

January 13, 2026

Chairman Tim Scott  
U.S. Senate Committee on Banking,  
Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

Ranking Member Elizabeth Warren  
U.S. Senate Committee on Banking,  
Housing and Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

Re: Objection to Legislation Undermining Integrity and Stability of US Capital Markets and National Security

Dear Chairman Scott, Ranking Member Warren, and other Members of the Committee,

The Healthy Markets Association writes to object to digital asset-related legislation that we understand will be considered by your Committee on January 15th.<sup>1</sup>

HMA is primarily focused on the legislation's impact on traditional capital markets and market participants.<sup>2</sup> As drafted, the bill would undermine the integrity, efficiency, and stability of US capital markets, and undermine our national security. We urge you to pause the markup, hold hearings on various elements of this complex legislation, and revise the language significantly before moving forward.

The Healthy Markets Association is a non-profit member organization focused on improving the transparency, efficiency, competitiveness, and fairness of the capital markets. Our members include public pension funds, investment advisers, broker-dealers, exchanges, and data firms.<sup>3</sup> Our members collectively have over a trillion dollars of investments in stocks, bonds, US treasury securities, private equity funds, and other "traditional" assets. Some of our members have exposure to digital assets, as well as investments in digital asset market participants, such as crypto exchanges. We work with chief investment officers, portfolio managers, trading desk heads, operations teams, risk managers, data analysts, compliance officers, and other professional investment team staffers engaged in the investment process. Our expertise and focus is on market plumbing.<sup>4</sup>

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<sup>1</sup> See [https://www.banking.senate.gov/imo/media/doc/market\\_structure\\_draft.pdf](https://www.banking.senate.gov/imo/media/doc/market_structure_draft.pdf).

<sup>2</sup> We are not expressing any position here on the effective regulation of native "digital asset" markets, such as the markets for spot trading of Bitcoin or Ethereum.

<sup>3</sup> To learn more about HMA, please visit <https://healthymarkets.org>.

<sup>4</sup> HMA has submitted over one-hundred comments on rulemakings and petitions to capital markets regulators and Congress on trading-related policies, copies which are available on our website. HMA's comments have been cited hundreds of times on final rules by the SEC, CFTC, and other regulators. In addition to our members' expertise, HMA's staff includes individuals who have served in senior positions in government, as well as as General Counsel of a boutique investment bank focused on capital formation, the head of trading at a large retail broker-dealer, and Vice-Chairman of a stock exchange.



Over the past decade HMA has worked with regulators to improve the integrity, efficiency, and stability of the capital markets,<sup>5</sup> and we have been cited hundreds of times in dozens of actions finalized by Democrat and Republican-led regulators. We have offered extensive comments to the SEC and your Committee regarding the regulation and trading of digital assets.<sup>6</sup>

The draft legislation is not narrowly tailored to address the native “crypto” markets, but would rather allow for easy avoidance of regulation by key market intermediaries in traditional markets, while also allowing persons to create financial instruments that are lightly or un-regulated derivatives of traditional financial instruments.

As we wrote to your Committee late last year:

the trading of a financial instrument whose value is derived from an underlying asset will impact the values and trading of the underlying product. This is true whether the derivative is a futures product, option, swap, or something else. In the Flash Crash of 2010, trading in a broad-based financial futures product traded in a venue regulated by the Commodity Futures Trading Commission led to a collapse in individual equity securities traded on SEC-regulated venues. Following those events, market participants and regulators spent over a decade working to better integrate and align their trading rules and protections to address these connections.

More recently, the positions amassed by Archegos Capital Management in security-based swaps flagged how the rules for those products, which took over a dozen years for the SEC to implement, had proven inadequate to identify and address the risks posed by those derivatives to the underlying stock market. Put simply, trading in the security-based swaps by Archegos directly negatively impacted not only their counterparties, but also investors and other market participants who were not trading in those derivative markets.

