COMMENTS OF ED KAIM

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Re: Prediction Markets, RIN 3038-AF65
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I. INTRODUCTION AND STANDING

I am Ed Kaim, founder of Quantcha, which develops Quantcha Options Suite, a complete options portfolio management platform providing end-to-end capabilities for sophisticated investing. Quantcha also develops Qwidgets, a prediction market analytics platform providing professional-grade workspace infrastructure for a similar audience. I have researched and written extensively on both spaces and continue to work on bridging these two worlds to provide a more robust and efficient surface area for investors of all kinds.

I submit these comments in my individual capacity as a practitioner who has built professional research and trading infrastructure for both options and prediction markets. I have no direct financial stake in any prediction market platform's regulatory outcome. My interest is in a framework that enables event contracts to develop into serious, trustworthy financial instruments that institutional brokerage, custody, and asset management infrastructure can serve responsibly.

The thesis of these comments is specific. The CFTC's existing DCM and futures framework is the right regulatory home for the category of event contracts that serve genuine financial market functions: hedging measurable economic exposure, providing price discovery on variables of broad informational value, and enabling risk transfer between counterparties with real economic interest in the outcome. The conceptual tools the Commission needs to address harder design questions on margin structure, manipulation detection, probability pricing, and market surveillance are available in the options market, which has operated under federal regulation for decades.

These comments do not address the question of where activity that lacks financial market utility belongs. Whether and how state and tribal authorities choose to regulate gambling-shaped event-contingent activity is a separate question, and I take no position on it here. My focus is on the financial market category and the framework decisions that determine whether those instruments evolve into infrastructure that serious capital can use.

II. THE CFTC'S DCM FRAMEWORK IS THE RIGHT REGULATORY HOME FOR FINANCIAL MARKET EVENT CONTRACTS

Addressing Questions 1 and 2

The most consequential regulatory question facing event contracts that serve financial market functions is jurisdictional. The Third Circuit's April 2026 ruling in *Kalshi* affirming CFTC exclusivity over event contracts traded on registered DCMs is the single most important development for the orderly evolution of these markets, and the Commission should treat the establishment of a clear, comprehensive framework under its existing authority as the most pro-development action available to it.

Fragmented jurisdiction across the CFTC, state regulators, and the SEC would be more damaging to the development of legitimate financial market infrastructure than any specific regulatory requirement the Commission might adopt. Fifty different state frameworks would balkanize the market and create compliance costs that only the largest platforms could absorb, foreclosing competition and innovation in instruments that have genuine economic utility. The Commission should be clear that its jurisdiction over event contracts traded on DCMs is exclusive and that the Core Principles in CEA section 5(d) provide a sufficient foundation for comprehensive oversight of the financial market category.

The Commission should also acknowledge the active state-side and tribal-side coalitions that have raised concerns about specific subsets of event contracts. The bipartisan amicus brief filed in April by 38 state attorneys general, the IGRA-grounded amicus filings from federally recognized tribes, and the license-and-tax legislative pattern emerging in several states all reflect concerns that lie within the respective authorities of those parties. Those concerns are about activity that resembles gambling commercially regulated within state borders or governed by tribal-state compacts. They are not concerns about federally regulated derivatives serving measurable economic functions. A clear federal framework that scopes the CFTC perimeter to event contracts with demonstrable economic utility (Section VII below) addresses the practical overlap by ensuring that the contracts most likely to compete with state-regulated and tribally regulated gambling are subject to the heightened design scrutiny that prevents categorical conflict from becoming actual conflict.

Where the futures framework is silent or ill-fitting for binary event contracts, the Commission can draw on options market precedent for conceptual guidance within its existing authority. The options market has decades of experience with probability-priced, binary-payoff instruments and has developed practical solutions to the margin, surveillance, and market integrity questions the Commission is now examining. This is not a jurisdictional argument. It is a recognition that the Commission does not need to build from scratch when analogous frameworks already exist in adjacent regulated markets.

Two Core Principles deserve specific attention. Core Principle 3 (manipulation resistance) requires special design treatment for event contracts because, in addition to traditional price-based manipulation risk, the underlying event itself can sometimes be influenced by a participant with a financial interest in the outcome. This is a categorically different risk from price manipulation in continuously priced markets and requires contract-level design standards, not merely price surveillance. The Commission should require DCMs to demonstrate, as part of self-certification, that the underlying event is sufficiently

diffuse, verified through reliable sources, and not materially influenceable by any single party holding a position in the contract.

Core Principle 4 (market surveillance) can draw directly on options market methodology. Volume and open interest anomaly detection transfers well: sudden spikes in contract activity in the period immediately before an event resolves are detectable using the same analytical approaches applied in options markets. The Commission should require standardized, machine-readable data reporting from all event contract DCMs in a format analogous to the Options Price Reporting Authority (OPRA) standard. This would enable cross-platform surveillance by the Commission and by registered participants, addressing the current gap where no single DCM can see the full picture of activity across platforms.

