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April 30, 2026

Christopher J. Kirkpatrick
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Re: Advance Notice of Proposed Rulemaking on Prediction Markets (RIN 3038-AF65; 91 FR 12516)

I. Introduction

I am an independent researcher and incoming Master in Public Policy student at Harvard Kennedy School. Over the past year I have studied prediction markets closely. I curate onprediction.xyz, a knowledge hub and research community for prediction market analysis.

I am writing because the public discussion has been organized around binaries that obscure useful distinctions: markets versus gambling, free speech versus consumer protection, insider trading good versus bad. The regulatory questions become tractable only after those binaries are broken into the dimensions that matter. The comment is organized in three substantive parts:

- **Section II** offers a four-dimensional framework for thinking about which event contracts serve the purposes the CEA was written to protect.
- **Section III** revisits the insider trading question by separating information asymmetry, duty breach and outcome influence, three patterns the current debate tends to fuse.
- **Section IV** examines resolution as a load-bearing element of market integrity that has received less attention in the public record than its weight warrants.

I focus on the questions where I can offer something useful: the public-interest factors (Q7, Q10), the structure of informed trading across event types (Q29, Q30, Q31, Q32) and resolution integrity under Core Principles 2, 3 and 4 (Q2b, Q2c, Q2d, Q5b). The full text of each referenced question is attached in Appendix A, with anchored links throughout the comment.

II. A dimensional approach to public interest

Responds to: Q7, Q10, Q29, Q30

"Event contract" is one category in the CEA, but the contracts traded on prediction markets span an enormous range. They cover everything from FOMC rate decisions to Oscar winners, from Presidential elections and corporate earnings to military strikes and weather events. They differ along every dimension that matters for the regulatory questions the Commission is asking: manipulation susceptibility, the nature of informed trading, hedging utility and whether the market's existence serves any public purpose.

A regulatory approach that treats all event contracts identically risks being either too restrictive (suppressing high-utility markets like election and macro forecasting) or too permissive (allowing contracts that create perverse incentives without countervailing social benefit). The Commission may benefit from structured ways to distinguish these cases. What follows is one such structure, offered as an analytical lens. The Commission is best positioned to decide what role, if any, a framing of this kind plays in its rulemaking.

Dimension 1: Information Structure

The first dimension describes how decision-relevant information about a contract's outcome is ***generated*** and ***distributed***: how many people hold material information ahead of resolution, how legible the underlying decision process is to outside analysts, whether public signals (polls, releases, prior statements, base rates) plausibly substitute for private access, and whether the outcome emerges from an aggregation of inputs or from a single discretionary act. Together, these features determine whether informed trading on a contract functions as price discovery or as extraction.

In the 1940s Friedrich Hayek argued that prices in a market do something a central planner cannot. They aggregate dispersed knowledge that no single person holds. A soybean farmer knows about local growing conditions. A distributor knows about shipping bottlenecks. The price synthesizes all of this into a single signal, as Hayek set out in The Use of Knowledge in Society. This is the theoretical basis for why informed trading in prediction markets can serve the public interest. The trader with better analysis or better local knowledge feeds information into the price.

Hayek's argument requires that information be dispersed. When a market's outcome is controlled by a small, inaccessible group, the assumption breaks down.

Markets sit at different points along this spectrum. Presidential elections and FOMC decisions are high-legibility, distributed-information markets. Polls, economic indicators, dot plots, speeches and prior decisions contribute to a rich public information environment. In these markets, decisions emerge from processes or populations. No single person "knows the answer." Informed trading here means sharper synthesis of fragments. It is Hayekian price discovery in something close to its textbook form.

Corporate earnings markets sit in the middle. A small cohort holds the sealed answer (executives, finance staff and auditors), but a rich public information environment surrounds them: analyst estimates, industry data, prior quarters, supplier and customer signals. Informed trading here is partially synthesis and partially access.

Then there are concentrated, low-legibility markets: a market on whether a CEO will say a specific phrase during an earnings call, a market on the number of tweets a celebrity will post during a week. The information is held by one person or a handful of people. There is no dispersed knowledge to aggregate. Informed trading is structurally indistinguishable from having a direct line to the decision-maker.

