April 30, 2026

Christopher Kirkpatrick

Secretary of the Commission

Commodity Futures Trading Commission

Three Lafayette Centre

1155 21st Street, N.W.

Washington, DC 20581

Re: Advanced Notice of Proposed Rulemaking on Prediction Markets

91 Fed. Reg. 12,516 (March 16, 2026)

Dear Secretary Kirkpatrick and Members of the Commission:

if.market respectfully submits this comment in response to the Commission's Advanced Notice of Proposed Rulemaking on Prediction Markets. We write to introduce the Commission to an emerging class of market infrastructure that extends beyond traditional event contracts: cash-settled conditional asset pricing markets. We believe this category of innovation merits the Commission's consideration as it develops a regulatory framework for event-linked derivatives, and we offer this comment to assist the Commission in understanding the technology, its economic function, and its potential benefits to market participants and the public interest.

if.market operates a decentralized conditional asset pricing protocol built on public blockchain infrastructure. Unlike prediction markets, which discover the probability of an event occurring, our protocol discovers the *price* of a financial asset conditional on a specific event outcome. Critically, our protocol employs a cash-settled, USDC-denominated model in which participants gain synthetic exposure to conditional asset prices without ever taking custody of the underlying reference asset. This distinction is fundamental, and we respectfully submit that the Commission's forthcoming regulatory framework should account for it.

I. What Conditional Asset Pricing Markets Are

Traditional prediction markets answer the question: "What is the probability that Event X occurs?" The output is a number between zero and one. Conditional asset pricing markets answer a fundamentally different question: "If Event X occurs, what should Asset Y trade at?" The output is a price denominated in a reference currency.

Consider a market conditioned on a Federal Open Market Committee rate decision with two potential outcomes: a rate cut or no rate cut. A prediction market would produce a single probability (e.g., 60% likelihood of a cut). A conditional asset pricing market would produce two prices: the market's consensus price of Bitcoin if the Fed cuts rates, and the market's consensus price of Bitcoin if the Fed does not cut rates. These conditional prices represent genuinely new information that does not exist in any other market today.

II. The Cash-Settled Synthetic Model

if.market's protocol operates on a cash-settled, stablecoin-denominated model. Participants interact with the protocol exclusively through USDC, a regulated dollar-pegged stablecoin. At no point does the protocol require or facilitate custody, transfer, or delivery of any underlying reference asset. The instrument is entirely synthetic: it provides economic exposure to an asset's conditional price without requiring ownership of that asset.

The mechanism operates as follows:

1. **Deposit.** A participant deposits USDC into a conditional market specifying a reference asset (e.g., Bitcoin), a conditioning event (e.g., a Federal Reserve rate decision), and N possible event outcomes.
2. **Minting.** The protocol mints N conditional position tokens--one per outcome--each denominated in USDC. These tokens do not represent a claim on the underlying reference asset. Rather, each token represents a claim on a USDC payout whose value is determined by the reference asset's price at the time of event resolution, if and only if the corresponding outcome materializes.
3. **Trading.** Conditional position tokens trade against each other on outcome-specific orderbooks. The prices that emerge on these orderbooks represent the market's USDC-denominated conditional valuations of the reference asset under each scenario.
4. **Settlement.** Upon event resolution, an oracle reports both the realized outcome and the reference asset's price. Tokens corresponding to the realized outcome settle in USDC at the oracle-reported price. Tokens corresponding to non-materialized outcomes expire worthless. All settlements occur exclusively in USDC.
5. **Conservation.** The protocol enforces a strict conservation property: for every unit of USDC deposited, exactly one conditional token across the outcome set will settle, and the total USDC disbursed at settlement equals the total USDC deposited. No value is created or destroyed. This property is enforced at the smart contract level and is publicly auditable.

To illustrate concretely: suppose a participant deposits 1,000 USDC into a conditional Bitcoin market with two outcomes (Fed cuts / Fed holds). The participant receives two position tokens. If Bitcoin's conditional price in the "Fed cuts" outcome is trading at $110,000, and the participant holds a long position worth 0.009 BTC-equivalent in that outcome, their position is worth approximately 1,000 USDC if the Fed cuts. If the Fed holds instead, that position expires and the participant's counterparty receives the USDC. At no point does anyone take custody of actual Bitcoin. The entire transaction--from deposit to settlement--occurs in USDC.

