April 29, 2026
VIA ELECTRONIC SUBMISSION

RIN 3038-AF65

Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1151 21st Street NW
Washington, DC 20581

Submitted via htttps://comments.cftc.gov

Re: **Advance Notice of Proposed Rulemaking: Prediction Markets (RIN 3038-AF65, 91 Fed. Reg. 12,516 (Mar. 16, 2026))**

Dear Secretary Kirkpatrick:

Katoji LLC, a Wyoming limited liability company, submits this comment in response to the Commission's Advance Notice of Proposed Rulemaking on Prediction Markets (RIN 3038-AF65). We address four questions the ANPRM poses: how "gaming" should be defined under CEA §5c(c)(5)(C); what manipulation-resistance framework should apply to commodity-linked event contracts; how core principles should apply to peer-to-peer structures; and how crypto-denominated settlement fits existing CFTC jurisdiction.

Throughout this comment, we draw on our experience operating SwarmDojo, a peer-to-peer AI prediction accuracy contest platform that settles on commodity prices via autonomous smart contract.[1] The legal and policy arguments stand on their own; SwarmDojo illustrates them in practice.

Recommendations

Katoji LLC recommends the Commission: (1) adopt a commodity-nexus safe harbor from the §5c(c)(5)(C) gaming prohibition; (2) recognize on-chain integrity controls as categorically superior to surveillance-based controls; (3) create a no-action letter pathway for limited pre-DCM operations; and (4) distinguish AI benchmarking markets from sports and casino contracts in the final rule.

[1] SwarmDojo works as follows: two agent owners each deploy an AI system to predict the price of a commodity asset over a defined interval. Both predictions are SHA-256 hashed and committed to the Solana blockchain before the interval closes. At settlement, a Pyth Network oracle feed determines the actual price. The smart contract scores both predictions and pays the more accurate agent owner. No human is in the settlement loop. Katoji LLC never holds user funds. Stake limits ($100/match, $500/day, $2,000/month) are enforced at the smart contract level and cannot be waived.

I. How "Gaming" Should Be Defined Under CEA §5c(c)(5)(C)

The Commission asks in Questions 19 and 20 how "gaming" should be defined and what distinguishes prediction markets from gambling. The text of the statute, its legislative history, and recent congressional action all point to the same answer: "gaming" means contracts whose outcomes are controlled by chance or by identifiable individuals susceptible to manipulation. Commodity price contracts are neither.

A. The Statutory Text Supports a Narrow, Manipulation-Focused Reading

CEA §5c(c)(5)(C) prohibits event contracts that "involve" gaming, alongside assassination, war, terrorism, and similar categories. The common thread is outcomes that are ethically objectionable or structurally manipulable. Congress was not prohibiting all contracts with uncertain outcomes; it was targeting contracts where the outcome can be influenced by a participant for personal gain.

Three features distinguish commodity price prediction from gaming under this reading:

- **Commodity nexus.** A contract that settles on the price of a CFTC-regulated commodity settles on data produced by millions of global market participants across hundreds of exchanges. No single actor can move that price. CEA §1a(9) defines commodity broadly; the Commission has confirmed Bitcoin, Ether, and Solana qualify. *See CFTC v. McDonnell*, 287 F. Supp. 3d 213 (E.D.N.Y. 2018).
- **Skill, not chance.** What distinguishes skill from chance is whether performance converges toward accuracy over time. A machine learning system does this by design – each iteration incorporates new information and potentially operator judgment into a more refined model. For example, SwarmDojo's prediction agents refine autonomously through iterative learning, with operators shaping performance through ongoing configuration. This is skill in the sense the law recognizes: outcomes driven by methodology, not randomness.
- **Economic purpose.** Commodity price prediction markets generate three forms of value that are not gambling: price discovery, benchmarking data on predictive methodology with independent commercial value, and market literacy at scale. The third, present for example in SwarmDojo, is novel – where an AI agent's debrief is a qualitative and quantitative post-mortem derived from mathematical learning, shared with the human learner.

B. Recent Congressional Action Confirms the Boundary

The recently introduced Prediction Markets Are Gambling Act (S. 4160, 119th Cong. 2026) would prohibit contracts that "resemble a sports bet or casino-style game," defined as contracts on sporting events, elections, or games traditionally found in a casino. The congressional concern driving that legislation is contracts where an identifiable individual (an athlete, a referee, a candidate) can influence the outcome.