This distinction matters for Q29. The same act, someone with nonpublic information trading on an event contract, looks like price discovery in a distributed-information market and like extraction in a concentrated, low-legibility one. The legal and regulatory treatment can reasonably differ across these market types.

The same dimension sharpens Q30. The number of decision-makers alone tells the Commission relatively little. Polymarket's next-Pope market sat on a small decision body. The College of Cardinals comprises about 130 electors. Those electors are sequestered, financially insulated and operating under centuries of institutional norms. Even with over $30M in volume on Polymarket, the resulting price aggregated mostly biographical and ideological inference rather than access. A market on a corporate decision such as an earnings beat or an M&A close also sits on a small decision body, but a board of eight to twelve financially sophisticated executives in market-adjacent roles is structurally far more reachable by market incentives. What matters is the compound of **concentration**, **institutional insulation** and **reachability** by market participants.

Dimension 2: Manipulation Economics

The second dimension asks whether the contract creates incentives to cause the outcome rather than predict it, and what causing the outcome would cost.

Manipulation and insider trading are conflated throughout the current debate, but they are different problems. Manipulation means causing the outcome. Insider trading means knowing about it. CEA §6(c)(1) (codified at 7 U.S.C. §9), which makes it unlawful for any person "to use or employ, or attempt to use or employ, in connection with any swap, or a contract of sale of any commodity in interstate commerce, or for future delivery on or subject to the rules of any registered entity, any manipulative or deceptive device or contrivance," is the primary tool for outcome-causing conduct. Rule 180.1's misappropriation framework is the primary tool for duty-breach trading. Contract design and listing review matter for both, and they become the only tool when neither statute applies cleanly.

A useful concept here is the hyperstition: a term coined by Nick Land and the Cybernetic Culture Research Unit at Warwick to describe an idea that, by being widely believed, helps bring itself into being. A prediction-market price can function as a hyperstition when the contract's existence creates incentives for participants to act in ways that move the outcome toward what the price already says. Most markets do not hyperstitionalize meaningfully. Some do structurally. The dimension asks the Commission to identify which.

Some markets sit at the low-exploitability end. Presidential elections involve too many voters across too many jurisdictions for any single actor to swing the outcome at scale. The FOMC rate decision is controlled by twelve voting members, but the decision is so heavily signaled in advance through dot plots, speeches and minutes that an isolated attempt to influence one voter would have a negligible expected return relative to the information already priced in. The market does not create actionable perverse incentives at meaningful scale.

Other markets sit at the high-exploitability end, where the person who controls the outcome can also trade on it. The canonical case is the mention market. On Coinbase's October 30, 2025 earnings call, Brian Armstrong told investors he had been "a little distracted" tracking a prediction-market contract on what he would say, then deliberately rattled off the words bettors had wagered on. The market created the incentive to say the words. The person who controlled the outcome publicly acknowledged responding to the price.

A thought experiment makes the dimension explicit. Suppose a market existed on whether a specific commercial flight would be delayed. A passenger with a small budget could create a disturbance, delay the flight and profit on the contract. The contract does not currently exist but the thought experiment illustrates what the dimension asks: whether the economics favor manipulation, whether the cost of influencing the outcome is low relative to trading profit, and whether the same person can both influence the outcome and trade.

A real-world case sits closer to the corporate finance edge of the spectrum. P2P.me, an India-based stablecoin firm backed by Coinbase Ventures and Multicoin Capital, used Polymarket to bet on its own MetaDAO fundraising round, netting under $15,000 in profit on a contract referencing the same fundraise it was running. Some investors said they were unaware of the firm's positions, and the company subsequently apologized for what it described as "an inappropriate attempt at conveying conviction." The case is a clean illustration of the dimension. The same actor controlled the outcome of the underlying fundraise and traded on a market resolving on that outcome. Whether or not the conduct was illegal under the current framework, the design made manipulation economical.

For Q2c, this dimension suggests a particular reading of "readily susceptible to manipulation." A contract is readily susceptible to manipulation when the economics favor it: when the cost of influencing the outcome is low relative to the achievable trading profit, and when the same person can both influence the outcome and trade on it. The Commission may wish to expect DCMs to perform an explicit manipulation-economics analysis at certification.

Dimension 3: Social utility of the price signal

The third dimension asks what society gains from the probability being public.