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<sup>5</sup> See, e.g., Letter from Tyler Gellasch, HMA, to Hon. Janet Yellen, Treasury, Sept. 14, 2022, [available at https://healthymarkets.org/wp-content/uploads/2022/09/Letter-to-Treasury-re-Treasuries-Mkts-9-14-22-1.pdf](https://healthymarkets.org/wp-content/uploads/2022/09/Letter-to-Treasury-re-Treasuries-Mkts-9-14-22-1.pdf) (re: rules related to trading US Treasury Securities); see also, see Letter from Tyler Gellasch, to Vanessa Countryman, SEC, Aug. 28, 2020, [available at https://www.sec.gov/comments/s7-08-20/s70820-7717968-222993.pdf](https://www.sec.gov/comments/s7-08-20/s70820-7717968-222993.pdf) (re: significant position reporting requirements); Letter from Tyler Gellasch, HMA, to Christopher Kirkpatrick, CFTC, May 9, 2020, available at <https://healthymarkets.wpengine.com/wp-content/uploads/2020/03/CFTC-Name-Give-Up-Mar-9-2020-1.pdf> (re: post-trade name give-up for swaps trades); and Letter from Tyler Gellasch, HMA, to Brent J. Fields, SEC, July 5, 2018, [available at https://healthymarkets.wpengine.com/wp-content/uploads/2018/07/07-05-18-HM-letter-FINRA-Rule-6730.pdf](https://healthymarkets.wpengine.com/wp-content/uploads/2018/07/07-05-18-HM-letter-FINRA-Rule-6730.pdf) (re: TRACE reporting for US Treasury Securities).

<sup>6</sup> Letter from Tyler Gellasch, HMA, to Chairman Tim Scott et. al, Aug. 5, 2025, [available at https://healthymarkets.org/wp-content/uploads/2025/08/HMA-Response-to-Banking-Cmte-RFI-8-5-2025.pdf](https://healthymarkets.org/wp-content/uploads/2025/08/HMA-Response-to-Banking-Cmte-RFI-8-5-2025.pdf).

From the Global Financial Crisis of 2008, to the Flash Crash of 2010, to the Archegos collapse just a few years ago, history is replete with examples of un- or under-regulated financial derivatives causing significant market harms, including becoming balance-sheet events for regulated banks. In the modern marketplace, electronic access and ultra-high speed trading and investment strategies have created an interconnected financial instruments eco-system. Your legislation, as drafted, both (1) acknowledges a linkage between the traditional financial instruments and their derivative tokens, but then (2) insufficiently protects the markets and market participants from those connections. In reality, modern financial market eco-systems are unified, and history has shown that volatility, manipulations, and other events in one market can trigger instantaneous impacts in the other. For example, transparency in stock trading markets can be robust, but if transparency in the stock derivatives market is inadequate, stock manipulations and catastrophic collapses can result. We've seen that happen before.

We are grateful to your staff for working with us over the past year and appreciate their engagement and improvements to the legislation that they have made. For example, we're extremely grateful for revised language in the draft legislation that would attempt to promote regulatory parity between tokens of securities, and their underlying securities. Similarly, we appreciate reforms to ensure market intermediaries are regulated consistent with their functioning.

But simply declaring what the SEC has authority to regulate and should take action isn't the same as clearly applying specific rules. There are hundreds of extremely detailed rules of the SEC, FINRA, and trading venues for trading, clearing, settlement, and custodying stocks. . And, as explained below, even with that parity, there are a number of unique risks posed.

## Threat to Market Integrity, Efficiency, and Stability

The traditional capital markets have evolved over the past century with complex rules designed to ensure market integrity. Stock orders and transactions have to be reported to regulators and the public, for example. SEC Rule 13h-1 considers both equity holdings and holdings of equity derivatives in its "Large Trader" definition and associated regulatory reports. Trading occurs through highly regulated intermediaries on regulated platforms with very specific rules designed to not just "protect investors," but also guard against market failures.

In general, the legislation you are considering would essentially exempt significant market intermediaries from effective regulation while also blessing the creation of a new class of assets that would not be subject to the same rules as traditional financial instruments that have the same economic interests.

For example, the draft language related to so-called "tokenization" would essentially allow someone to "tokenize" a stock, and then have that "tokenized" stock trade on venues that would not necessarily have "fair access" requirements, as stock exchanges do now. Under the proposed legislation, there would be no specific requirement that the "token" be backed by

issuer stock at all. Nor would there be any mandatory custody requirements, fair dealing requirements, reporting requirements, etc. In an interconnected financial instruments eco-system where volatility in one market can trigger instantaneous impacts in the other, the “token” could be used to manipulate the price of the stock. We have seen this repeatedly, such as in the CFTC’s spoofing enforcement actions against several firms in the markets for US Treasuries and metals, where orders and executions in the derivatives markets were used in conjunction with trading in the underlying markets.

