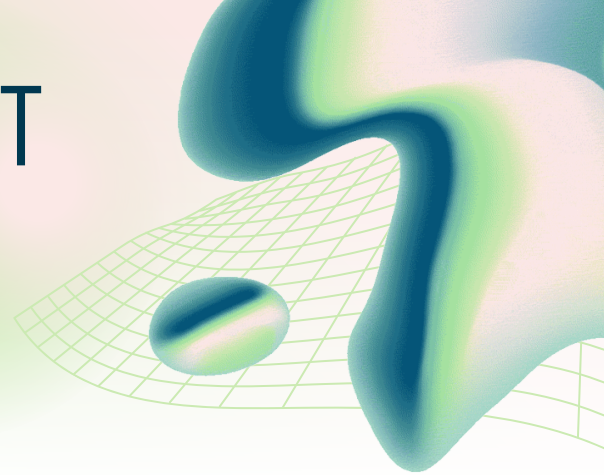


PUBLIC MARKET TRUST PROJECT

A Transparent, Fair, and Resilient Market for
the Next Generation of Investors



www.pubtrust.org

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Introduction

This white paper outlines the foundational ideas of the Public Market Trust Project and proposes ideas for a modern trading system to address concerns and risks of the current market. This project believes that a modern designed system would provide greater benefits to all market participants and to the next generations of investors.

A proposal for a transparent, fair, and atomically settled trading system built on direct beneficial ownership rather than entitlements.

The Public Market Trust Project replaces delayed settlement, fails-to-deliver, continuous netting, hidden credit, rehypothecation, phantom liquidity, dark exchanges, information asymmetry with a fully-collateralized, real-time, and modern market that eliminates the legacy risks of the current 1970s era system.

Foundational Principle: A trade that cannot settle instantly is not a valid trade.

Rules of the Public Market Trust Trading System:

- **A Trade Must Fully Settle to Exist and be Valid.**
 - This eliminates fails-to-deliver (FTDs).
- **Full Collateralization at Order Entry Through Execution**
 - All trades must be fully collateralized before and during execution. This means that at the moment of order execution, buy orders require locked cash-equivalents and sell orders require locked shares, to include a valid and locked loaned share. No trades may be placed using unsettled assets. This eliminates rehypothecation and phantom liquidity.
- **Atomic Settlement (T+0)**
 - All executed trades settle atomically. Cash and securities are transferred simultaneously at the moment of execution. If one party of the trade is not locked then the trade does not occur. This eliminates settlement risk and counter-party risk.
- **Delivery-Versus-Payment (DvP) by Design**
 - The trading system enforces DvP of direct beneficial ownership of the underlying assets at the protocol level. This is structurally enforced and not optional. DvP means that securities are delivered only if payment is delivered, and payment is delivered only if securities are delivered. This is supported by atomic settlement. DvP is widely used today in financial markets such as the commodities and futures markets. This supports direct beneficial ownership.
- **A Single Transparent and Auditable Market Ledger**
 - All trades are executed and settled using a publicly available ledger built with distributed ledger technology (DLT). This eliminates orders being routed to a “dark exchange” and enforces that all trades exist on the lit market transparent to all market participants. This supports both certificated and uncertificated stocks. This eliminates information asymmetry disadvantages.

- **Capital is Available Immediately After Trading**
 - Because trades in this system are fully-collateralized and atomic, at the moment of execution and settlement the locked shares and cash-equivalents are immediately freed and available for reuse in the market. Funds from sales and shares from purchases are instantly available. **This eliminates the hidden credit that brokers leverage today during settlement windows.**
- **Real-Time Gross Settlement (RTGS)**
 - The trading system operates using real-time gross settlement. This means that trades settle individually or in deterministic settlement blocks. No offsetting or netting of any obligations. A valid trade in this system is instantly settled and final. **This eliminates the continuous netting system used today which relies on delayed aggregation of trades and mutualizes unnecessary risk.**
- **All Members of this Trading System are Full Market Participants**
 - This system does not distinguish between different classes of participants. All participants, whether retail, institutional, or market makers, operate under the same trading rules which align with the principles of a transparent and fair market. **This eliminates dark exchanges and the special market maker privileges that exist today as a result of the delayed settlement system.**

These foundational rules will form the basis of the modern trading system proposed by the Public Market Trust Project. As the project matures, new improvements or rules may be added but these core foundational rules will always remain to protect all participants and uphold the principles of a transparent, fair, and resilient market.

All members, including retail investors, will be elevated to full market participants.

The Golden Path Forward

Structure of the Public Market Trust Project:

The golden path forward for the Public Market Trust Project starts with interested members following the process of **direct registration (DRS)** to claim the legal ownership of their personally owned stocks, converting from the stock entitlements held by brokers in the current system. Then as the legal holder of their stocks, a member can opt-in and migrate the legal title of their assets into the newly proposed system as the direct beneficial owner.

The newly proposed system would be built using three main entities to form the foundational structure which builds on the rules and principles of this document.

- **Forming a Trust**

- This Trust would be the core legal entity of the new system, which would allow participating members to place their directly registered shares into a trust as the direct beneficial owner. The Trust would hold the legal titles of each stock on behalf of the beneficiary and place them into a series (i.e. Series XYZ for ticker \$XYZ). Each member then becomes a beneficiary in the Trust and holds proportional ownership of beneficial interest over the assets that they contributed. The Trust holds the stock certificates, and the beneficiary owns beneficial interest in the stock, which is legally defined as personal property. This concept is similar to how the modern market hands legal ownership of stocks, only it is a privilege held by prime brokers and higher level organizations.
- **The key here is that a beneficiary of the Trust can legally trade their beneficial interest shares which are tied directly to the underlying stock held by the Trust.** Today there is no market or trading system to facilitate trades of beneficial interest shares of a Trust, which is what the Public Market Trust Project aims to create.