CEA §3(a) (7 U.S.C. §5(a)) describes the public interest in derivatives markets in terms of "managing and assuming price risks, discovering prices, or disseminating pricing information." Different event contracts serve these purposes to different degrees. This dimension gives analytical content to the public-interest determination under §5c(c)(5)(C) (7 U.S.C. §7a-2(c)(5)(C)).

At one end are contracts with policy and economic utility. Markets on pandemic probabilities, climate thresholds, economic indicators, election outcomes and FOMC decisions all produce probability signals that help governments, businesses and individuals make better decisions. A market on the FOMC rate path lets mortgage lenders, bond traders and corporate treasurers hedge rate exposure in a way that complements existing interest-rate derivatives. This is the strongest case that prediction markets do what the CEA was written to protect.

Some distance below sit informational-utility markets: corporate earnings, technology product launches, AI model benchmarks. These are useful to investors and industry participants without rising to public-policy significance. They do genuine price-discovery work for narrower constituencies.

Below that are cultural and entertainment-utility markets: Oscars, Pope selection, sports outcomes. These satisfy legitimate public curiosity. The signal has social function even when it does not hedge traditional economic risk. The Commission need not take a strong view on whether these markets are socially desirable. It can recognize that they sit in a different regulatory bucket from policy markets and from extraction-prone markets.

At the bottom are hyperspecific individual-behavior contracts that hedge no economic risk and surface no broadly useful information. A market on a single private citizen's tweet count is technically an event contract. It does not serve the purposes the CEA was written to protect.

For Q10, the Commission can recognize that event contracts serve the CEA's stated purposes to different degrees. For Q7, the social utility of the price signal is one factor that can carry weight in the public-interest determination, alongside manipulation economics and information structure. A contract that helps businesses manage real economic risk or surfaces information useful to public decision-making is more defensible on public-interest grounds than one that does neither.

Dimension 4: Repugnance as a market-design constraint

The fourth dimension asks whether a market's existence degrades something morally significant, independent of any manipulation risk.

The economist Alvin Roth, who shared the 2012 Nobel Prize for his work on market design, identified a category of markets that fail not because they are inefficient but because society finds them morally intolerable. Markets for kidneys. Markets for babies. Markets for human organs. As Roth set out in Repugnance as a Constraint on Markets, 21 *J. Econ. Persp.* 37 (2007), the revulsion is not irrational. It reflects a legitimate judgment that some things should not be commodified because the act of creating a market changes the moral character of the activity. This constraint on market design is real and binding, regardless of whether the market would "work" in purely economic terms.

The Commission's §5c(c)(5)(C) categories (terrorism, assassination and war) implicitly recognize something like Roth's repugnance dimension. The dimension can help explain why these categories are different. They involve the commodification of harm. Understanding the underlying logic helps the Commission think about what "similar activity" can mean under §5c(c)(5)(C)(i)(VI).

A contract on whether a nuclear weapon will detonate is not a contract on terrorism, but the repugnance dimension correctly groups it with the listed activities. A financial instrument whose value increases when millions die is structurally dangerous regardless of the probability of manipulation. Polymarket delisted such contracts in March 2026 after the markets had accumulated more than $838,000 in volume across multiple

deadlines. The framework helps explain why that delisting was sensible. The contract may have been legal and resistant to manipulation, but it failed the repugnance test.

A boundary case is a market on the timing of a specific terminally ill person's death. Manipulation risk is not zero. The existence of a financial incentive tied to the timing of someone's death is troubling on its own. The primary objection here lives elsewhere. It is about commodifying a person's death. The repugnance dimension captures what is wrong with this market in a way that manipulation analysis alone cannot.

The dimension is most useful as a screen the Commission can apply when deciding whether a class of contracts falls within the "similar activity" clause of §5c(c)(5)(C)(i)(VI). Three questions help operationalize it. Does the market's payoff accrue when identifiable individuals are harmed? Does the contract's existence create a financial constituency for that harm? Would most reasonable observers, on learning the market exists, regard its existence (rather than any specific manipulation risk) as the wrong? When the answer to all three is yes, the contract is a candidate for the public-interest exclusion regardless of how clean its trading and resolution would otherwise be.