Tokens could also be vehicles to enable insider trading, or engage in tax evasion or money laundering, or any other number of illicit activities. In this way, the “token” would be little more than an unregulated derivative of the stock. While trading in other stock derivatives are subject to dozens of complex rules developed over decades, your draft legislation doesn’t replicate them, nor does it condition the issuance, offer, purchase, sale, or holding of those derivatives on the existence or compliance with any such rules.

This should be a concern to issuers of securities. Suppose you are a corporate stock issuer. The legislation would appear to allow an unrelated company (that may not have any relationship to you, the issuer) to advertise, create, and sell a “token” of your stock. That “token” might be backed by a reserve holding in your stock on a 1:1 basis, or it might not. The “token” could be structured as a fund, an equity swap, or something else, and yet it is not clear whether or how those rules would apply. The “token” issuer might not even have any of your stock or any other derivative of your stock.

That token could trade on a venue, but you – the issuer of the stock – might not be able to see that trading or who’s doing it. There may be no constraints on the number of tokens in your stock sold. So there could be an infinite number of tokens associated with just one share of your stock. This could siphon money away from your own stock, while also exacerbating the risks to your stock value and stability. You lose track of who your “shareholders” are. The lack of structure could unleash a new type of unaccountable “activism” with potential real economic impacts on the scale that we saw in the 1920’s that led to the Great Crash.

It could also drive-up trading and holding costs for investors, as their access to essential pricing data may be limited or entirely non-existent. Stock markets have rules and regulatory requirements to provide quote and trade information, and on what terms. Markets for stock tokens generally don’t. They certainly do not have requirements to make their data available to the public on terms that are fair. And while the legislation would allow the SEC to adopt rules, it doesn’t create them.

Similarly, liquidity in the tokens of a stock could fragment the liquidity for the stock itself, driving up trading prices and down market transparency.

But what if you are an issuer of a stablecoin or a money fund? Could a person “tokenize” your stablecoin or money fund, but without being subject to the same rules as a stablecoin issuer or a money fund issuer? This legislation is unclear, but would appear to allow for it.



Or perhaps you want to issue tokens of your own stock, so as to avoid the regulatory requirements attendant to stock offerings and sales, or giving up rights or dealing with new “owners” of your stock. This could be an effective end-run around the Securities Act of 1933. We are concerned that these un- or under-regulated derivatives of traditional securities will lead to abuses, inefficiencies, and potentially catastrophic stability concerns.

## Threat to National Security

Lastly, not all blockchains are public. Moreover, the transparency in public blockchains is limited. Quotations are typically handled by off-chain APIs. Wallet identities, including participants that the Commission has deemed as sophisticated, may be cloaked. By essentially creating a new derivative market in tokens for any traditional securities, but not first demanding transparency to regulators or the public (needed for effective oversight), the legislation would appear to open up all of these markets to potential manipulation or abuse.

To address trading in interconnected markets trading the same and related assets in different venues, Congress established the national market system. Over fifty years ago, Congress and regulators knew that regulators and the public needed rules to stitch related markets together to promote competition and prevent abuses. The draft legislation would essentially reverse decades of infrastructure investments and hard-earned market structure lessons, taking a gigantic step back towards the fragmented, dis-integrated, and opaque market structure that predates the modern computer age. The draft could potentially be extremely concerning in the trading of highly valued private securities or derivatives, such as stocks or stock funds, or US Treasury Securities. A hostile organization, including a foreign state actor, could exploit these loopholes to attack our markets, our economy, and our country.

## Recommendation and Conclusion

We urge you to pause your consideration of this complex legislation, hold hearings regarding complex, interconnected elements of the proposal, and amend the legislation to better ensure the effective regulation of “tokenized” financial instruments and those engaged with them. One such reform should be to ensure public reporting of orders and trades in tokenized financial instruments in ways that promote market integrity, efficiency, and stability for not just those tokens, but the underlying financial instruments. If you have any questions or would like to follow up, please feel free to reach out to me at [ty@healthymarkets.org](mailto:ty@healthymarkets.org) or (202) 909-6138. Thank you for your consideration.

Sincerely,

Tyler Gellasch, President and CEO