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CFTC’s Innovation Advisory Committee Holds Inaugural Meeting

September 1, 2026

The Innovation Advisory Committee of the Commodity Futures Trading Commission (CFTC) held its inaugural meeting on August 20. The meeting brought together industry representatives from crypto, traditional financial markets and technology to discuss crypto assets, AI and prediction markets.

Roadmap for the new frontier of finance

In his opening remarks, CFTC Chairman Michael Selig previewed a “roadmap for the new frontier of finance,” stating that if the pending CLARITY Act, legislation that would establish a federal regulatory framework for digital assets, does not advance, he would direct CFTC staff to move swiftly to propose crypto market structure rules under the CFTC’s existing authority. Specifically, Selig directed CFTC staff to explore rules that could enable current registrants, as well as unregistered crypto exchanges, to be designated by the CFTC as a type of designated contract market (DCM) known as a “crypto asset market” and offer crypto asset trading on a leveraged or margined basis under the CFTC’s regulatory oversight.

Selig also directed staff to engage with developers of on-chain finance protocols to establish pathways for developers to offer their protocols in a legal and compliant manner in the United States. Selig’s remarks came a day after President Donald Trump noted in a White House press conference attended by crypto industry leaders that the CFTC was working to bring Hyperliquid, the most prominent perpetual swap exchange, into the United States.

On prediction markets, Selig outlined a three-part roadmap, which is reflected in a series of recently or soon-to-be proposed rules and amendments:

- First, proposed amendments to CFTC Rule 40.11 to define key terms, such as “gaming,” and enumerate public interest criteria for evaluating certain event contracts, seeking to provide clarity on issues that have been hotly debated in connection with sports and election event contracts.
- Second, a proposed rule to modernize the reporting framework for fully collateralized event contracts.
- Third, anticipated amendments to Parts 38 and 40 of the CFTC’s regulations to modernize the core principles and listing rules governing DCMs that list event contracts, and to institute consumer protection requirements, including clearer expectations for product governance, market design and incentive programs.

Selig also reiterated the CFTC’s position that federally regulated event contracts fall within its exclusive jurisdiction and stated that the CFTC would continue defending that jurisdiction against efforts by states to apply state gaming laws to DCMs.[1]

As part of the roadmap’s AI agenda, Selig highlighted a request for comment on compute markets issued earlier that week, describing plans to develop a regulatory framework supporting transparent markets for compute capacity as a commodity with reliable price discovery and effective hedging.

Industry feedback and recommendations

Throughout the meeting, Committee Chair Walt Lukken, president and CEO of the Futures Industry Association, posed questions to participants seeking feedback for the CFTC’s policy and rulemaking priorities. The discussion reflected both frustration with prior regulatory uncertainty and regulation by enforcement and appreciation for the CFTC’s shift toward engagement and regulatory action.[2]

1. Harmonization and speed to market

Industry participants were candid about their experiences under the prior administration. Several described facing investigations, Wells notices, litigation, de-banking, and overlapping federal and state requirements without clear rules governing their products. Participants said these conditions caused companies to move personnel and products overseas, incur significant legal costs, or discouraged entrepreneurs from building crypto businesses in the United States.

Against this backdrop, participants welcomed collaboration between the CFTC and Securities and Exchange Commission (SEC)[3] and called for greater harmonization to reduce the costs and friction associated with overlapping regulatory regimes. Certain cross-agency products were cited as needing coordinated guidance, including equity perpetual contracts, KPI event contracts referencing company earnings and Bitcoin index options. Participants also noted that emerging structures, such as vaults, may require a collaborative approach given their mixed securities, commodities and derivatives characteristics.

One participant called for clarity on whether futures commission merchants may self-custody customer segregated funds in tokenized form, while another highlighted the value unlocked by the joint SEC-CFTC conditional exemptive orders issued in April 2026 permitting customer cross-margining across treasury cash positions and futures positions. More broadly, several participants noted their support for the CLARITY Act, but urged the CFTC to continue using its existing authority rather than wait indefinitely for market structure legislation. Speed was a recurring concern, with participants arguing that regulatory uncertainty and state-by-state requirements have placed US firms at a competitive disadvantage to offshore firms, and urging faster regulatory decision-making within a principles-based framework capable of keeping pace with changing technology.

2. Balancing innovation and market integrity in prediction markets

Prediction markets generated the sharpest debate of the meeting. Several participants urged the CFTC to defend its federal jurisdiction, preserve the ability of DCMs to self-certify contracts, and maintain a unified federal framework rather than subject federally regulated platforms to differing state regimes. Supporters argued that prediction markets can provide price discovery, risk-management tools and useful information while offering consumer protection that may not exist on offshore or state-regulated venues.