III. PRICE DISCOVERY, HEDGING, AND ECONOMIC PURPOSE

Addressing Questions 8, 9, and 10

The Commission asks what role event contracts play in managing price risk, discovering prices, and disseminating pricing information. The answer is structural and admits a clear test.

The Commission should be precise about what an economic purpose test measures. The wrong inquiry is whether the underlying event seems sufficiently serious. That question is subjective and political, and the history of financial innovation is full of instruments that appeared purely speculative at introduction and became essential hedging tools as markets matured. The right inquiry is structural: whether a contract enables genuine risk transfer or price discovery for measurable economic exposure, or whether it has been designed primarily to optimize for engagement rather than for markets. Contracts that meet the structural test deserve the federal accommodation that DCM listing provides. Contracts that fail it may remain permissible under other regulatory frameworks but do not warrant the institutional infrastructure that DCM-listed event contracts can access.

Within the financial market category, today's binary event contracts already serve genuine hedging functions for participants with real economic exposure. Macro and economic indicator contracts on inflation, Federal Reserve decisions, and GDP outcomes offer hedging utility comparable to established financial derivatives for businesses and investors with rate or inflation exposure. Policy and regulatory outcome contracts offer hedging utility for businesses whose revenues depend on specific regulatory decisions. Weather, agricultural, and disaster contracts offer hedging utility for participants with climate-correlated economic exposure. These categories meet the structural test on their face.

Looking forward, the Commission's framework should anticipate the evolution from today's binary event contracts to scalar and continuous prediction market structures. Binary contracts ask whether an event will occur. Scalar contracts ask to what degree or at what level, introducing a structure that makes prediction markets functionally equivalent to options on event outcomes. Building a framework that

accommodates this evolution now avoids costly regulatory redesign as the market matures and enables the transition to be managed within existing CFTC authority.

IV. THE INSURANCE COMPARISON

Addressing Question 12

The Commission asks whether the availability of formal insurance for a particular event should be a factor in the public interest determination. Insurance availability, where it exists, is a positive signal rather than a restriction argument.

Formal insurance on a specific risk demonstrates that the risk is real, measurable, and of sufficient economic significance that a regulated industry has developed standardized products to address it. If insurers write policies covering a particular category of event, that proves there is legitimate economic interest in hedging exposure to it and supports the legitimacy of an event contract on that event, not the contrary.

The more fundamental point is that the distinction between insurance and derivatives is less meaningful than the regulatory framework implies. Options markets already function as insurance for price movement. A protective put is economically equivalent to a property damage policy, transferring probability-weighted risk from a party that does not want it to a counterparty willing to hold it for compensation. Event contracts in the financial market category are a natural extension of this established practice to a broader class of underlying events, not a departure from it. The relevant inquiry is whether a contract serves a legitimate economic function and meets the Commission's market integrity standards, not whether formal insurance happens to exist for the same underlying risk.

V. MARGIN AND COLLATERALIZATION

Addressing Question 2(e)

The Commission asks whether event contract DCMs should be permitted to offer margin trading. Full collateralization should remain the baseline for the near term, for reasons grounded in market structure rather than precaution.

Options markets use margin because underlying prices move continuously, allowing clearinghouses to collect variation margin daily as losses accumulate gradually. Binary event contracts do not share this characteristic. A contract priced at $0.85 on Tuesday can resolve at $0.00 Wednesday morning when the event does not occur as expected. There is no gradual loss for a clearinghouse to collect against; the entire position value can be extinguished instantaneously at resolution. Full collateralization is structurally appropriate for this settlement dynamic, not merely a precautionary measure.

Within the full-collateralization framework, intra-series netting is already established practice on at least one CFTC-registered derivatives clearing organization. Kalshi Klear's rulebook implements collateral return for cumulative prediction events, which are threshold event contract series in which the markets are not mutually exclusive (for example, a series asking whether an outcome will exceed each of several increasing thresholds). When a participant holds offsetting positions within such a series, the bounded payoff range means the participant cannot lose more than a determinable amount, and the over-collateralized portion is returned. This mechanism was approved as part of Kalshi Klear's DCO registration in August 2024 and operates within full collateralization, not as a substitute for it. The Commission should affirm intra-series netting on direction market groups as a baseline standard for any DCM clearing cumulative event contracts. The principle is sound, the regulatory precedent is in place, the options spread analog is well understood among participants, and the capital efficiency it provides is meaningful for participants holding range views on macro variables.