How the dimensions interact

The four dimensions interact with one another. A contract that performs poorly on multiple dimensions, low information legibility, high decision concentration, high exploitability and low social utility, is categorically problematic. A contract that performs well on most dimensions but poorly on one may be addressable with targeted intervention: position limits, resolution design, KYC requirements. The public-interest determination is most useful when it is multidimensional rather than binary. The dimensions also explain why the same event can be a sensible market in one form and a problematic one in another. A market on whether a particular stock index closes above a threshold is different from a market on whether a specific person says a specific phrase, even though both are technically event contracts referencing future outcomes.

III. The insider trading question, reframed

Responds to: Q29, Q30, Q31, Q32

The Commission and its Division of Enforcement have made clear that misuse of nonpublic information in event contract markets is a priority. The aim in this section is to suggest that the term "insider trading," as it travels through the prediction-market debate, covers at least three distinct patterns: information asymmetry, duty-breach trading and outcome influence. Calibrated remedies will benefit from holding them apart.

Information asymmetry and the duty requirement

It is a common misconception that insider trading is prohibited by a single, specific statute. There is no such statute. The federal prohibition is built primarily from the SEC's Rule 10b-5, promulgated under Section 10(b) of the Securities Exchange Act of 1934, as interpreted by the Supreme Court in *Chiarella v. United States*, 445 U.S. 222 (1980), *Dirks v. SEC*, 463 U.S. 646 (1983) and *United States v. O'Hagan*, 521 U.S. 642 (1997). Two theories cover the field. The classical theory addresses corporate insiders who breach a fiduciary duty to shareholders by trading on material nonpublic information about their company. The misappropriation theory, endorsed in *O'Hagan*, addresses outsiders who steal confidential information from a source to whom they owe a duty (an employer, a client, a family member). Both theories require a duty. Someone has to owe something to someone, and the trade has to betray that obligation.

In commodity derivatives the framework is intentionally narrower. Rule 180.1, modeled on 10b-5 and adopted via Dodd-Frank, covers misappropriation. The CFTC has been explicit, including in Enforcement Director David Miller's March 31, 2026 NYU speech, that it does not create a parity-of-information regime. Commodity derivatives markets are price-discovery markets, not disclosure-based markets. In Miller's words: "in our markets, you are absolutely entitled to trade on MNPI that you rightfully own."

A worked example clarifies the distinction. A soybean farmer who trades futures based on private knowledge of his own crop is doing what the futures market was built for. His information asymmetry is the mechanism by which the price comes to reflect supply conditions. A political analyst who trades a Polymarket election contract based on better synthesis of public polling data is doing something analogous. A Google employee who trades on confidential Year-in-Search data is doing something different as he might be breaching an employment duty.

What matters is whether a duty has been breached. The dimensional framework in Section II helps answer that in a market-specific way. In distributed-information markets, traders with sharper analysis are feeding information into the price (the Hayekian mechanism). In concentrated, low-legibility markets, a hypothetical contract on a presidential pardon is the cleanest example. There is no dispersed information to aggregate, only access to the decision-maker. The same legal framework reads differently across these market types because the underlying market structure differs.

Three distinct patterns

The Commission may benefit from holding three patterns apart in its rulemaking. They look similar on the surface. They differ in which statute applies, which remedy fits and what counts as a successful intervention.

Outcome influence. A CEO who is aware that a prediction market is tracking what he will say on an earnings call, and who adjusts what he says in response to the price, has not breached any duty. He is the CEO. The behavior moves the outcome itself in response to the contract. Brian Armstrong's October 2025 acknowledgment is the cleanest documented case. The relevant statutory framework is CEA §6(c)(1), the prohibition on a "manipulative or deceptive device or contrivance." Surveillance focused on duty breach does not reach the underlying problem here. The remedy lives in contract design, listing review and §6(c)(1) enforcement against the conduct itself.

Duty breach. The textbook fact pattern involves a government employee, contractor or corporate insider alleged to have traded on confidential information acquired through their position. Recent indictments illustrate the type without resolving the underlying allegations. The DOJ's April 23, 2026 charges against Master Sergeant Gannon Ken Van Dyke allege that he used classified information about Operation Absolute Resolve, the January 3 mission to capture Nicolás Maduro, to profit on Polymarket; Van Dyke has pleaded not guilty and the case is pending. Separately, an Israeli prosecution charges reservists with trading on advance knowledge of Operation Am Kalavi. Director Miller referenced a Kalshi YouTube-channel matter in his March 31 speech without naming the parties. These are charges and unresolved allegations, not adjudicated facts; I cite them only to illustrate the structural shape that the misappropriation framework Rule 180.1 was written for. Whether any particular matter ultimately establishes a duty breach is a question for the courts.

