fundamentally, securities and must therefore follow the same regulations.

“As powerful as blockchain technology is, it does not have magical abilities to transform the nature of the underlying asset,” Peirce said in a statement. “Tokenized securities are still securities.”

Tokenization has been gaining interest, especially among cryptocurrency firms and financial innovators. The concept allows for shares of a company to be digitally represented as tokens on a blockchain. This could streamline trading and potentially make markets more accessible. However, Peirce’s remarks serve as a cautionary note: technological innovation does not grant regulatory exemption.

She also highlighted a key concern about tokens created by third parties. In these cases, the token may not be issued by the original security issuer, which introduces new risks for investors. Someone purchasing a third-party token might not have the same protections or assurances as someone who holds the traditional asset directly.

Companies like Coinbase have recently shown interest in offering blockchain-based versions of stocks, and some in the industry see tokenization as the next frontier for financial markets. Yet, regulators are stepping in to ensure that investor protection remains a priority.

SEC Chairman Paul Atkins, another Republican commissioner, also addressed the topic last week in an interview with CNBC. While he echoed the importance of supporting innovation, he didn’t dismiss the need for clear regulatory boundaries.

The broader concern among critics is that tokenized assets could be used to sidestep the SEC’s oversight. Without proper guardrails, they argue, retail investors could be exposed to unfamiliar risks in an already complex financial environment.

Peirce, who has often advocated for a more flexible approach to cryptocurrency regulation, isn’t rejecting innovation. Instead, she appears to be reinforcing a simple point: innovation and regulation must move forward together.

Her comments mark a significant moment in the ongoing debate over how emerging blockchain technologies will fit into the established financial system. As interest in tokenization grows, so too will the need for clarity and accountability.

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