Commodity price contracts are structurally opposite. The outcome is determined by global market aggregation. No participant, regardless of resources or intent, can influence a commodity

settlement price enough to affect a single contract. The Commission should recognize this as a categorical distinction, not a matter of degree.

C. The Commission Should Adopt a Commodity-Nexus Safe Harbor

Katoji LLC recommends that the Commission adopt a bright-line rule: event contracts whose settlement depends on the price of a CFTC-regulated commodity are categorically outside the §5c(c)(5)(C) gaming prohibition. This eliminates case-by-case uncertainty for an entire product class, is consistent with the Commission's own commodity jurisdiction framework, and reflects the Kalshi DCM designation's recognition that event contracts with real economic purpose are financial instruments, not gambling products. *See KalshiEX LLC DCM Designation (2021)*; *Kalshi v. CFTC* (2024).

A contract that settles on a CFTC-regulated commodity price inherits the integrity of that market. The safe harbor simply recognizes what the Commission's commodity jurisdiction framework already implies.

II. The Manipulation-Resistance Framework for Commodity-Linked Event Contracts

The Commission asks in Questions 13-15 whether blockchain-based markets raise unique considerations for DCM Core Principle 3. They do, and the answer favors blockchain architecture. On-chain settlement provides a category of manipulation resistance that surveillance-based compliance cannot replicate.

A. The Core Principle 3 Problem with Traditional Event Contracts

DCM Core Principle 3 requires that listed contracts not be readily susceptible to manipulation. 7 U.S.C. §7(d)(3). The Appendix C Guidance to Part 38 directs DCMs to consider whether cash-settled contracts create incentives to manipulate settlement data. 17 CFR Part 38, App. C. Staff Advisory Letter No. 26-08 (Mar. 12, 2026) extended this analysis to event contracts, emphasizing settlement data reliability, real-time monitoring, and insider trading risks.

Traditional surveillance-based compliance addresses these concerns after the fact: monitor for anomalies, investigate, discipline. It depends on the platform's own records and its willingness to act. This is adequate for most derivatives markets. For event contracts on individual-outcome events (sports, elections), surveillance-based compliance faces a structural limitation: manipulation can occur at the event level, outside the platform's monitoring perimeter, regardless of trade timing.

B. On-Chain Settlement Resolves the Problem Structurally

Blockchain architecture addresses Core Principle 3 concerns before they arise, not after. The Commission's rulemaking should formally recognize this distinction and create a tiered framework that reduces compliance burden for platforms that implement on-chain controls.

Three on-chain mechanisms are directly relevant:

- **Cryptographic pre-commitment.** When predictions are SHA-256 hashed and anchored to a public blockchain before the prediction interval closes, neither participant can modify their prediction after observing the other's position. Any third party, including Commission staff, can verify this directly on-chain. No surveillance-based system can provide this guarantee.
- **Decentralized oracle settlement.** Decentralized oracle networks aggregate price data across dozens of institutional sources, making it structurally impossible for any single provider to influence the settlement outcome. Pyth Network and Chainlink are the leading examples of this architecture. The data source, fallback logic, and void conditions are written into immutable smart contract code. Advisory Letter No. 26-08 requires DCMs to "specify settlement data sources and assess their reliability and manipulation resistance." On-chain architecture satisfies this requirement as a verifiable fact, not a policy commitment.
- **Structural impossibility of outcome manipulation.** On commodity price contracts, neither participant can influence the settlement outcome. The manipulation vector that concerns the Commission in sports and political contracts (an individual controlling or influencing the event) does not exist in a commodity price prediction context. The Commission should distinguish these categories explicitly in its rulemaking framework.

Together, these three mechanisms mean that Commission staff can audit every element of a platform's integrity architecture directly from the blockchain. For example, SwarmDojo implements all three, producing a compliance posture that is independently verifiable on-chain without requesting records from the operator.

III. How Core Principles Should Apply to Peer-to-Peer Structures

The Commission asks in Questions 6-9 whether the P2P structure of some prediction markets creates distinct regulatory considerations. It does, and those considerations reduce regulatory risk rather than increase it.

A. P2P Eliminates Platform Counterparty Risk

A traditional exchange (including Kalshi) operates an order book and matches buyers against sellers. The platform profits from volume and has structural incentives to maximize trading activity. A P2P platform matches two specific participants in a bilateral contest. The platform is never the counterparty to any position.

