PUBLIC COMMENT

Advance Notice of Proposed Rulemaking — Prediction Markets

RIN: 3038-AF65 **Submitted via:** comments.cftc.gov **Deadline:** April 30, 2026

To the Secretary of the Commission:

As a Certified Public Accountant, a 50 percent owner of a public accounting firm, and a professional with an academic background in statistics and industrial-organizational psychology, I am submitting this comment in response to the Commission's Advance Notice of Proposed Rulemaking on event contract derivatives traded on prediction markets, published in the Federal Register on March 16, 2026 (91 FR 12516). The Commission has issued this ANPRM seeking public comment on statutory core principles and Commission regulations that apply to prediction markets, the types of event contracts that may be prohibited as contrary to the public interest, cost-benefit considerations, and other topics. (Federal Register, 91 FR 12516, March 16, 2026)

My comments address three of the Commission's enumerated questions and are supported by peer-reviewed research, documented market incidents, and the CFTC's own regulatory record.

Response to Question 10: Price Risk, Price Discovery, and Hedging Utility

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In the aggregate, prediction markets fail to provide reliable commercial hedging utility at scale. To function as a legitimate hedge, a derivative must offer deep liquidity and meaningful resistance to artificial price distortion. Event contracts (particularly those with low trading volumes) structurally fail this test.

A "head market" siphon effect dominates the prediction market landscape: in top markets such as a presidential election, liquidity is excellent and price discovery is efficient. However, thousands of more niche, vertical markets face a severe lack of liquidity. In these long-tail markets, a large order from a few individuals can easily manipulate the price, causing the market's core value as a "truth engine" to vanish. (KuCoin Ventures, The Prediction Market Playbook, November 2025)

This is not a marginal concern: it describes the overwhelming majority of contracts currently listed. The Commission's own ANPRM notes that event contract activity has grown from an average of approximately five contracts listed per year between 2006 and 2020, to approximately 1,600 in 2025 alone. The multiplication of contract volume has dramatically

outpaced the liquidity available to support meaningful price discovery across that full catalog. (Cleary Gottlieb, Prediction Markets for Those Who Don't Predict, April 2026)

Academic research corroborates the structural problem. Research from the Wharton School's Initiative for Financial Policy and Regulation notes that uninformed noise bettors can derail the benefits of liquidity and decrease market efficiency, and that insufficient liquidity means being unable to fully diversify away risk. A contract that cannot support a modest commercial hedge without material price distortion does not satisfy the requirements of CEA Section 3, which identifies price discovery and the deterrence of market disruption as core statutory purposes. (Wharton IFPR, A Primer on Prediction Markets, January 2025)

On the applicable standard: DCM Core Principle 3 requires that contracts must not be readily susceptible to manipulation, and Core Principle 5 specifies that speculative position limits or position accountability must be adopted where necessary and appropriate to reduce the potential threat of market manipulation or congestion. The liquidity conditions prevailing in the vast majority of listed event contracts create a structural failure against both standards. (CFTC, Economic Requirements — Core Principles)

Response to Question 30: Manipulation Risk and Token-Holder Governance

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Many modern prediction markets (particularly those utilizing blockchain infrastructure) rely on governance models that confer disproportionate resolution authority to participants who hold voting tokens. This concentration of power introduces material manipulation risk that is not hypothetical; it has already materialized in documented form on one of the largest prediction market platforms currently operating.

In March 2025, a contentious $7 million bet on Polymarket (speculating on whether Ukraine would agree to a mineral deal with President Trump before April) saw its "yes" probability surge from 9% to 100% over a 24-hour period, despite no official agreement being reached. Multiple users alleged that a large holder of UMA tokens cast a significant number of votes to yield a resolution in their favor. (CoinDesk, Polymarket, UMA Communities Lock Horns After $7M Ukraine Bet Resolves, March 27, 2025)

Polymarket acknowledged the governance attack, admitting the market resolved against expectations, but declined to issue refunds, stating it was not a "market failure." The platform's own team characterized the incident as "unprecedented." The mechanism that enabled it was not a bug, but the platform's designed governance structure. (The Block, Polymarket Says Governance Attack by UMA Whale Is 'Unprecedented', March 27, 2025)

Analysis of the UMA voting distribution reveals that a small number of wallets control a majority of the active voting power. This concentration creates a centralization vector that undermines the value proposition of the platform. The governance model effectively functions as an oligarchy rather than a democracy. The problem extends beyond any single market, casting doubt on the reliability of every market relying on this resolution mechanism. (Webopedia, Why Is Polymarket's UMA Controversial?, January 2026)

The CFTC previously stated in its legal case against Kalshi that unregulated prediction markets, including Polymarket, are prone to manipulation. (The Block, Polymarket Says Governance Attack by UMA Whale Is 'Unprecedented', March 27, 2025)

The attempted remediation has introduced its own problems. In August 2025, UMA updated its oracle to restrict resolution proposals to a whitelist of experienced proposers: a transition from open community governance to a centralized council criticized for limiting community participation and reducing decentralization. A resolution mechanism that begins as token-holder democracy and is reformed toward a whitelist of platform employees and affiliated parties does not resolve the manipulation concern; it merely relocates it. (The Block, UMA Oracle Update Limits Resolution Proposals to Whitelisted Parties, August 12, 2025)

DCM Core Principle 4 requires that a DCM have the capacity and responsibility to prevent manipulation, price distortion, and disruptions of the cash settlement process through market surveillance, compliance, and enforcement practices and procedures. Core Principle 12 requires a DCM to establish and enforce rules to protect markets and market participants from abusive practices and to promote fair and equitable trading. Token-weighted governance structures in their current form are structurally incompatible with these requirements. The Commission should consider whether any event contract listed on a platform whose resolution mechanism relies on concentrated token-holder voting can, as a matter of first principles, satisfy Core Principle 3's requirement that contracts not be readily susceptible to manipulation. (Norton Rose Fulbright, CFTC Advances Regulatory Framework for Prediction Markets, March 2026)

Response to Questions 10 & 11: Price Dissemination, Forecasting Accuracy, and the Public Interest

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A central justification offered by proponents of expanded prediction market regulation is that these markets function as superior forecasting tools: aggregating dispersed information and producing probability estimates that exceed what conventional polling or statistical modeling can achieve. The empirical record does not support this claim, particularly for political and public affairs markets, which represent the most prominent category of contracts currently at issue.