- **Establishing a Ledger**

- Under the Trust structure discussed above, the Trust is permitted to establish a digital ledger (including distributed electronic networks or databases, such as a blockchain) to maintain the fact of ownership. Laws today treat electronic transmission and signatures as equivalent to a written document. Simply put, this Ledger system would be a modern designed digital ledger that alleviates many of the risks associated with the current 1970s era stock market.
- The Trust is also permitted to treat the stocks held in a series as fungible, meaning beneficiaries can freely and easily trade (buy or sell) their beneficial interest of the underlying shares without having to exchange the exact same physical share that they deposited initially. This allows the ledger to easily record and transact the beneficial interest of the Trust beneficiaries.
- The Ledger would be permitted to maintain the book keeping on behalf of the Trust using digital records, which enables the use of modern distributed ledger technology (DLT). This would allow for integrations with modern trading systems that the Trust approves and which strictly follows the foundational rules.

- **Building an Alternative Trading System (ATS)**

- Structured as a Public Benefit Company (PBC), the ATS entity would be responsible for providing the trading system that allows the Trust beneficiaries to buy/sell their shares using the Ledger approved by the Trust. This requires the ATS entity to register as a dealer-broker with FINRA and register an Alternative Trading System (ATS) with the SEC.
- The ATS entity would be approved by the Trust to permit its beneficiaries to trade their shares facilitated and settled by the Ledger acting on behalf of the Trust. This strict approval by the Trust ensures that the foundational rules defined in this document are fully enforced to protect all members.
- As a Public Benefit Company, in addition to being for-profit the ATS entity would be legally required to follow its declared public benefit and operate in a responsible and sustainable manner. This would permit the ATS entity to balance the pecuniary interests of its shareholders with its public benefit mission of providing a modern, transparent, fair, and resilient trading system. This aligns the ATS entity with the principles of this project and protects the integrity of the new trading system by placing a legal safeguard.

Trust Ownership, Ledger Technology, Public Benefit Exchange

A Modern Market that Serves Its Participants

Roadmap and Next Steps:

- ☐ **Conduct Due Diligence**
 - Anyone interested in the ideas laid out in this white paper should conduct their own due diligence on the ideas presented.
- ☐ **Share Project Ideas, Goals, and Plans**
 - Feeling inspired by the project, share the white paper with others and gather interest on the road map ahead.
- ☐ **Continue to Educate on Upsides, Tradeoffs, and Risks**
 - This current white paper provides the conceptual foundation of the Public Market Trust Project, but there will need to be more information shared on the tradeoffs and risks of moving to a new trading system.
- ☐ **Fund Raising to Lay the Groundwork**
 - Ultimately the project will require investor support and fundraising to build the Ledger and ATS systems.
- ☐ **Talent Recruitment and Forming the Team**
 - As the project grows the proper team and skills will need to be brought together to execute the project roadmap.
- ☐ **Building the Vision, Brick by Brick**
 - Once funds have been raised and a team is formed, the technical work to build out the systems designed in this white paper can begin.
- ☐ **Pilot the New System**
 - As the system is built out, early adopters will be needed to pilot and test out the new system which may incur risk on their behalf and growing pains.
- ☐ **Make the Great Migration to the New System**
 - Once the system is approved, compliant, and ready, members will need to begin the process of migrating their assets over to the new trading system.
- ☐ **Spread Adoption and Establish a New Normal**
 - Building on a successful launch, the project would need to scale and adopt new users into system to realize the project's vision of a transparent, fair

Transparency and Trust for Tomorrow's Traders

Notes and Disclaimers

This white paper reflects a good-faith proposal to explore how transparent, fair, and resilient markets can be built using modern infrastructure to benefit all participants.

Informational Purpose Only

This white paper is provided for informational and educational purposes only. It does not constitute investment advice, legal advice, tax advice, or a solicitation to buy or sell any securities.

No Offer or Solicitation

Nothing contained herein constitutes an offer to sell or a solicitation of an offer to buy any securities, interests, or financial instruments.

Conceptual and Forward-Looking Statements

This document describes a proposed market structure and system design. Certain statements may be forward-looking and are based on current assumptions, expectations, and available information. Actual implementation, performance, and outcomes may differ materially.

Regulatory Status

The Public Market Trust Project is a project name and concept at this time and is not currently registered at any level to include as a national securities exchange, clearing agency, broker-dealer, or alternative trading system. Future registration if necessary or required will follow applicable laws.

No Guarantee of Implementation

There is no guarantee that the system, platform, or market structure described in this paper will be developed, approved, or made operational. Implementation is subject to regulatory review, technical feasibility, market participation, and other factors by the appropriate agencies.

Evolving Design

The system architecture, rules, and mechanisms described in this paper may evolve over time based on regulatory guidance, stakeholder feedback, technical development, and market conditions.

Jurisdictional Limitations

The legal applicability of the concepts discussed are conceptual only and may vary by jurisdiction. Readers are responsible for understanding and complying with applicable laws and regulations in their respective jurisdictions.

No Reliance

Readers should not rely on this document as the sole basis for any financial, legal, or investment decision. Independent professional advice should be obtained where appropriate.

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