This eliminates the regulatory concern that has driven scrutiny of some prediction market platforms: the risk that a platform profits from user losses. For example, on SwarmDojo, Katoji LLC's only revenue is a small, flat technology fee drawn from the settled contract. Katoji LLC has no economic interest in any particular outcome. That is a structural protection for users that requires no regulatory mandate to maintain.

B. Infrastructure Platforms Should Be Treated Differently from Exchanges

The Commission's framework should distinguish between exchange operators (who create and manage order books) and infrastructure providers (who deploy smart contract rails that participants interact with directly). These are different regulatory animals.

For example, on SwarmDojo, external operators connect via API, sign all transactions with their own private keys, and broadcast signed transactions directly to the Solana network. The platform constructs unsigned transactions and provides match discovery. At no point does the platform touch user funds. This is closer in regulatory character to a Solana program SDK than to a DCM.

C. Smart Contract Retail Protections Are Categorically Stronger Than Policy-Based Limits

The Commission asks how retail protection considerations should inform the rulemaking framework. CEA §5(d)(20) requires DCMs to adopt position limits "where necessary and appropriate." The key regulatory question is not whether limits exist, but whether they can be circumvented after adoption.

Application-layer limits (a configuration file, a server-side check) satisfy the formal requirement but not the enforcement concern. An engineer can modify them; a compromised system can bypass them. The Commission has no way to verify, after the fact, that the limits in effect at the time of a given transaction matched what the platform represented in its filings.

Blockchain-enforced limits close this gap. When retail protections are written into immutable smart contract code, they become self-executing constraints that cannot be modified after deployment. For example, SwarmDojo's stake limits ($100/match, $500/day, $2,000/month) operate this way: the contract rejects any transaction that exceeds them, and Commission staff can verify the enforced limits directly on-chain at any time.

The Commission's rulemaking should recognize this distinction. Blockchain-enforced retail protections satisfy the §5(d)(20) enforcement concern in a way application-layer controls structurally cannot.

IV. Crypto-Denominated Settlement Within Existing CFTC Jurisdiction

The ANPRM does not specifically address crypto-denominated settlement. The Commission's existing framework provides the answer.

SOL, Solana's native token, is a commodity under CEA §1a(9), consistent with the Commission's treatment of Bitcoin and Ether as commodities. *See CFTC v. McDonnell*, 287 F. Supp. 3d 213 (E.D.N.Y. 2018). When a contract is denominated and settled in SOL, the settlement currency is itself a CFTC-regulated commodity. This creates a second commodity layer that reinforces, rather than complicates, CFTC jurisdiction.

The practical question is whether dollar-equivalent retail limits hold when the settlement currency fluctuates. They can, if limits are enforced using real-time price feeds at the moment of contract execution. For example, SwarmDojo computes dollar-equivalent limits via live Pyth SOL/USD feeds at execution time. A user cannot circumvent the $100 limit by exploiting SOL price appreciation between transaction construction and execution because the conversion happens at the moment the contract runs.

V. Recommendations

Katoji LLC offers four specific recommendations for the Commission's rulemaking framework:

- **1. Adopt a commodity-nexus safe harbor from the §5c(c)(5)(C) gaming prohibition.** Event contracts settling on CFTC-regulated commodity prices are categorically outside the gaming prohibition. A bright-line rule eliminates uncertainty for an entire product class without requiring case-by-case analysis.
- **2. Formally recognize on-chain integrity controls as categorically superior to surveillance-based controls.** A tiered compliance framework that reduces burden for platforms implementing smart-contract-enforced controls (stake limits, settlement data specifications, pre-commitment schemes) would incentivize the highest-reliability architecture.
- **3. Create a no-action letter pathway for limited pre-DCM operations.** The current framework offers a binary choice: full DCM designation (multi-year, multi-million-dollar) or regulatory uncertainty. A supervised soft-launch pathway, with mandatory stake limits, geo-fencing, and OFAC screening as threshold requirements, would enable responsible innovation under Commission oversight. Katoji LLC is filing concurrently for such relief.
- **4. Distinguish AI benchmarking markets from sports and casino contracts in the final rule.** The manipulation risks, conflict concerns, and gaming-prohibition analysis are categorically different. Sports contracts settle on outcomes controlled by identifiable individuals. Commodity price contracts settle on global market aggregation. The rulemaking should reflect this distinction explicitly.

VI. Conclusion

The Commission's core questions in this ANPRM have workable answers: commodity-nexus contracts are outside the gaming prohibition; on-chain settlement satisfies Core Principle 3 more reliably than surveillance-based compliance; P2P structures reduce regulatory surface area; and crypto-denominated settlement is consistent with existing CFTC jurisdiction when dollar-equivalent limits are enforced at execution.

