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The Chair Recognizes Mr. Casten.
Mr. Casten Recognizes Boring ol'Accounting

The hearing on Tokenization and the Future of Securities revealed a single root cause underlying every topic discussed: an accounting problem. The existence of the problem is widely acknowledged. Its nature is not. Even those who see the flaw rarely understand why accounting provides the proof. The proof is structural. This memo explains the structural reason the problem exists and outlines a path toward properly qualified tokenized securities.

1. Introduction

Congress convened the hearing on *Tokenization and the Future of Securities* in late March to discuss "innovation exemptions" for financial and non-financial institutions seeking to build tokenized markets. The statements made, the questions asked, and the answers given revealed a tension that has been building quietly for years. That tension remained an elephant in the room until Representative Sean Casten of Illinois named it: "boring accounting".

Throughout the testimony, every advocate of tokenization used language assuming digital tokens will be treated as securities — and in many cases language suggesting they already are. Tokenized assets are **not** securities, and the SEC and CFTC have made that very clear. In fact, the DeFi investment community has embraced that position. For example, Grayscale Investments' litigation posture depends on it. The industry has spent a decade insisting that tokens are not securities and has used that position to its advantage.

Every member of Congress in the room expected institutional witnesses to claim that tokenized markets would be an extension of existing markets and would fit inside the existing legal and regulatory perimeter. Some representatives were adamant that tokenized markets were simply a platform for criminal activity. Others tried to make room for tokenization, but all implicitly required that tokenized assets fit inside existing securities law. None of them spoke to — or heard — why fitting tokenized assets into securities law is so problematic that it requires special exemptions. Except for Mr. Casten.

All of them know that the accounting standard in U.S. markets is GAAP, and GAAP begins with a ledger that records both sides of every position: debits and credits, assets and liabilities, payables and receivables, all organized into accounting periods. This is the foundation of every regulated market in the U.S. jurisdiction. While not called GAAP everywhere, the accounting model — double-entry accounting — is a global standard for a very good reason.

Here is the structural flaw underpinning the entire debate:

Crypto blockchain protocols write to an asset-only ledger.

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For clarity: the thing crypto markets call a DLT — a "distributed ledger technology" — is no more a ledger than a hotel registry. At best, in securities terms, it is a perpetual position log. The only things you will find on a crypto blockchain ledger are a record of the asset, who owns it, who owned it previously, and at what price. That's it. Once you verify this for yourself, it becomes obvious that GAAP-standard accounting simply cannot be done with only the data written to a crypto blockchain.

The architectural omission of liabilities in crypto blockchains is the root cause of the contradictions that surfaced during the hearing. The panelists spoke as if tokenized assets already fit inside the accounting perimeter. Mr. Casten used his five minutes to prove that accounting is the problem.

The industry, represented by those testifying, has been constructing a workaround in smart contracts — an elaborate two-layer system that keeps the real accounting off-chain while presenting an on-chain representation as if it were the claim itself. At best, this model is a simulation of accounting. The hearing exposed the limits of that approach.

2. Accounting as the Test of Truth

When the Chair recognized Rep. Casten, he did not approach his five minutes through technology, innovation, or token formats. He approached it through accounting — the one domain where the legal identity of a security is determined. His opening line set the frame for everything that followed:

"…most of the things we're talking about here… are essentially accounting problems… who's the buyer? who's the seller? where's the clearinghouse? what's the settlement process? … Tokenization at its best is a boring accounting conversation."

A brief historical sidebar: blockchains have existed since 1991, introduced by Stuart Haber and Scott Stornetta. In 2008, Satoshi Nakamoto appropriated blockchain technology to introduce the Bitcoin protocol. As Satoshi's white paper states, Bitcoin was designed to introduce an entirely new monetary system — one designed to eliminate intermediaries, which he viewed as the source of all problems in modern financial markets. His most fundamental principle was to eliminate the recording of liabilities on the ledger — changing the nature of a claim and, more importantly, the nature of an obligation. This forced gross settlement between parties. Counterparties must be fully prefunded before they can transact. No obligation going into the transaction, none coming out. If the transaction does not meet these qualifications, it does not occur. Once final, it cannot be reversed.

This is the antithesis of today's regulated markets, where credit lives and liquidity is deep. And here is the remarkable part: the asset-only ledger has **never** been redesigned since its inception. The only "revolution" in this domain is Ethereum — but with Ethereum, accounting must be reproduced on a thin computer layer called an L2, where "smart contracts" contain data. Every proposal to tokenize securities that Congress is considering depends on smart contracts and L2s to solve the accounting problem.