The Commission should also begin to address the cross-instrument and cross-exchange collateral question. Recent SEC filings for event contract ETFs, the launch of perpetual futures on Polymarket and Kalshi, and the emergence of prediction market exposure within retirement asset distribution channels all signal that the regulatory perimeter around event contracts is already evolving beyond the binary contract on a single venue. A forward-looking framework should identify the conditions under which ETFs holding event contract positions could serve as collateral within a clearinghouse's risk model, and how cross-exchange collateral arrangements between CFTC-regulated DCMs and other regulated venues could be structured. This pathway is what allows traditional brokerage, custody, and asset management infrastructure to participate in event contracts within their existing regulatory and operational frameworks. Without it, the institutional adoption that signals durable market development cannot occur.

The options market's portfolio margin framework, which accounts for correlations between positions and calculates value at risk across a participant's entire book, could in principle be adapted for event contract portfolios as market depth and clearinghouse infrastructure mature. The preconditions for portfolio margin are a robust clearinghouse capable of modeling correlated binary exposures and a participant population sophisticated enough to manage leveraged binary positions responsibly. Neither condition is yet fully met, and the Commission should establish a forward-looking framework specifying the infrastructure, participant, and surveillance standards that would need to be satisfied before margin trading could be permitted, creating a clear path for market evolution without opening margin prematurely.

VI. MARKET INTEGRITY, INFORMED TRADING, AND SURVEILLANCE

Addressing Questions 2(b), 2(c), 2(d), 11, 29, 30, and 31

Market integrity is the single most important determinant of whether event contracts evolve into financial market infrastructure or stall as a retail-flavored category. The Commission's questions about insider trading and surveillance require precise distinctions that the current public discourse has largely failed to draw. Four distinctions should inform the framework.

Analytical edge is not insider trading.

A participant who correctly analyzes publicly available information and trades on that analysis is providing the price discovery function that event contracts are designed to serve. A participant who trades on material nonpublic information about the underlying event is engaging in a fundamentally different activity. These are categorically different and require categorically different regulatory responses. Rules designed to restrict the latter that inadvertently restrict the former will reduce market quality without improving market integrity.

The line is misappropriation, not asymmetry.

Some recent commentary has argued that allowing insider trading on event contracts is a feature rather than a bug, on the theory that insiders have information that makes prices accurate. This argument conflates two different things. Informational asymmetry is intrinsic to all markets, and trading on superior analysis or research is what price discovery actually means. Misappropriation of material nonpublic information from a position of trust is a categorically different practice. CEA section 4c(a)(1) draws this line in existing law, and the Commission's recent enforcement action in *CFTC v. Van Dyke* validates that the statute reaches event contracts traded on CFTC-regulated venues without requiring new statutory authority. The framework should focus enforcement on the source and exclusivity of the information, not on the size or confidence of the resulting position.

Multi-market positions are presumptively legitimate absent other anomalous indicators.

A sophisticated participant who expresses a directional view simultaneously through options on an equity and an event contract on a related event is engaging in standard derivatives practice, typically using the best available instruments for each layer of a coherent thesis. Options traders routinely hold correlated, layered positions across multiple venues. Holding correlated positions across event contracts and related derivatives markets should be presumptively legitimate absent other anomalous indicators such as anomalous position sizing relative to a participant's established history, unusual timing concentrated immediately before nonpublic announcements, or patterns of outsized wins on contracts that resolve based on government or corporate decisions. Cross-market data sharing between the CFTC and the SEC would allow regulators to see the full picture when both event contract and equity or options positions are involved. The purpose is to provide context for pattern analysis, not to treat correlation as inherently suspect.

Participant identity is a prerequisite for enforcement credibility.

Event contract DCMs should be required to implement KYC at the same standard as any registered entity. This is not a novel requirement; it is the baseline standard for every regulated financial market in existence. The argument that blockchain transparency makes KYC unnecessary conflates two different things: knowing what trades occurred and knowing who made them. A public ledger provides the former with high fidelity. Effective enforcement requires the latter without exception. The recent enforcement record illustrates this. In *CFTC v. Van Dyke*, the trader who used classified information to net approximately $400,000 attempted to open an account on a KYC-rigorous DCM and was unable to. He successfully opened an account on a venue with weaker controls and traded there. The KYC standard is not theoretical. It is the difference between an enforcement system with traction and one with appearance only.

The framework should also recognize that exchange-level surveillance and cross-market data sharing are not supplementary to federal enforcement. They are increasingly the operational backbone of it. As the Commission's enforcement capacity is constrained by staffing and budget realities, the contract design and surveillance obligations placed on DCMs become more important, not less. The framework should specify minimum surveillance standards, machine-readable reporting requirements, and the cross-market data-sharing arrangements that allow integrity to be maintained at scale.

