Tokenized Stocks vs Real Stocks

The pitch says tokens remove the middlemen and shares give you ownership. Both claims are wrong, and the real comparison only starts once you drop them.

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Almost every comparison of tokenized and conventional equity rests on a premise that does not survive contact with the documents: that one is indirect and the other direct. Neither is direct. Your name is on the register in neither case, and in both you hold a claim against an intermediary rather than a share. What separates them is the *legal quality* of that claim, where it ranks when something fails, and what it lets you do at the moments that decide value. For the instrument itself, start with what tokenized stocks are.

AT A GLANCE

THE REAL QUESTION	NAME ON THE REGISTER	TOKENIZATION
Which claim, ranked where	**Neither case**	**Adds intermediaries**
COMPENSATION SCHEME	**WIDEST GAP**	**BETTER SUITED TO**
One side only	**Elections and remedies**	**Trading, not owning**

Neither side puts your name on the register

For the overwhelming majority of US-listed shares held through a broker, the registered owner on the issuer's books is a single nominee partnership belonging to the central depository. A mega-cap held by tens of millions of investors discloses only a few tens of thousands of holders of record — one of which stands behind nearly all the float. Under Article 8 of the Uniform Commercial Code you hold a *security entitlement*: a pro-rata interest in the fungible pool your broker holds, not identified shares you could point to.

Britain is further from direct ownership, not closer: the Law Commission has stated plainly that the intermediary at the top of the chain is the legal owner and legal shareholder, and the ultimate investor is not a member of the company at all. In the Dell appraisal litigation, Delaware's Court of Chancery stripped funds of appraisal rights purely because the depository's nominee was the record holder. Direct registration exists, but orders are batch-processed with no intraday execution — friction, not ignorance, is why it never spread. And the drift runs away from directness: the UK has accepted a plan to abolish paper certificates entirely.

02

But the two claims are not the same kind of thing

This is where the symmetry ends. A brokerage entitlement is a statutory property interest, not an unsecured promise: US brokers must keep customers' fully paid securities in possession or control, segregated from the firm's own business, and that property ranks ahead of the firm's general creditors.

In the dominant tokenized model you hold something categorically different — a legally distinct security with its own issuer, identifier and governing law, usually issued by an offshore special purpose vehicle, with the shares held by a custodian you have no contract with. You are a creditor of the wrapper, or a counterparty to a derivative. The issuers say so themselves: one major venue's risk disclosure states holders have no voting rights, no distribution entitlements and no legal claims to the underlying stock, and one European key information document states that holding the product does not mean you own any shares.

The honest analogy is a century old. A depositary receipt is exactly this: a regulated institution holds the real security and issues a transferable claim against it. The industry has stopped resisting the comparison — a global bank now issues *tokenized depositary receipts*.

03

What the settlement cycle is actually for

T+1 is widely taken for a legacy delay that technology should erase. It is not a delay; it is a window. Inside it the clearing house nets every trade against every other, collapsing the money that must actually change hands to a small fraction of gross trade value. Atomic settlement removes the window, and with it the netting.

The institutions that studied this are unanimous and unenthusiastic. The New York Fed distinguishes *simultaneous* settlement, which removes principal risk and is desirable, from *instant* settlement, which makes netting impossible and restricts trading to pre-positioned cash and securities. The Bank for International Settlements' payments committee found that instant trading and settlement requires pre-funding, implying a potentially significant increase in liquidity costs, and the Financial Stability Board warned that settling trade by trade demands prefunding that at scale could weaken resilience to liquidity shocks. The largest US post-trade utility examined real-time gross settlement, rejected it, then built its own distributed-ledger platform around netted settlement.

And the cycle is not actually removed. Moving a token between wallets is instant, but creating or destroying tokens against real shares runs through an authorised participant on business days, and those underlying trades settle conventionally. Tokenization accelerated the leg that was never the bottleneck.

04

The clock, and who prices the weekend

Regular US trading hours cover well under a fifth of the hours in a year; even the full extended session is under half. Closing that gap is the token's clearest functional advantage — and its sharpest structural weakness, because those are precisely the hours in which no live underlying quote exists to arbitrage against.

The machinery reflects this. Equity price oracles publish a market-status code and hold stale values when the reference market is shut, and for most issuers the creation and redemption channel — the mechanism that keeps any tracker close to its underlying — runs on business days only. So over a weekend the token's price is set by order books and market-maker inventory alone, on thin depth: the ordinary problem described in market depth, with the correction mechanism switched off. Dislocations have followed in both directions, and the Financial Stability Board named this case specifically, warning that automated liquidations while reference markets are closed can push a token's value away from the asset's.

In fairness, early research finds off-hours token prices do carry directional information about the next open. This is price discovery — just without a safety net.

> *Tokenization did not remove the intermediaries standing between you and the company. It added an offshore issuer, a custodian, a venue and a security*

> *agent on top of every one that was already there.*

05

What happens when something fails

Start with a distinction most people have backwards: investor compensation covers the failure of your *firm* to return your property, never the decline of your investment. And the scheme is not what does the heavy lifting — across five decades the overwhelming majority of value recovered by customers came from segregated customer property, not from the fund.

The record supports it. In the Lehman brokerage liquidation, well over a hundred thousand accounts moved to other brokers within days and securities customers were ultimately paid in full. MF Global proved segregation is a legal duty rather than a physical guarantee — customer money was unlawfully used and went missing — yet customers were eventually made whole, at the cost of a haircut and a wait of years.

