VELOXVFX LLC

PUBLIC COMMENT

Joint Request for Comment on Further Definition of "Swap" and "Security-Based Swap" and on Alternative Compliance

SEC File No. S7-2026-21
Releases 33-11424 and 34-105735
CFTC RIN 3038-AF71

PRODUCT CLASSIFICATION, JURISDICTIONAL CLARITY, AND COORDINATED COMPLIANCE WITHOUT COLLAPSE OF AUTHORITY

Clear classification should follow statutory text and product facts, with each legal conclusion attributable to an authorized decision-maker and preserved through material lifecycle change.

Submitted by Eyad G. Haddadin, Managing Member
VeloxVFX LLC | Bountiful, Utah
ed@vfxvaultai.com | www.veloxvfx.com

Scope and Institutional Boundary

This comment offers an independent public-record perspective focused on **product classification, jurisdictional clarity, and alternative compliance**. It does not request or imply SEC or CFTC adoption, endorsement, procurement, implementation, integration, reliance, or approval of any VeloxVFX LLC framework. VeloxVFX does not make official product-classification or jurisdictional determinations, assign reporting obligations, operate an SDR or SBSDR, conduct surveillance or examinations, or exercise supervisory or enforcement authority.

All legally operative interpretations, classifications, reporting obligations, exemptions, supervisory decisions, and enforcement actions remain with the authorized Commissions, regulated entities, repositories, venues, and institutions under applicable law.

Executive Summary

The Commissions seek principled, objective criteria for distinguishing swaps, security-based swaps (SBS), mixed swaps, and instruments excluded from the swap definition, while also considering coordinated or alternative compliance. VeloxVFX recommends a product-level record that separates legal form, economic reference, risk transfer, ownership, issuer nexus, index composition, event dependency, settlement, duration, funding, exclusion basis, lifecycle change, and authorized determination.

The framework is evidentiary, not self-executing. It should help market participants and agency staff explain why a classification or alternative-compliance determination is supported, when reassessment is required, and which Commission or institution remains responsible. Coordination may reduce duplication, but it should not merge statutory authority, obscure unresolved questions, or prevent either Commission from supervising or enforcing within its mandate.

Controlling Legal and Evidentiary Hierarchy

Order	Controlling source
1	Statutory text
2	Commission rules and authoritative interpretations
3	Judicial authority, where applicable
4	Product-specific facts and transaction terms
5	Classification or reporting record as supporting evidence
6	Final determination by the authorized Commission or institution

Executive Direct Answers

Issue	VeloxVFX position
Definitional clarity	Yes. Use product-level criteria grounded in statutory text, rules, interpretations, and documented product facts.
Statutory exclusions	Require contemporaneous support for the exclusion relied upon and reassessment after material change.
Mixed swaps	Treat mixed-swap status as narrow; identify any independently material security-based and non-security-based components.
Index transitions	Use authorized transition procedures that preserve open-position treatment, notice, review, and historical classification.
Equity perpetuals	Evaluate reference, standardization, funding, settlement, leverage, venue, and market effects; do not

	classify by duration alone.
Alternative compliance	Permit only where scope, objective, outcome, data, supervision, enforcement, protection, and change management are substantially similar.
Cross-market oversight	Preserve complete economic-position reconstruction, agency access, and independent statutory authority.

Product Classification Record

- Legal form and instrument type
- Economic reference and underlier
- Risk transferred and economic dependency
- Ownership, entitlement, or lender-borrower relationship
- Issuer nexus and direct financial-statement effect
- Index breadth and composition state
- Event or contingency dependency
- Settlement method and delivery intent
- Duration, expiration, and funding mechanism
- Statutory exclusion relied upon
- Initial classification, unresolved issues, transition state, and final authorized determination

Jurisdiction and Responsibility Record

The record should identify the actor making the initial analysis, the legal basis, the reviewing function, the SEC and CFTC interests implicated, any unresolved question, any lead-agency role if one is designated, retained authority of the other Commission, required notice, and the final determination by the authorized Commission or institution. A lead-agency designation should govern coordination and administration only and should not extinguish the other Commission's statutory authority.

Direct Responses to Questions 1-15

The responses below answer each question directly and distinguish supporting product evidence from the legal authority that controls the ultimate determination.

1. Event contracts and innovative products

DIRECT ANSWER. Yes. Additional clarification is warranted. The Commissions should use product-level criteria rather than labels or technology. Relevant criteria include the referenced object, economic exposure, event dependency, issuer nexus, index breadth, ownership transfer, settlement, duration, funding, and whether the product changes character during its lifecycle. New or revised interpretations should explain how these factors interact and should include examples without creating product-specific exemptions by implication.

RECOMMENDED APPROACH. Adopt a Product Classification Record and require reassessment after a material change in reference, payout, settlement, index composition, or economic exposure.