III. Full Collateralization by Design

A distinctive feature of the cash-settled conditional model is that it is fully collateralized at all times, by construction. The protocol cannot disburse more USDC at settlement than was deposited at market creation. This is not a risk management policy that can be relaxed or overridden; it is an invariant enforced by the smart contract's code.

In traditional derivatives markets, collateralization is an ongoing risk management challenge. Clearinghouses must calculate and collect margin, monitor positions for adequacy, issue margin calls, and manage the risk that a counterparty defaults before posting sufficient collateral. These processes are operationally complex, introduce latency risk, and have historically been sources of systemic fragility.

The if.market protocol eliminates this entire category of risk. Because the full notional value of every position is locked in USDC at the time of deposit, there is no margin risk, no counterparty credit risk, and no possibility of under-collateralization. The system is, in effect, a pre-funded clearinghouse in which every obligation is fully backed before any trade occurs. This property holds regardless of market volatility, position concentration, or participant behavior.

We respectfully submit that this structural property should be recognized as a meaningful advantage in the Commission's regulatory analysis. Full collateralization eliminates the need for many of the risk management requirements that are necessary in partially collateralized derivatives markets--requirements that exist precisely because under-collateralization is possible. A regulatory framework that accounts for the fully collateralized nature of these instruments could provide appropriate oversight with substantially lower compliance burden, benefiting both the Commission and market participants.

IV. Why the Cash-Settled Synthetic Structure Matters for Regulation

The instrument is a cash-settled derivative, not a vehicle for asset transfer. Because the protocol never touches the underlying reference asset, it does not function as a spot exchange, custodian, or transfer agent. The economic exposure is entirely synthetic. This places the instrument squarely within the category of cash-settled derivatives--a category the Commission has long regulated and for which well-developed regulatory frameworks exist. The Commission's experience with cash-settled futures and swaps on equity indices, interest rates, and commodities provides a natural template for regulatory treatment.

Settlement in a regulated stablecoin reduces counterparty and operational risk. USDC is issued by Circle Internet Financial, a regulated financial institution, and is subject to state money transmission licensing, regular reserve attestations, and compliance with applicable financial regulations. By settling exclusively in USDC, the protocol inherits the risk management infrastructure of the stablecoin issuer. There is no risk of delivery failure, no need for physical settlement logistics, and no basis risk between the settlement medium and the reference price.

The synthetic structure democratizes access to scenario-specific hedging. A commodity producer concerned about the price impact of a regulatory decision does not need to hold Bitcoin or any other reference asset to hedge using conditional markets. They can deposit USDC and take positions that provide economic exposure to how any reference asset's price would react to the event of concern. This dramatically lowers barriers to participation for hedgers who need scenario-specific risk management but do not wish to take direct positions in the underlying reference asset.

The model avoids commingling asset custody with derivatives trading. One of the risk factors that has plagued digital asset markets is the commingling of custody, exchange, and derivatives functions within a single entity. The cash-settled synthetic model eliminates the

custody dimension entirely. The protocol never holds, controls, or has access to any reference asset. This separation of concerns aligns with the Commission's broader policy objectives around risk compartmentalization and customer protection.

V. Oracle Design and Settlement Integrity

The Commission will rightly be concerned with how event outcomes are determined and how reference prices are established at settlement. The integrity of the settlement process is critical to market confidence and participant protection. We describe our approach here to assist the Commission's analysis.

if.market's settlement mechanism relies on an oracle system that reports two pieces of information at the time of event resolution: (1) which outcome materialized, and (2) the reference asset's price at a defined settlement time. These are distinct inputs and each requires appropriate safeguards.

Event outcome resolution. For event outcomes that are objectively verifiable (e.g., a Federal Reserve rate decision, an election result, or a regulatory action), the oracle aggregates reports from multiple independent data sources and applies a consensus mechanism to determine the realized outcome. The protocol supports configurable resolution criteria, including multi-source consensus thresholds and time-delayed confirmation windows, to reduce the risk of erroneous or manipulated reporting.

Reference price determination. The reference asset's settlement price is derived from established, widely-used price feeds--such as volume-weighted average prices across multiple liquid exchanges--calculated over a defined window around the event resolution time. This approach, analogous to how cash-settled futures determine their final settlement price, reduces susceptibility to spot price manipulation at a single point in time.

Dispute resolution. The protocol incorporates a dispute resolution mechanism that allows participants to challenge a reported outcome within a defined window after initial reporting. Disputed outcomes are escalated to a decentralized arbitration process with economic incentives aligned toward accurate resolution. This mechanism provides a safety valve against oracle errors while preserving timely settlement in the ordinary course.

