

Functional Classification for Event Contracts in Agentic Markets

Settlement Semantics First; Collateral Rails and Agent Identity Second

August 21, 2026

Submitted to: Securities and Exchange Commission and Commodity Futures Trading Commission

Re: File No. S7-2026-21; RIN 3038-AF71; Joint Request for Comment on Further Definition of "Swap" and "Security-Based Swap" and on Alternative Compliance

From: Zeyuan Li (Amy Li), Founder & Independent Researcher, W-Axis Lab

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Executive summary

The Commissions ask how innovative event contracts should be classified and how alternative compliance could work where both agencies have regulatory interests. I recommend a two-stage approach:

1. Classify the product from its binding settlement proposition, referenced underlier, and legal exposure.
2. Supervise the way the product is accessed, automated, collateralized, and reported through functionally harmonized controls.

This separation matters because the same event contract may be traded by a person, an enterprise hedging program, or an autonomous agent, and may be funded or settled through bank money, a payment stablecoin, or another rail. Those implementation choices can create important risks, but they should not silently change the product's statutory classification.

The Commissions should provide objective classification criteria, a joint pre-filing path for difficult products, and a common regulatory record that links a transaction to the responsible legal principal, the operative contract version, and any material delegated-agent mandate. This would give innovators a clearer jurisdictional line while preserving cross-market surveillance.

This comment focuses on Questions 1, 3, 7, 8, and 12 through 15.

I. Questions 1, 3, 7, and 8: begin with the binding settlement proposition

An event contract should be classified by what legally determines payment, not by the story surrounding the event, the user interface, the participant's motive, the intelligence of the trading software, or the technology used for collateral and settlement.

The Commissions could require a classification record containing:

- the exact operative question and contract version;
- each necessary condition for payment;
- the referenced person, issuer, security, loan, index, commodity, rate, measure, or event;
- the designated resolution source and authority;
- the relationship between the event and any issuer's financial statements, financial condition, or financial obligations;
- the payout function and whether it depends on a security's value or an interest in a security;
- any separate commodity or non-security component that is independently material to settlement; and
- the applicable statutory inclusion or exclusion relied upon by the listing venue.

The classification record should be stable and machine-readable, but also accompanied by a plain-English explanation.

A. A direct-effects test for the SBS Event Contract Prong

Question 7 asks when an event "directly affects" an issuer's financial statements, financial condition, or financial obligations. The Commissions should distinguish the legal settlement dependency from market participants' predictions about downstream economic effects.

A workable set of indicators would ask:

- Does the contract settle on an issuer-specific event rather than on a general political, social, scientific, or macroeconomic event?
- Is the event itself expected, by the contract's terms, to create, extinguish, modify, accelerate, or determine a recognized asset, liability, payment obligation, solvency condition, or financial-statement item of that issuer?
- Can the effect be identified without relying on a long causal chain or an investor's view of how the event may change the issuer's stock price?
- Is the issuer effect necessary to the settlement proposition, rather than merely a possible consequence?

For example, an event defined by whether a named issuer misses a contractually specified payment is materially different from a broad policy event that traders believe may affect many issuers. The latter should not become an SBS merely because an agent models an expected impact on a particular security.

The Commissions should provide non-exclusive examples and a joint process for borderline products. They should avoid converting every event with an indirect securities-market consequence into an SBS event contract.

B. Distinguish security-value references from event semantics

Question 8 asks when an event contract referencing one or more securities should be treated as an option on a security or index rather than as a swap or SBS. The classification record should isolate the actual payout function.

Relevant distinctions include whether payment is calculated from the price or value of a security; whether a binary threshold is simply a transformed security-price payoff; whether the event can be resolved without observing a security or index value; and whether a separate issuer event, rather than the value of the security, is the legally operative condition.

The use of a yes/no interface is not dispositive. A binary product can still be economically and legally based on a security's value. Conversely, a contract should not be treated as security-based merely because traders use securities data as evidence about a broader event.

C. Reserve the mixed-swap category for independently material dual exposure

The Commissions have described mixed swaps as a narrow category. That principle should remain intact. A product should not become a mixed swap merely because:

- a non-security event may influence securities prices;
- a participant hedges the position with securities;
- an agent reads both securities and commodity data;
- collateral is held in a payment stablecoin; or
- the user interface bundles information from SEC- and CFTC-regulated markets.

A mixed-swap analysis is most justified when separate security-based and non-security-based components are each independently material to the binding payout, rather than when one is contextual, collateral-related, or part of a participant's strategy.

II. Agent status should affect accountability, not classification

The same contract does not become a different statutory product when an autonomous system submits the order. Nevertheless, agentic access can change operational and surveillance risks. The Commissions should use a technology-neutral functional taxonomy:

- human-directed activity;
- bounded automated execution;

- delegated enterprise hedging or risk management; and
- autonomous strategy activity with material discretion over products, tactics, or risk posture.