He defined a boundary that is irrefutable.
If tokenization is real, it must be an accounting improvement. If it stops sounding like accounting, it has left the legal perimeter where a security can exist.

But this is where the structural misunderstanding begins. Casten assumes that tokenization is also controlled by accounting — that the digital representation is an accounting object, that the ledger is an accounting ledger, and that the lifecycle is an accounting lifecycle. At 30,000 feet, that sounds plausible. At 10,000 feet, the two systems are not different implementations of accounting. **They are two different theories of accounting**.

- → Traditional finance is obligation-native. Tokenization is asset-native.
- → Traditional finance expresses claims. Tokenization expresses objects.
- → Traditional finance maintains chain-of-title. Tokenization maintains chain-of-custody.
- → Traditional finance extinguishes liabilities. Tokenization transfers balances.

These are not stylistic differences. They are structural incompatibilities. Casten's instinct is that the entire tokenization effort is, or should be, a means for better accounting than we already have.

"…the minute it becomes not boring and not accounting, I get really nervous."

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These are not stylistic differences. They are structural incompatibilities. Casten's instinct — that tokenization should be a means of improving the accounting we already have — is correct. But the image he evokes is inverted. Tokenization does not drift away from accounting. Accounting for tokenized assets requires an elaborate workaround that simulates liabilities and operates decoupled from the accounting engines that run traditional markets.

Mr. Casten makes this visible when he turns to Nasdaq's Anthony Zecca:
"… if I'm understanding right what you've done at NASDAQ, (when you're) proposing tokenized trades, you're still going under DTC rules. It's the same sort of settlement. Is that safe for me to say? … Would I be accurate in describing what you're doing as a a boring accounting change to NASDAQ rules?"

This is the fulcrum of the entire hearing. Casten is not asking about innovation. He is asking about the **legal identity** of a security when it becomes a token. He is asking whether the token remains a security with all the accounting standards still in play. He is asking where the security lives, where its liability lives, and within what legal and accounting perimeter it operates?

He is giving Nasdaq the opportunity to say: "Yes — the liability now lives here, on this ledger, in this instrument." But Nasdaq cannot say that, because it is not accurate. Their token does not carry a liability. Their blockchain cannot express a claim. Their system does not move the accounting perimeter.

Mr. Zecca's answer reveals the gap:
"It's an interesting technology upgrade… bringing the system forward… not creating new products or new systems."

He never says "accounting." He cannot. If he enters the accounting frame, he must explain where the liability lives. He cannot do that. So he answers a legal-identity question with operational-modernization language — the only safe ground available to him. This is the contradiction the hearing exposed. The authoritative price is the public security price. The authoritative claim is the off-chain claim. The authoritative ledger is the off-chain ledger. The token is not authoritative for any accounting purpose.

The token is not the security. It is a representation of a representation. The claim lives off-chain because only the off-chain ledger can express the liability. And because the token carries no liability, it cannot be a security — no matter how many times the room asserts that it is.

3. Why the Token Cannot Be the Security

A security is not an object. It is a legal claim expressed as a liability. That single fact defines the entire accounting perimeter of U.S. capital markets. A ledger that cannot express liabilities cannot express claims, and a ledger that cannot express claims cannot express securities. This is the architectural boundary crypto blockchains cannot cross.

Crypto blockchains were designed as asset-only systems. They record who holds an asset, how much of it they hold, and how that balance changes over time. They can show ownership, custody, and state transitions. What they cannot show is obligation. They cannot express who owes what to whom, when a payment is due, what exposure exists between counterparties, or how an obligation is extinguished. They cannot express lifecycle events, encumbrances, netting, settlement finality, or chain-of-title. These omissions are not implementation gaps.

They are structural consequences of the asset-only design that has defined blockchain architecture since its inception.

In traditional finance, the ledger expresses both sides of every position. Assets and liabilities are recorded together, and the liability is the legally operative object. That is what allows claims to be enforced, obligations to be netted, exposures to be compressed, and risk to be observed. Without liabilities, there are no claims. Without claims, there are no securities. Without securities, there is no netting. Without netting, there is no control over insolvency.

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That last point – controlling insolvency – this is the very definition of systemic risk. This is what all the regulations are about. This is what Mr. Casten knows is the foundational element of his argument even without understanding that tokenization systems have to re-invent an operational model that remains viable even when assets are separated from their liabilities at settlement and then reconstituted in off-chain systems for the very purposes of reproducing the operational accounting systems we already have.