We recognize that oracle design is an area of active development and that the Commission may have questions about the sufficiency of these safeguards. We welcome the opportunity to provide detailed technical documentation and to work with Commission staff to develop oracle standards that meet the Commission's requirements for market integrity.

VI. Distinction from Existing Event Contracts and Prediction Markets

We respectfully urge the Commission to recognize that cash-settled conditional asset pricing markets are categorically different from traditional event contracts in several important respects:

The output is a price, not a probability. Event contracts produce binary payoffs that reflect the likelihood of an outcome. Conditional asset pricing markets produce continuous price signals

that reflect the expected value of an asset given a specific state of the world. The information content is fundamentally different and complementary.

The economic function is price discovery and hedging, not wagering. Participants in conditional asset pricing markets are expressing views on asset valuations under specific scenarios. A portfolio manager who takes a position in conditional tokens is constructing a synthetic hedge against a specific macro scenario--not placing a bet. The cash-settled nature reinforces this: the participant never acquires or delivers the reference asset; they are managing USDC-denominated risk exposure to conditional price movements.

The instrument is economically equivalent to a contingent claim. Conditional tokens are implementations of Arrow-Debreu securities--a concept from Nobel Prize–winning economic theory that describes state-contingent claims forming the basis of complete financial markets. The cash-settled variant is directly analogous to a cash-settled option or swap whose payoff is contingent on both an event outcome and a reference price.

There is no "gaming" element. Cash-settled conditional tokens do not present binary win/lose propositions on event outcomes per se. A token's value fluctuates continuously based on the market's assessment of the reference asset's conditional price. Participants can enter and exit positions at market-determined prices at any time prior to settlement. The risk profile is analogous to holding a cash-settled derivative position--not to placing a wager on an event outcome.

VII. Economic Benefits and Public Interest

The Commission's ANPRM asks whether certain event contracts serve the public interest. We submit that cash-settled conditional asset pricing markets generate substantial public benefits:

Novel price discovery. Conditional asset prices provide information that is currently unavailable in any financial market. No existing instrument reveals the market's consensus on "what Bitcoin should trade at if the Federal Reserve cuts rates" or "what gold should trade at if tariffs are imposed." This information is valuable to portfolio managers, risk officers, policymakers, and researchers.

Scenario-specific hedging without asset custody. The cash-settled model means that hedgers do not need to own, custody, or manage the reference asset in order to hedge scenario-specific exposure to its price. A pension fund concerned about the impact of a geopolitical event on its commodity portfolio can construct a precise hedge using USDC alone.

Market completeness. Economic theory has long recognized that complete markets--where every state-contingent claim can be traded--produce optimal risk allocation across the economy. Cash-settled conditional tokens on public blockchains reduce the cost of creating and trading state-contingent claims dramatically.

Transparency, auditability, and full collateralization. Because the protocol operates on a public blockchain, all USDC deposits, token minting, trading, and settlement activity is transparent and auditable. The conservation property and full collateralization are enforced at the smart contract level and can be independently verified. The use of a regulated stablecoin as the

sole settlement medium means that all flows are denominated in a familiar, auditable unit of account.

Reduced systemic risk. The cash-settled synthetic model ensures that the derivatives function is cleanly separated from custody. Combined with full collateralization, this eliminates the risk of cascading failures from commingled functions and under-collateralized positions--lessons the digital asset industry has learned painfully.

VIII. Responses to Specific ANPRM Questions

Regarding Questions 7–14 (Public Interest): We submit that cash-settled conditional asset pricing markets serve a clear economic purpose--scenario-specific price discovery and hedging--that is distinct from and complementary to traditional prediction markets. The cash-settled, fully-collateralized, USDC-denominated structure means these instruments function as synthetic derivatives with transparent settlement mechanics. Any framework for assessing public interest should recognize that instruments enabling genuine hedging and price discovery merit favorable consideration.

Regarding Questions 15–22 (Gaming and Unlawful Activity): Cash-settled conditional asset pricing markets produce continuous price signals on recognized financial assets, not binary payoffs on event outcomes. The synthetic, cash-settled structure makes these instruments functionally identical to cash-settled swaps and options--instruments the Commission regulates routinely. We respectfully suggest that the Commission's definition of "gaming" should explicitly exclude cash-settled instruments whose primary economic function is asset price discovery.