2. Statutory exclusions from "swap"

DIRECT ANSWER. Yes. An exclusion should be affirmatively supported by contemporaneous evidence of legal form and economic substance. The title assigned to an instrument should not control. The record should identify the precise exclusion, required elements, supporting facts, and whether those facts remain true over time.

RECOMMENDED APPROACH. Require an exclusion memorandum at launch and after material modification, preserving legal form, ownership, settlement, issuance, delivery, and financing evidence.

3. Swaps, SBS, and mixed swaps

DIRECT ANSWER. Greater clarity is needed. The Commissions could evaluate whether a security-based component or non-security component is legally and economically material, while preserving the statutory definitions and the existing principle that mixed swaps are intended to remain narrow.

RECOMMENDED APPROACH. Use a dominant-reference and material-exposure analysis, with explicit treatment of any independently material secondary component.

4. “Any interest” in a security

DIRECT ANSWER. The Commissions could clarify that “any interest” requires a material legal or economic nexus to an ownership, payment, voting, redemption, conversion, priority, collateral, or other legally cognizable interest. A merely informational reference should not independently control classification.

RECOMMENDED APPROACH. Distinguish informational reference from legally or economically operative dependence.

5. Narrow-based index prong and transitions

DIRECT ANSWER. The Commissions should clarify treatment of products that reference index composition changes rather than only price changes. They should also preserve tolerance and grace-period concepts while requiring a documented transition process for open positions, new trading, disclosure, reporting, and agency responsibility.

RECOMMENDED APPROACH. Use confirmed broad-based, approaching-threshold, temporary-breach, grace-period, transition-pending, authorized-jurisdictional-transition-completed, and legacy-position states, each subject to the governing rules and an authorized Commission or institutional determination.

6. Single-security or loan prong

DIRECT ANSWER. The Commissions could clarify that material dependence on one security or loan is a relevant factor in applying the SBS Single Security Prong, while preserving the governing statutory text and existing interpretations. Relevant evidence may include direct, embedded, contingent, or economically dominant dependence.

RECOMMENDED APPROACH. Treat material dependence as a product fact to be documented, not as an independent substitute for the statutory test. Record the weight and role of the single security or loan and route the final determination to the authorized Commission or institution.

7. SBS event-contract prong

DIRECT ANSWER. The Commissions could clarify “directly affects” through a demonstrable causal relationship to an issuer’s financial statements, financial condition, or financial obligations, while preserving the statutory language and existing Commission guidance.

RECOMMENDED APPROACH. Define directness through causal, accounting, legal-obligation, and verifiability criteria.

8. Event contracts versus securities options

DIRECT ANSWER. Classification should focus on whether the product grants an option or privilege on a security or index, is subject to the securities laws, is exercisable or automatically settled, transfers ownership or only risk, and resembles standardized exchange-traded options. Equivalent exposure should not be treated differently solely because one product is labeled an event contract.

RECOMMENDED APPROACH. Publish a comparison matrix for event contracts, binary options, listed options, swaps, and SBS.

9. Notes, bonds, and evidence of indebtedness

DIRECT ANSWER. No single factor, including an indenture, should be conclusive. Relevant criteria include a genuine lender-borrower relationship, principal and repayment obligation, maturity, creditor rights, ranking, insolvency treatment, transferability, and whether proceeds finance the issuer. A derivative payout should not become debt merely by being called a note.

RECOMMENDED APPROACH. Use a financing-substance test supported by issuance, repayment, creditor-rights, and insolvency evidence.

10. Physically settled security forwards

DIRECT ANSWER. Additional clarity is appropriate. Physical-settlement intent should be assessed at execution through binding delivery terms, asset availability, settlement instructions, custody and funding capability, delivery history, and remedies for failure. Routine offset or cash settlement may rebut claimed intent.

RECOMMENDED APPROACH. Require contemporaneous settlement-intent evidence and periodic testing against actual practice.

11. Futures, security futures, and equity perpetuals

DIRECT ANSWER. A cash-settled perpetual referencing an equity security should not be classified solely by analogy or by lack of expiration. Relevant features include underlier, standardization, trading venue, clearing, margining, cash settlement, continuous funding, leverage, and economic replication. The Commissions should address the funding mechanism and cross-market effects directly.

RECOMMENDED APPROACH. Develop a specific interpretive framework for perpetual contracts and require analysis of liquidity, price discovery, hedging, manipulation pathways, and cash-market impact.

12. Meaning of "substantially similar"

DIRECT ANSWER. Substantial similarity should require comparability in covered products and entities, regulatory objective, substantive outcome, data, supervision, enforcement, customer protection, remediation, and change management. Similar wording is neither necessary nor sufficient.

RECOMMENDED APPROACH. Use a documented equivalence matrix and identify all residual gaps and supplemental obligations.

13. Coordinated procedures and deemed filing

DIRECT ANSWER. The Commissions may use coordinated intake, a single core application, agency-specific supplements, deemed filing, common identifiers, and coordinated deficiency notices where authorized. Each Commission should preserve its own legal determination and ability to reject alternative compliance.