SwarmDojo demonstrates that these answers are not theoretical. Each protection the platform provides is structurally enforced, independently auditable, and verifiable on-chain without the platform's cooperation. That is the standard the Commission's rulemaking framework should establish and reward.

Chairman Selig has warned that pushing prediction markets offshore without clear domestic rules risks systemic failures of the kind the Commission exists to prevent. Katoji LLC agrees. The answer is a rulemaking framework that distinguishes commodity-linked AI accuracy markets from the sports and casino contracts driving legislative concern, recognizes on-chain controls as categorically superior, and provides a supervised pathway for responsible operators to engage with the Commission before accepting US users.

Katoji LLC respectfully requests that the Commission: (1) adopt a commodity-nexus safe harbor from the §5c(c)(5)(C) gaming prohibition; (2) formally recognize blockchain-enforced controls as categorically superior to policy-based controls; (3) establish a no-action letter pathway for limited soft-launch operations; and (4) distinguish AI benchmarking markets from sports and casino contract categories in the final rule.

Respectfully submitted,

Katoji LLC
A Wyoming Limited Liability Company
30 N. Gould St., Ste. N, Sheridan, Wyoming 82801

Jennifer Kelly, J.D.
Founder, Katoji LLC
legal@katoji-llc.com
(408) 706-6565

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Appendix A: SwarmDojo Technical Architecture

The following specifications are provided to assist Commission staff in evaluating the manipulation-resistance and retail-protection claims made in this comment:

Blockchain	Solana (Mainnet-Beta at launch; currently Devnet)
Smart Contract	Anchor-framework Solana program; publicly verifiable bytecode
Escrow Model	Program Derived Address (PDA) per match; no platform wallet custody at any point
Settlement Oracle	Pyth Network (primary) + Chainlink (fallback); decentralized multi-source aggregation
Pre-commitment	SHA-256 hash of prediction anchored via Solana memo transaction before reveal
Outcome Integrity	Settlement on global commodity price; neither participant can influence settlement outcome
Stake Limits	$100/match, $500/day, $2,000/month; USD-denominated, converted via live Pyth SOL/USD feed at execution
Geo-fence	Hard block: 9 US states + 12 international jurisdictions + OFAC wallet screening on every connection
Token Universe	Top 20 digital assets by volume; all recognized as CFTC commodities
Fee Structure	2.7% technology fee drawn from settled contract; Katoji LLC has no counterparty interest in outcomes
Entity	Katoji LLC | 30 N. Gould St., Ste. N, Sheridan, Wyoming 82801
Legal Foundation	WY Stat. §40-21-102 (smart contract enforceability); WY Stat. §34-29-101 (digital asset property rights)

Appendix B: Statutory and Regulatory References

CEA §1a(9)	Commodity definition: Bitcoin, Ether, and SOL as CFTC-regulated commodities
CEA §2(c)(2)(D)	Retail commodity transactions: smart contract custody model addressed directly
CEA §5c(c)(5)(C)	Anti-gaming provision: commodity-nexus contracts are outside the prohibition
CEA §5(d)(3)	DCM Core Principle 3: contracts must not be readily susceptible to manipulation
17 CFR Part 38, App. C	Appendix C Guidance: settlement data reliability and manipulation resistance for cash-settled contracts
CFTC Part 40	Self-certification for new contracts: event contract provisions and economic purpose test
Staff Letter 26-08	Prediction Markets Advisory (Mar. 12, 2026): DMO guidance on manipulation resistance and settlement integrity
91 Fed. Reg. 12,516	ANPRM (Mar. 16, 2026): this comment responds to Questions 6-9, 13-15, 19-20, 25
Kalshi DCM (2021)	Primary precedent: event contracts as financial instruments, not gambling products
Kalshi v. CFTC (2024)	Political contracts approved: broad reading of permissible event contract underlyings
S. 4160 (119th Cong. 2026)	Prediction Markets Are Gambling Act: confirms congressional concern is sports/casino contracts, not commodity price contracts
CFTC v. McDonnell (2018)	287 F. Supp. 3d 213 (E.D.N.Y. 2018): Bitcoin as commodity, CFTC jurisdiction established
WY Stat. §40-21-102	Smart contract legal enforceability under Wyoming law
WY Stat. §34-29-101	Digital asset property rights under Wyoming law