Regarding Questions 29–32 (Insider Information): Cash-settled conditional asset pricing markets present considerations regarding insider information that are analogous to existing cash-settled derivatives markets. We support the Commission's exploration of insider trading restrictions for event-linked derivatives and believe that conditional asset pricing markets should be subject to the same standards as other cash-settled derivatives markets with respect to material nonpublic information.

Regarding Questions 33–40 (Contract Classification): We respectfully submit that cash-settled conditional tokens most closely resemble cash-settled swaps under the Commodity Exchange Act. The instrument involves the exchange of payments in USDC based on the occurrence of a specified event and the level of a reference price--a structure that falls naturally within the CEA's definition of "swap." The cash-settled synthetic model avoids questions about delivery mechanics, custody, and asset transfer that might otherwise complicate classification.

IX. Existing Precedent and Market Validation

Conditional market mechanisms are not theoretical. MetaDAO, a decentralized autonomous organization, has operated conditional token markets for governance decisions since 2023. Under MetaDAO's "futarchy" model, participants trade conditional tokens representing the value of a governance token under competing proposals, and the market-determined prices are used to make binding governance decisions. Protocols including Drift Protocol, Sanctum, and Marinade

Finance have utilized this mechanism. The Gnosis Conditional Token Framework on Ethereum has provided the foundational smart contract infrastructure for conditional token markets since 2019.

if.market builds on this precedent by extending conditional token mechanics to cash-settled, USDC-denominated synthetic instruments--a model that cleanly separates derivatives exposure from underlying asset custody and aligns naturally with the Commission's existing regulatory frameworks for cash-settled derivatives.

X. Recommendations

We respectfully offer the following recommendations for the Commission's consideration:

- **Recognize cash-settled conditional asset pricing markets as a distinct category** within the Commission's evolving framework for event-linked derivatives. The cash-settled, fully-collateralized, synthetic structure means they are more naturally classified alongside existing cash-settled derivatives than alongside prediction market event contracts.
- **Apply a functional analysis** to determine regulatory treatment. Cash-settled instruments whose primary function is price discovery and hedging on recognized financial assets should be distinguished from instruments whose primary function is wagering on event outcomes.
- **Exclude cash-settled conditional asset pricing from any "gaming" classification.** Trading cash-settled synthetic positions on financial assets is economically equivalent to trading cash-settled swaps or options on those assets.
- **Consider a principles-based safe harbor** for cash-settled conditional asset pricing protocols that meet defined criteria: exclusive settlement in regulated stablecoins, full collateralization, transparent on-chain settlement, conservation of deposited value, robust oracle design, and public auditability.
- **Account for full collateralization in regulatory requirements.** Instruments that are fully collateralized by design present a fundamentally different risk profile than partially collateralized derivatives. The Commission's framework should calibrate margin, capital, and risk management requirements accordingly.
- **Develop oracle standards for event-linked derivatives.** The integrity of settlement depends on oracle reliability. The Commission could develop principles-based standards for oracle design--including multi-source consensus, dispute resolution mechanisms, and transparency requirements--that would benefit the entire event-linked derivatives ecosystem.
- **Leverage existing regulatory frameworks for cash-settled derivatives.** The Commission's extensive experience regulating cash-settled futures, options, and swaps provides a natural starting point. Rather than creating an entirely new framework, the Commission could extend existing guidance to accommodate the conditional element.
- **Engage with developers and operators of conditional market protocols** as the Commission develops its rulemaking. The technology is evolving rapidly, and industry input will be essential to crafting rules that are both effective and workable.

XI. Conclusion

Cash-settled conditional asset pricing markets represent a genuine advancement in financial market infrastructure. They produce information that no existing market provides, enable hedging strategies that no existing instrument supports, and operate with a degree of transparency, full collateralization, and auditability that exceeds many traditional derivatives markets. The cash-settled, USDC-denominated synthetic structure ensures that these instruments function cleanly as derivatives--without the complications of asset custody, physical delivery, or commingled functions that have created systemic risks in other digital asset markets.

We commend the Commission for undertaking this rulemaking with the stated goal of "minimum effective dose" regulation, and we respectfully urge the Commission to ensure that its framework accommodates this important category of market innovation.

We welcome the opportunity to provide further information, technical demonstrations, or testimony to assist the Commission in its deliberations. We are committed to constructive engagement with the Commission as it develops rules that protect market participants while enabling beneficial innovation.

Respectfully submitted,

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Conditional Asset Pricing Protocol

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