State action through ethics rules barring public officials from trading on nonpublic information has demonstrated a productive model for state-level engagement that does not trigger preemption questions. Executive orders adopted in Illinois, California, and New York during the past quarter address a real risk through tools squarely within state authority and complement, rather than challenge, the federal framework over event contract DCMs.

VII. THE FINANCIAL MARKET LINE

Addressing Questions 15, 19, and 20

The Commission asks how it should define gaming and what factors should inform its public interest determination for contracts that resemble gaming-related activities. The right framework operationalizes the financial market line directly rather than borrowing definitions from state gambling statutes or gambling industry frameworks.

A contract serves the demonstrable economic utility required for federal accommodation if it satisfies at least one of the following structural prongs.

Hedging utility.

The contract enables risk transfer for a measurable economic exposure faced by a class of participants beyond the contract itself, such as interest rate exposure, regulatory outcome exposure, weather exposure for agriculture, or supply chain disruption exposure.

Price discovery utility.

Market-aggregated probability of the underlying event has informational value that meaningfully informs decisions made by parties not trading the contract, such as policy decisions, capital allocation, or scientific and operational planning.

Genuine risk transfer.

Willing counterparties have economic interest in the outcome that extends beyond entertainment value or wagering preference, with measurable exposure that the contract is structured to offset.

Contracts that satisfy at least one prong qualify for the federal accommodation that DCM listing provides. Contracts that fail all three prongs may remain permissible under other regulatory frameworks but do not warrant the federal accommodation, distribution access, and investor-protection structure that financial market event contracts receive on CFTC-registered venues.

This structural test does several things at once. It avoids categorical subject matter prohibitions, which are imprecise and politically unstable. It provides the Commission a defensible answer to the gaming question that does not depend on state gambling statutes drafted by and for incumbent industries with structural interest in maintaining regulatory control over event-based risk transfer. It scopes the CFTC perimeter to instruments that institutional brokerage, custody, and asset management infrastructure can responsibly serve. And it gives the Commission a basis for heightened design scrutiny under Core Principle 3 on contracts at the boundary, because contracts that turn on the actions of a single individual (a referee's call, a single athlete's performance decision, a commentator's utterance) are categorically more vulnerable to manipulation than contracts on aggregate variables verified through reliable third-party data.

The investor protection framework that applies to contracts qualifying under the test should follow the standards established for securities and derivatives, not gambling industry frameworks. The relevant precedents are FINRA suitability requirements, NFA risk disclosure standards, and the Commission's existing rules governing registered entities' obligations to retail participants. Importing gambling industry frameworks (problem gambling hotlines, casino-style self-exclusion programs) for contracts that have qualified under the structural test would miscategorize the instruments and create confusion about their legal status and the regulatory protections available to participants. For activity that fails the structural test and remains within other regulatory frameworks, gambling industry consumer protections may well be appropriate, but they belong with the activity, not with the federal financial market perimeter.

VIII. CONCLUSION

Event contracts are not a new phenomenon dressed in new technology. They are an extension of established derivatives market practice: binary probability pricing, event-contingent payoffs, and risk

transfer between informed and liquidity-seeking counterparties applied to a broader class of underlying events. The CFTC has regulated functionally analogous instruments for decades, and the conceptual tools needed to build a framework for the financial market category exist within the options and futures market infrastructure already operating under Commission oversight.

The framework's most important contribution to the development of these markets is to draw a clean structural line. Federal accommodation under the CFTC's exclusive jurisdiction belongs to event contracts that demonstrably serve financial market functions, supported by the design standards, surveillance requirements, participant identification, and investor protection apparatus that registered DCMs and DCOs already provide. Activity that lacks financial market utility belongs elsewhere, within whatever regulatory framework is appropriate for it, and the federal framework does not need to claim jurisdiction over it.

Drawing the line this way enables event contracts to evolve into infrastructure that serious capital can use. It gives the Commission the enforcement leverage and institutional credibility to be an effective steward of that development. And it satisfies the principles that any participant in these markets should be entitled to: the right to know one's counterparty is not trading on inside information, the right to trust that observed volume is real, the right to a price that means something, the right to a settlement guarantee, the right to clarity about how outcomes are decided, the right to markets that serve a legitimate purpose, and the right to participate in well-regulated infrastructure.

I am available to discuss these comments further and welcome the opportunity to provide additional perspective from a practitioner building professional infrastructure for the options and event contract markets.

Respectfully submitted,

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Note on Scope

These comments address the questions in the ANPRM where a practitioner perspective at the intersection of options analytics and event contract markets adds distinctive value. Questions relating to clearing procedures (Q3), swap and futures classification (Q33-Q34), procedural timing (Q23-Q28), and legal edge cases in CEA definitions (Q35-Q39) involve primarily legal and technical analysis better addressed by market participants with direct operational experience in those areas. The Commission's attention is respectfully directed to those commenters for comprehensive responses to those questions.