This is the root cause of the tension that surfaced in the hearing. The tokenized representation may look like a security, trade like a security, and be marketed as a security, but it cannot *be* a security because the ledger beneath it cannot express the liability that defines one. The token is not the claim. It is a representation of a representation — an object standing in for an obligation that lives elsewhere, on a ledger capable of expressing it. The accounting perimeter never moves. The liability never leaves the traditional system. And a token on a blockchain, by design, cannot carry it.

4. The Two-Layer Workaround

Layer One: The real security remains off-chain.
It lives at DTC, at Cede & Co., or on a broker-dealer's GAAP ledger. This is where the liability resides. This is where lifecycle events occur.

Layer Two: A tokenized representation circulates on-chain.
It circulates on a blockchain as a standalone asset record, carrying no liability and expressing no claim. In this form, it is a synthetic representation of an off-chain obligation rather than the security itself.

Yes, the blockchain environment contains programmability. But what actually gets programmed at the token level is the treatment of the token object as an endpoint. Lifecycle events — yield payments, corporate actions — still originate off-chain and must be routed to a smart contract. The event either reaches the token or triggers the minting of a new token issued to the holder. This workflow must leave the accounting perimeter to function at all. And once the token receives this data — or once a collection of tokens is linked by smart contracts — how is any of it reconciled? Will off-chain systems reconcile to an algorithm in a smart contract? Many would like us to believe reconciliation is unnecessary. Auditors of public companies will disagree.

These are actually simple questions of viability and risk control.
This is what Mr. Casten brought to the surface with his line of questions.

5. The Innovation Exemption and the Accounting Boundary

The discussion of an innovation exemption underscored the structural boundary beneath the surface. The exemption was framed as a way to allow experimentation with tokenized securities. But the premise of the exemption depends on the token being the security. Once the accounting contradiction was exposed, the exemption lost its foundation.

Mr. Casten asked what guardrails would prevent price divergence, arbitrage, and investor harm. The panel could not answer because the guardrails do not exist. An asset-only ledger cannot be made to behave like a liability-native system. No exemption can change that. The exemption would not create innovation. It would bypass accounting.

This is why Mr. Casten concluded that innovation exemptions are dangerous. The danger is not innovation. The danger is bypassing the accounting perimeter that protects investors and prevents systemic insolvency.

He puts a very fine point on this by underscoring the fact that we should somehow trust the software because it is the innovation itself. He is suggesting here that this is the source of danger itself. Mr. Casten is right about this on many levels. He very cleverly cites the automated liquidity engines of lending protocols like Aave. These protocols are characterized by the triggered liquidation event based on price thresholds. It's software design with cascading catastrophe written all over it.

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"The idea that somehow like a human created SOP is incapable of human error is is dumb, right? And hugely irresponsible."

He may not know exactly what Satoshi designed, or that DeFi has reinvented "standard operating procedure" in the blockchain domain and codified it into the ledger itself, but he does know that if you automate and scale a bad design, you replicate human error at speed. That is not a good idea.

A brief technical sidebar: Crypto blockchains are, by design, passive databases. They do not have the "run-time" element that makes normal applications executable. This comes directly from Satoshi's design. For a block to be added to the chain, the network has to reach consensus, which simply means that all the computers on the network must agree that the data has not changed since the last block. This isn't just a security feature—it also means the authority to approve the next block sits entirely with the validator "committee." There are only robots on this committee.

All the permissionless and "trustless" blockchains competing to run tokenized financial markets today are Ethereum-based. They inherit the Satoshi protocol, the asset-only ledger, and they attach a "Smart Contract" to each token. Smart Contracts are also passive. They are only "called" from an external executable that reads and writes to the Smart Contract. This event happens only when the target token is included in a transaction. This is basically the entire L2 world. Smart Contracts contains data, sometimes liability data and code, for use in transactions. Aside from being a very inefficient architecture, it is a vulnerable attack surface. Look no further than April of 2026 when billion-dollar losses due to crypto platform hacks put tokenization advocates on notice.

During transaction execution, Smart Contract data can be gathered from multiple tokens and transact together. This is the logic hierarchy. It demands standardization to work. So, it's an entirely new audit surface in addition to the financial audit surface. While we might apply SOC2 or SOX compliance frameworks here, and should, this is a bespoke and complex nest of moving parts where anything could go wrong. And consider just for a moment what the orchestration is doing? It's replicating business and accounting rules we already have inside secured and regulated markets.