For material delegated activity, regulated entities should maintain a regulator-accessible link among the transaction, the responsible legal person and account, the authorized system or workflow, and the mandate in force. A mandate may specify eligible products, venues, exposure and loss limits, duration, message constraints, escalation triggers, revocation, and safe-state behavior.

This record does not require the Commissions to classify or approve a model. It preserves the familiar principle that delegation to software does not dilute the accountability of the person or entity that authorized the activity.

Agent-origin information generally should not be publicly disseminated at the transaction level. It can expose strategy, facilitate targeting, and create a false impression that every system using machine learning presents the same risk. Regulators and self-regulatory organizations need reconstructability; the public needs appropriately aggregated market-quality information.

III. Stablecoin collateral and settlement are separate legal and operational layers

The CFTC has addressed circumstances in which certain payment stablecoins may be accepted as margin collateral. As tokenized cash becomes more common, the Commissions should state clearly that the collateral or settlement medium does not, without more, determine whether a product is a swap, SBS, mixed swap, security, or excluded instrument.

The rail nevertheless warrants separate controls for issuer and redemption risk, custody and segregation, valuation and haircuts, blockchain finality, congestion, freeze and recovery functions, key management, and depegging. The classification record should therefore have a separate collateral-and-settlement section, but those fields should not substitute for analysis of the contract's underlier and payout.

This separation will reduce accidental jurisdictional arbitrage. It will also let the agencies update stablecoin or tokenized-collateral safeguards without reopening the classification of every product that uses the rail.

IV. Questions 12 through 15: alternative compliance should be modular and outcome-based

Alternative compliance should apply to common regulatory functions after product classification, not replace classification. The Commissions could identify modules that seek substantially similar outcomes:

- product and contract identity;
- responsible legal principal and counterparty identity;
- transaction identity and lifecycle status;
- venue, clearing, and settlement identity;
- books and records sufficient for reconstruction;
- position and exposure limits;
- market-abuse and material-nonpublic-information surveillance;
- delegated-agent authority, revocation, and auditability;
- incident notification; and
- protection of nonpublic customer and strategy information.

For each module, the agency with primary jurisdiction could accept compliance with the other agency's rule when the scope, timing, validation, access, retention, and enforcement outcomes are substantially similar. The agencies should publish a crosswalk and identify any residual requirement. A firm should not have to infer that two nearly identical fields or records satisfy both regimes.

A. Create one common regulatory linkage record

For cross-jurisdictional event contracts, the agencies should consider a compact, regulator-only linkage record with:

- a universal transaction identifier;

- product and contract-version identifiers;
- the legal-entity identifier or protected natural-person linkage already used in reporting;
- venue and clearing identifiers;
- an execution-origin category;
- a pseudonymous mandate identifier for material delegated activity;
- the collateral and settlement asset category; and
- references to the agency-specific record where additional detail resides.

The mandate identifier should link to firm-retained records rather than duplicate model state in every transaction report. It should remain stable for the life of the authorization and change when material authority changes.

B. Coordinate surveillance around behavior and common dependencies

Question 15 asks how the agencies can deter manipulation and trading on material nonpublic information. Cross-market surveillance should look beyond matching transaction identifiers. It should permit analysis of:

- economically related positions across swaps, SBS, options, futures, securities, and event contracts;
- concentrated activity by persons who can influence or resolve the underlying event;
- repeated trading ahead of resolution-source updates;
- synchronized agent responses to common data or model inputs;
- cross-market price moves that are read by agents and then reinforced in the related market; and
- common model, data, cloud, wallet, or execution providers that could create correlated failure.

The agencies should exchange protected data under a documented purpose and access model. They should not create a broadly searchable public database linking natural persons, agent identifiers, and behavior across markets.

V. Create a joint classification memorandum and safe pre-filing path

For difficult products, a market should be able to submit a concise joint classification memorandum containing the settlement proposition, decision tree, requested classification, contrary indicators, and proposed alternative-compliance modules. The agencies could:

1. acknowledge completeness within a short period;
2. identify which agency leads the analysis;
3. publish a target decision date;
4. issue a coordinated staff view or identify the remaining legal question; and
5. publish a redacted precedent or taxonomy entry when useful.

A time-limited pilot or no-action path may be appropriate where classification is reasonably supported and common controls are in place, but data are needed to evaluate market behavior. Relief should include measurable limits, reporting, pause conditions, and an exit path. It should not imply approval of the product, model, or business.

Conclusion

Innovative markets will be easier to supervise if the Commissions keep three questions separate:

1. What is the product, based on its binding settlement proposition and legal exposure?
2. Who or what exercised authority to transact, and under whose accountability?
3. Which collateral, settlement, and data rails carried the transaction and its risks?

Clear answers to those questions can support principled jurisdiction, modular alternative compliance, and effective cross-market surveillance. Blurring them would let a wallet, user interface, collateral token, or agent label determine a statutory classification it was not designed to carry.

Respectfully submitted,

Zeyuan Li (Amy Li)

Founder & Independent Researcher, W-Axis Lab

<https://control-layers.pages.dev>

Selected official sources

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