Much of the discussion focused on where the CFTC should draw the line on permissible event contracts. The CFTC's proposed amendments to Rule 40.11 would define terms such as "gaming" and establish criteria for determining when contracts involving enumerated activities may be prohibited as contrary to the public interest. Participants differed over how restrictive those standards should be. Some argued that these sensitive markets may provide valuable information to the public, while others emphasized that contracts whose outcomes can be materially influenced by a single person or small group raise significant market integrity concerns.

One participant proposed a presumption in favor of listing novel contracts unless an identifiable public harm exists, coupled with consideration of whether the contract bears a direct causal relationship to that harm and the degree to which the outcome is susceptible to manipulation. The discussion exposed a broader divide between traditional exchange operators and novel prediction market platforms over whether the existing self-certification framework provides adequate safeguards against manipulation, particularly for sports, "mention" and other event contracts whose outcomes may be influenced by individual actors. Prediction market operators emphasized the importance of rapid self-certification for markets tied to current events, while other participants urged closer scrutiny of contracts that may present heightened manipulation risks.

The discussion also extended to retail safeguards and competitive parity. Participants raised concerns regarding potential regulatory arbitrage between direct-to-DCM and Futures Commission Merchant-intermediated retail access, including differences in know your customer (KYC) and customer identification requirements, and several supported applying comparable protections regardless of the access model.

Participants also raised concerns about US users accessing offshore platforms through VPNs and discussed the need for clearer and more consistent expectations regarding surveillance, product governance, responsible trading and other consumer protections. The debate underscored the CFTC's challenge in facilitating innovation while maintaining consistent market integrity and customer protection standards across rapidly evolving prediction market business models.

3. AI: Focus on conduct, not technology

In respect of AI's growing role in algorithmic trading and market operations, participants urged the CFTC to regulate conduct rather than specific models or tools. One participant cited the prior Regulation Automated Trading proposal, and the controversy surrounding proposed access to source code, as a cautionary example, recommending that the CFTC focus on attribution and accountability so that a responsible person or entity remains identifiable regardless of whether an order originates from an AI model, traditional algorithm or other automated system.

Cybersecurity and operational resilience of market infrastructure were a related focus. Participants described AI as both a threat vector and a defensive tool (useful for automated code review, formal verification of on-chain smart contracts, vulnerability detection and market surveillance) and suggested that advances in formal verification could over time support more stringent software reliability expectations. Others cautioned against restricting access to frontier AI models, arguing that broad access helps security researchers find vulnerabilities before attackers do, and that restrictions offer limited benefit where comparable models remain available offshore.

What's next?

The meeting reflected a shift in the CFTC's approach toward facilitating innovation through rulemakings and engagement with industry. Market participants should watch three developments in particular:

1. Potential crypto-market-structure rulemaking under the CFTC's existing authority if the CLARITY Act stalls.
2. The pending Rule 40.11 proposal and forthcoming Parts 38 and 40 amendments governing prediction markets, including retail protections, product governance and market-design standards.
3. Continued CFTC-SEC coordination on products that implicate both securities and derivatives regulation.

The CFTC's parallel work on compute markets also bears watching, as it considers how its existing commodity and derivatives framework may apply to an emerging market for compute capacity.

Notes

1. On April 2, 2026, the CFTC, together with the Department of Justice, filed lawsuits against Arizona, Connecticut and Illinois challenging state efforts to apply state law to CFTC-registered designated contract markets. On April 24, the CFTC sued New York to halt the state's application of state gambling laws to CFTC-regulated markets, and it subsequently brought similar actions against Wisconsin, Minnesota, New Mexico and Kentucky. The CFTC also moved to intervene in litigation in Rhode Island and has filed amicus briefs in prediction-market litigation involving Nevada, Massachusetts and Ohio.
2. For example, on May 29, 2026, the CFTC issued a policy statement addressing the listing of perpetual contracts. On June 10, 2026, it proposed amendments to its rules governing event contracts involving enumerated activities; on June 18, 2026, the CFTC and SEC jointly requested comment on opportunities to clarify and harmonize derivatives product definitions and related jurisdictional issues; on June 22, 2026, the CFTC requested comment on 24/7 trading and perpetual contracts referencing certain energy commodities; and, on August 19, 2026, the CFTC requested comment on the listing of derivatives contracts referencing computing capacity.
3. This collaborative posture may in part reflect Selig's prior service as a senior advisor to SEC Chairman Paul Atkins.

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