Information advantage without breach. A trader who synthesizes public polling, weather data and base rates better than the rest of the market, or a non-duty-bearer who happens to overhear something at a dinner, is in a different category. Restricting this conduct would erode the price-discovery function the CEA was written to protect. The dimensional framework helps locate which markets generate this kind of trading (distributed-information markets) versus which generate access trading dressed up as analysis (concentrated, low-legibility markets).

The reason these patterns need to be held apart is that conflating them produces misdirected remedies. Surveillance targeted at duty breach will not address contract designs that incentivize outcome influence. Bans aimed at information advantage will erode price discovery in markets where information asymmetry is the engine.

A market-type-specific answer to Q29

Q29 asks whether the public-interest utility of informed trading depends on the type of event in question. I believe it does, and the dimensional framework gives the answer some structure.

In distributed-information, high-legibility markets (elections, macro indicators, FOMC), informed trading is the mechanism by which the price comes to reflect dispersed knowledge. The public-interest utility is the informed trading. Restricting it would degrade the price-discovery function the CEA was written to protect.

In concentrated, low-legibility markets (single-person discretionary decisions with no public process), informed trading is structurally extraction. There is no dispersed information to aggregate, only access to the decision-maker. The regulatory question for these markets is whether the contract should be listed at all. The Commission's §5c(c)(5)(C) public-interest determination is the appropriate tool.

In mixed markets (corporate earnings, product launches, regulatory decisions), informed trading is partially synthesis and partially access. The misappropriation framework fits well: allow synthesis, pursue duty breaches. Coordination with the SEC is appropriate where the conduct touches securities markets.

In entertainment-grade markets (Oscars, sports, pop culture), informed trading is mostly low stakes. Consumer protection (age limits, position limits, responsible-trading tools) is the appropriate regulatory frame for these markets.

IV. Resolution as a regulatory consideration

Responds to: Q2b, Q2c, Q2d, Q5b

Most regulatory discussion of prediction markets focuses on what happens before and during trading. Listing standards. Insider trading. Manipulation. Consumer protection. Less attention has been paid to what happens after trading: who decides whether the event actually occurred and how.

Resolution merits more attention. Event contracts differ from traditional derivatives in a structural way since there is no external reference price. A corn future settles to an observable market price. An event contract on whether a specific performance occurred at a televised event settles on someone's judgment about what happened during a 15-minute performance. The resolution layer is load-bearing. When resolution fails, everything else fails. A market with strong surveillance and fair access that resolves to the wrong answer has produced a wrong answer.

Core Principle 2 (enforcement of contract terms), Core Principle 3 (contracts not readily susceptible to manipulation) and Core Principle 4 (prevention of manipulation, price distortion and disruption of settlement) all bear directly on resolution integrity. The cases below document, with public-record specificity, three structural patterns the Commission may wish to anticipate.

Case 1: Rule mutability after listing

For example, a December 2024 contract asked whether a U.S. government shutdown would occur between August 30 and December 31, 2024. The original specifications set a December 31 end date. On December 20 the platform added language to the market interface stating that the contract would resolve "Yes" if the President did not sign the funding bill by midnight. Odds for "Yes" spiked from roughly 20% to 98%.

The Senate passed the bill at 12:38 AM on December 21 and the President signed it later that day. No government shutdown occurred but the market resolved "Yes." A public walkthrough of the market documents the timeline and the discrepancy between the original contract terms and the post-listing language change.

The case shows the structural problem in resolution design. A clarification posted mid-market overrode the original contract terms and the observable facts and a procedural deadline that was not in the original rules

became determinative. The market predicted a shutdown that never happened and then validated itself through its own resolution mechanism.

Core Principle 2 requires DCMs to enforce compliance with contract terms. If terms can be modified after trading begins, the terms traders relied on at entry are not the terms that determined the outcome. The Commission may wish to consider whether DCMs should be expected to treat original contract specifications as the complete and final reference document for resolution with the rule hierarchy fixed at listing.