On the tokenized side there is no compensation scheme anywhere. The US scheme excludes unregistered investment contracts and non-security digital assets, the UK scheme excludes cryptoassets, and EU schemes attach to the authorised firm holding client instruments. The issuers do not dispute it: one key information document says so flatly. The collateral accounts and security agents these products describe have never been tested in a contested insolvency, and the one real precedent is discouraging: when an exchange holding tokenized stock positions collapsed, holders' positions became dollar claims fixed at the petition date, keeping the price of the day the exchange died while the market moved on without them.

06

The rights you only miss once

Voting is the headline complaint and the least important. Almost no wrapper passes a real vote, and the one facility now offered delivers a non-binding preference to an issuer that need not follow it. But honesty requires the symmetry: most retail holders never vote anyway.

The elections are what matter. Choosing cash or stock in a merger, subscribing to a rights issue, tendering into an offer — these are the moments where value is defended or lost, and a wrapper structurally cannot hand you the choice. Most documentation does not address them at all, which is its own answer.

Nor do the remedies survive. A token holder bought a note or a derivative from a special purpose vehicle rather than the company's stock, putting claims against the operating company largely out of reach; derivative suits require stockholder status; class-action administration runs on identifiers a self-custodied wallet does not produce. Then there is product risk with no conventional analogue: issuers reserve discretion to adjust token parameters, pause trading and delist, and at least one document reserves the right to suspend the closing of positions around ad-hoc announcements — exactly when news breaks.

07

The costs that never appear in the fee table

Withholding is the largest and least discussed. Dividends on US shares reaching an offshore wrapper suffer the full statutory non-treaty rate, roughly double the treaty rate a European investor obtains through a broker, because the beneficial owner for treaty purposes is the vehicle — and those vehicles sit in jurisdictions with no US dividend treaty. It is structural, there is no reclaim route, and it recurs on every distribution.

Record-keeping is the quieter cost: no broker tracks your basis. This is not a critic's characterisation — a US issuer's own registration statement for tokenizing its shares concedes that self-custodied holders lose corporate-action servicing, tax reporting and compensation-scheme protection, and that no broker would maintain customary account records. Classification is unresolved on top of that: the US now recognises a tokenized-security category carrying identifier-level reporting and, reversing the usual crypto assumption, wash-sale disallowance — but the definition requires registration, so offshore products fall outside it.

08

Where tokens genuinely win, and how to decide

The fair case is real and deserves stating without hedging. Continuous access while the entire regulated system is shut from Friday evening to Sunday evening. Composability: a brokerage entitlement cannot be posted as collateral in a permissionless market or referenced inside a programmable contract, and a token can. Self-custody and portability with no account-transfer process. Granularity, though mainstream brokers have largely closed that gap. The strongest case is the model these criticisms do not reach: where a registered transfer agent maintains the on-chain record as the legal register, the token *is* the share.

That gives the decision its shape. Can a regulated broker onboard you? If yes, the burden falls entirely on the token to justify itself. If not, the question is not which is better but whether the exposure is worth these costs, and the practical routes are set out in how to buy tokenized stocks. Then read the instrument — the issuing entity, the governing law, the prospectus — because that entity's solvency has just become part of your thesis. Then the question that settles the rest: is this token the share, or a claim on somebody who holds the share?

Finally, the horizon test. The wrapper's disadvantages compound with time: withholding on every dividend, accumulating exposure to elections you cannot make, lengthening issuer risk, no basis records when you sell. Its advantages are almost entirely about the moment of trading. Tokenized equity suits short-horizon access better than long-horizon ownership — and anyone planning to hold a company for a decade is being sold a trading instrument.

> *"It is naught, it is naught, saith the buyer: but when he is gone his way, then he boasteth."*
>
> PROVERBS 20:14

Methodology & Sources

This report was prepared with a multi-agent research process covering four dimensions — the legal ownership chain, settlement mechanics and trading hours, investor protection and insolvency outcomes, and shareholder rights, corporate actions and tax — followed by an adversarial verification pass over every individual claim. That pass rejected a substantial number of widely repeated assertions, including several quotations that could not be located in the documents to which they were attributed; those claims were removed rather than hedged, and passages attributed here to international financial-stability and payments bodies were additionally checked against the primary reports. The report names no venue, issuer, custodian, platform or individual, and characterises products by structure rather than brand. Figures are given directionally, and no prices, valuations, volumes, fee schedules or compensation limits appear, because all of them date. Descriptions of market structure are principally US and UK and will differ elsewhere; settlement cycles, classification, licensing, eligibility and tax treatment vary by jurisdiction, remain unresolved in several, and continue to evolve. Descriptions of insolvency outcomes reflect publicly documented proceedings; where facts are disputed or allegations unadjudicated they have been excluded rather than repeated, and no conclusion is drawn as to fault in any matter. The observation that no investor compensation scheme extends to tokenized equity wrappers reflects the published scope of those schemes and the issuers' own disclosures; readers should confirm their own position. Statements about regulatory views are attributed to the body or official that made them, and where an individual commissioner or staff division has spoken that is not a determination by the commission concerned. Nothing here is a recommendation regarding any product, venue or transaction, and nothing here is legal, tax or investment advice.