Proponents of prediction markets will correctly note that Polymarket priced Donald Trump as a meaningful favorite throughout the final weeks of the 2024 presidential election, while polling averages showed a near-dead-heat. Trump's decisive victory is cited as evidence of prediction markets' superior forecasting ability. That result deserves acknowledgment. (TokenMetrics, Are Prediction Markets More Accurate Than Polls?, February 2026)

However, a single high-profile correct call (on the highest-volume, most-liquid event contract in the market's history) does not establish a reliable forecasting track record, and it should not be allowed to obscure the broader empirical picture that existed before prediction markets became mainstream instruments commanding the volume necessary to attract sophisticated participants.

The relevant comparison is the 2022 U.S. midterm cycle, the last major election before prediction markets achieved their current scale and retail prominence, and therefore a cleaner test of the underlying mechanism rather than of post-hoc liquidity effects.

Even in the 2022 U.S. midterm elections, with no exceptional confounding factors and fully modern prediction markets in operation, prediction markets fared worse than expert forecasters. In a systematic comparison graded on a log-odds scoring method, the election forecasts from FiveThirtyEight's model were more accurate than prediction markets from Manifold Markets, Polymarket, and PredictIt. The two best predictors of the 2022 midterm results were the two sites least reliant on betting and market mechanisms and most reliant on specialist expertise. Prediction markets deviated from the publicly available FiveThirtyEight predictions, which were proven to be well-calibrated, and added negative value. (Asterisk Magazine, Prediction Markets Have an Elections Problem, Issue 5)

An independent scoring analysis of midterm forecasts confirmed the same ranking, with real-money prediction markets Polymarket and PredictIt scoring below both FiveThirtyEight and the play-money Manifold platform. (First Sigma, Scoring Midterm Election Forecasts, November 2022)

This finding is reinforced by peer-reviewed research in the International Journal of Forecasting. A systematic historical assessment of U.S. presidential election betting markets found that market prices are far better predictors in periods without polls than when polls are available, and that once scientific polling is available, last-minute market prices add nothing to election prediction beyond what polls already provide. (Erikson & Wlezien, Markets vs. Polls as Election Predictors, International Journal of Forecasting, Vol. 38, Issue 3, 2022)

The mechanism underlying this forecasting failure is well-characterized. Analysis of Kalshi demonstrates that the market is split into two distinct populations: a taker class that systematically overpays for low-probability, affirmative outcomes, and a maker class that extracts this premium through passive liquidity provision. When the topic allows for tribalism and hope (sports, entertainment, political contests), the market transforms into a mechanism

for transferring wealth from the optimistic to the calculated, rather than a reliable aggregator of probabilistic information. The 2024 result is consistent with this framework: a massive post-election liquidity surge attracted sophisticated market makers who corrected prior inefficiencies. That is not the same as the market being structurally reliable. It became more accurate precisely when volume made it profitable for professionals to trade it efficiently. The same liquidity conditions do not exist across the catalog of 1,600 contracts now listed annually. (Becker, The Microstructure of Wealth Transfer in Prediction Markets, January 2026)

A market that measures social sentiment and speculative momentum rather than objective probability does not fulfill the purposes of the Commodity Exchange Act. The Commission has asked how the objectives of CEA Section 3 should be weighed in any public interest determination: deterring manipulation, protecting market participants, ensuring financial integrity, and promoting responsible innovation. The answer, on the present record, is that the first three objectives are in tension with expanding the footprint of retail-facing event contracts without meaningful structural controls. (Cleary Gottlieb, Prediction Markets for Those Who Don't Predict, April 2026)

Conclusion

The aggregate data and structural mechanics of prediction markets demonstrate that they are, in their current form, highly susceptible to capital gaming, token-holder manipulation, and sentiment-driven price distortion that decouples contract pricing from objective probability. These are not theoretical concerns. They are documented in published academic research, in the CFTC's own enforcement record, and in incidents that have already harmed market participants on platforms currently seeking DCM registration.

I urge the Commission to:

1. **Establish minimum liquidity thresholds** as a precondition for event contract listing, to ensure that contracts offered as commercial instruments can actually sustain commercial use without being susceptible to small-capital price manipulation;
2. **Require that any platform utilizing token-weighted or concentrated governance mechanisms** for market resolution demonstrate, with specificity, how those mechanisms satisfy DCM Core Principles 3, 4, and 12 before self-certification is accepted; and
3. **Weigh the empirical forecasting record of prediction markets** (which shows systematic underperformance relative to rigorous statistical models in political and public affairs contracts prior to the attainment of high-volume liquidity) when evaluating whether specific event contracts serve the price discovery and public interest purposes enumerated in CEA Section 3.

The Commission has an opportunity in this rulemaking to establish a durable, evidence-grounded framework rather than one premised on the assumption that market participation is itself a sufficient proxy for public benefit.

Respectfully submitted

Certified Public Accountant

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