RECOMMENDED APPROACH. Adopt common intake without common or indeterminate legal authority.

14. Surveillance, examination, enforcement, and data sharing

DIRECT ANSWER. Alternative compliance should preserve complete and timely agency access to product classification, counterparties, orders, executions, positions, lifecycle events, cross-market exposures, and correction history. Lead-agency coordination should not prevent either Commission from examining or enforcing its own requirements.

RECOMMENDED APPROACH. Create shared alert taxonomies, referral procedures, evidence-retention standards, and conflict-resolution protocols.

15. Manipulation and material nonpublic information

DIRECT ANSWER. Alternative compliance should be unavailable where the agencies cannot reconstruct the complete economic position across markets. Controls should include account linkage, beneficial-owner resolution, issuer-event monitoring, correlated-position analysis, information-barrier review, suspicious-activity escalation, and preserved enforcement access.

RECOMMENDED APPROACH. Require a cross-market evidence package sufficient to reconstruct intent, exposure, timing, and resulting benefit or loss.

Alternative-Compliance Equivalence Test

Scope: covered entities, products, transactions, jurisdictions, and lifecycle events.

Objective: the regulatory purpose served by each requirement.

Outcome: the protection, transparency, or integrity result achieved.

Data: required fields, quality, timing, retention, correction, and agency access.

Supervision: examination authority, monitoring, governance, and remediation.

Enforcement: investigative access, remedies, sanctions, and practical reach.

Customer and market protection: disclosure, confidentiality, manipulation controls, and continuity.

Change management: how rule changes, technical changes, and product changes affect equivalence.

Alternative compliance should be conditioned, reviewable, and revocable. A material gap should produce a supplemental obligation or denial, not an assumption of equivalence.

Surveillance and Enforcement Safeguards

- Cross-market account and beneficial-owner linkage

- Order, execution, position, valuation, and event chronology
- Issuer-event and material-nonpublic-information controls
- Manipulation-pathway reconstruction across related products and venues
- Shared alert taxonomies, referral procedures, and evidence-retention standards
- Preserved SEC and CFTC access and independent enforcement authority

Relationship to Related Joint Proceedings

This comment addresses the antecedent questions of product definition, statutory classification, jurisdictional responsibility, and alternative compliance. File No. S7-2026-22 separately addresses the data needed to preserve and report the product and its lifecycle. File No. S7-2026-23 addresses later portfolio-margining, account, collateral, segregation, and insolvency consequences after economic relationships are proposed for recognition. Each proceeding remains independently governed by its own statutory and administrative record.

Question Crosswalk

Q	Primary issue	Response principle
1	Event contracts and innovative products	Adopt a Product Classification Record and require reassessment after a material change in reference, payout, settlement, index composition, or economic exposure.
2	Statutory exclusions from “swap”	Require an exclusion memorandum at launch and after material modification, preserving legal form, ownership, settlement, issuance, delivery, and financing evidence.
3	Swaps, SBS, and mixed swaps	Use a dominant-reference and material-exposure analysis, with explicit treatment of any independently material secondary component.
4	“Any interest” in a security	Distinguish informational reference from legally or economically operative dependence.
5	Narrow-based index prong and transitions	Use confirmed broad-based, approaching-threshold, temporary-breach, grace-period, transition-pending, authorized-transition-completed, and legacy-position states.
6	Single-security or loan prong	Apply a material-dependency test and record the weight and role of the single security or loan.
7	SBS event-contract prong	Define directness through causal, accounting, legal-obligation, and verifiability criteria.
8	Event contracts versus securities options	Publish a comparison matrix for event contracts, binary options, listed options, swaps, and SBS.
9	Notes, bonds, and evidence of indebtedness	Use a financing-substance test supported by issuance, repayment, creditor-rights, and insolvency evidence.
10	Physically settled security forwards	Require contemporaneous settlement-intent evidence and periodic testing against actual practice.
11	Futures, security futures, and equity perpetuals	Develop a specific interpretive framework for perpetual contracts and require analysis of liquidity, price discovery, hedging, manipulation pathways, and cash-market impact.
12	Meaning of “substantially similar”	Use a documented equivalence matrix and identify all residual gaps and supplemental obligations.
13	Coordinated procedures and deemed filing	Adopt common intake without common or indeterminate legal authority.
14	Surveillance, examination, enforcement, and data sharing	Create shared alert taxonomies, referral procedures, evidence-retention standards, and conflict-resolution protocols.
15	Manipulation and material nonpublic information	Require a cross-market evidence package sufficient to reconstruct intent, exposure, timing, and resulting benefit or loss.

Conclusion

VeloxVFX LLC respectfully submits these recommendations to support clear, reviewable, and technology-neutral regulation while preserving statutory authority, market integrity, customer and investor protection, and complete agency access to the evidence needed for supervision and enforcement.

Respectfully submitted,

Eyad G. Haddadin
Managing Member
VeloxVFX LLC
ed@vfxvaultai.com
www.veloxvfx.com