He asks Ms. Mersinger of the Blockchain Association which price Apple's auditor should use to anchor the company's valuation — the public market price or the tokenized price. She cannot answer:

"Well, I think what this is pointing what you're pointing out is there are a lot of questions left unanswered … that's the oversight we're hoping that the SEC can offer because these are securities."

Mr. Casten immediately corrects her: that oversight does not exist because tokens are not securities.

He then asks the question that collapses the entire exemption argument:

""What is the innovation we're trying to achieve if our goal is boring accounting?"

The panel has no answer. They are waiting for the SEC to tell them what to do. That means they do not know what could go wrong, and they do not know how to represent what is being built except to restate the goal: make it fit inside the existing legal and accounting perimeter.

Mr. Bentsen of SIFMA ends the exchange by stating that DeFi operating models should not be imported into traditional markets simply because traditional markets might adopt blockchain technology. He recognizes the risk in DeFi operating models — but does not recognize that crypto blockchain design itself structurally dictates those models.

That leaves us is asking: what exactly is being built to support regulated tokenized securities markets? If it sounds like a workaround to the problem introduced by the absence of liabilities on the DLT ledger, that is because it is. It is a workaround to overcome a fundamental structural flaw — one originally designed to be antithetical to the regulated markets that rely on intermediaries for safety and solvency.

6. The Structural Issue: A Simulation of a Market

The hearing revealed that tokenized markets, as currently designed, are simulations of securities markets. They reproduce the appearance of market structure — order books, prices, transfers — but not the substance. The

substance is the liability layer. Without it, the system cannot net, cannot recycle liquidity, and cannot control systemic risk.

This is why weekend gaps appear. This is why arbitrage emerges. This is why auditors reject token prices. This is why the token cannot be the authoritative representation of a security. The system is running two circuits in parallel: an on-chain asset circuit and an off-chain liability circuit. The loop closes only if the off-chain accounting resolves perfectly. That is not a sustainable architecture.Mr. Casten saw the simulation. The hearing made the gap visible.

7. The Path Forward: A Ledger That Can Express Obligations

The solution is not another wrapper, another token format, another smart-contract abstraction, or another off-chain credit mechanism. The solution is a ledger that can express obligations directly — a ledger that can record payables, receivables, exposures, encumbrances, and lifecycle events as first-class objects. A ledger that can support netting, compression, and legal settlement finality. A ledger that aligns with GAAP at the protocol layer.

This is the architectural shift that would allow tokenized assets to function as securities rather than simulations of securities. It would allow real-time markets to operate with the solvency, liquidity, and lifecycle integrity of traditional markets. It would allow the asset and liability legs to stand inside the legal and accounting perimeter of securities law.

Such a ledger would replace the DLT with a networked accounting subledger dedicated to tokenized assets and built on blockchain technology. It would be private. It would discard consensus. It would settle atomically and write blocks in double-entry accounting. Accounting itself would become the interface to existing systems — including risk and netting engines, account-management systems, broker platforms, and venues where credit functions normally and produces the deep liquidity U.S. markets are known for.

What I am suggesting is that we invert all the proposals being sent to the SEC. We stop making room for crypto blockchains. We discard Satoshi's protocol. We return to the principles introduced in 1991 that make blockchains viable on their own. With this approach, a T+0 settlement state can be achieved by simply extending today's markets into a tokenized environment. The approach is facilitated by a direct path through existing accounting layers and into a real-time settlement domain. The method for achieving this is not a repurposing of crypto blockchains, but a networked accounting subledger that uses only the elements of blockchain technology it actually needs and does not yield architectural or structural control to a protocol that was never designed to run U.S. securities markets. No blockchain association is required to accomplish this. If the objective is T+0 atomic settlement and a tokenized market that fits within U.S. securities law, this is the path.

Conclusion

The hearing surfaced a structural issue that has been obscured by narrative. Tokenized assets are being introduced into U.S. markets without the ledger architecture required to support them as securities. The industry has built a two-layer workaround that keeps the real accounting off-chain while presenting an on-chain representation as if it were the claim. Mr. Casten's questions exposed the limits of that approach.

The root cause is architectural. Blockchains cannot express obligations natively. Without liabilities, there are no claims. Without claims, there are no securities. Without securities, there is no solvency. The industry is not building a new market structure. It is building a simulation of one and asking regulators to label it a real securities platform.

The path forward is a ledger that can express obligations natively — a GAAP-grade accounting subledger for token markets at the protocol layer. Only then can tokenized assets function as securities inside the accounting perimeter that makes U.S. markets stable, solvent, and enforceable.

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