Case 2: Undefined rule hierarchy

A 2024 contract on the Venezuelan presidential election raised a different version of the same problem. The contract rules stated: "The primary source of resolution is official information from Venezuela, however a consensus of credible reporting will also suffice."

The Venezuelan electoral authority announced that the incumbent had won, with vote totals widely reported as fabricated. Opposition tallies based on polling-station data showed the opposition winning by a wide margin. International observers and major media outlets reported election fraud. The market was resolved for the opposition candidate, overriding the stated primary source. The opposition candidate did not take power and the incumbent remained president.

The override may have been correct on the merits. The election was widely assessed as fraudulent, and resolving for the official source would have ratified that fraud. But the inconsistency with the stated rules creates a different kind of problem. Traders need to know which rules will be applied at resolution, regardless of which outcome feels right. If primary and secondary resolution criteria can be inverted at the resolver's discretion, the rules on the contract page are not actually the rules. The cost is paid by the next contract whose resolution depends on which rule will prevail.

Case 3: Single-source oracle vulnerability

A 2026 incident illustrates a different resolution failure mode. Polymarket listed contracts that resolved to a temperature reading at a specific Météo France weather sensor at Paris-Charles de Gaulle Airport. Between April 6 and 15, 2026, the sensor recorded two anomalous spikes to 22°C, each enabling a Polymarket trader to win against very long odds ($14,000 and $20,000 respectively). French authorities suspected sensor tampering and Météo France filed a criminal complaint. The leading theory was that someone used a battery-powered hairdryer on the sensor enclosure. Polymarket subsequently moved the resolution source to a more secure sensor at Le Bourget.

The structural vulnerability here is the single-source oracle. When a contract resolves to a single data point that can be physically or digitally manipulated at modest cost, the cost of corrupting resolution can fall well below the value of the bets that depend on it. The vulnerability is independent of how the resolution mechanism is governed. A perfectly independent resolver still has nothing to weigh once the underlying data feed has been compromised.

Robust resolution design therefore considers both who resolves and on what basis. Diversification of data sources (multiple weather stations, multiple news sources, multiple official records) raises the cost of manipulation. Cross-checks against independent feeds catch tampering that a single sensor would miss. Where contracts must resolve to a single observable signal, the Commission may wish DCMs to consider whether that signal is itself robust to tampering or whether redundancy is feasible. The principle is broader than weather contracts. Any contract that resolves to a single API call, a single court docket, a single price feed or a single official statement carries the same architectural risk.

Resolver incentives and the cost-of-corruption problem

The three cases share an underlying structural concern: the resolver's incentives. Whenever the people or processes that determine the outcome of a contract can also hold positions in that contract (directly, indirectly through associates or through governance arrangements), the incentive to influence resolution is built into the system. The strength of that incentive scales with the value of the contracts being resolved.

This is a general property of resolution mechanisms rather than a feature of any one design. A centralized committee creates the incentive if committee members or their associates can trade. A decentralized voting mechanism creates the incentive if voters can hold positions in the markets they vote on. A platform that retains discretion to issue clarifications creates the incentive if the platform also has trading interest. What matters is whether the mechanism's structure remains robust in the case where the value of swinging a resolution exceeds the cost of doing so. Different institutional models can each meet that bar and each can fail it.

This is a familiar problem in the design of regulated entities. Independence is hard to maintain when the entity's economic interests are entangled with the parties it serves. In prediction-market resolution, the structural test concerns the worst-case incentive. The Commission may wish to expect DCMs to demonstrate how their resolution mechanism behaves when the value of swinging a resolution becomes large relative to the mechanism's own capitalization or governance constraints.

This matters for Core Principle 4. If the resolution mechanism itself can be captured at a cost below the value of the contracts it resolves, the settlement process is structurally disruptable. It also matters for Q2b. A DCM's rules related to resolution criteria are most useful when they are designed against the worst-case incentive rather than the typical case.

Considerations for the Commission

The cases above suggest several considerations the Commission may wish to explore. They are framed as questions rather than prescriptions. The Commission and DCMs are best positioned to weigh them against operational and competitive trade-offs.

Treatment of post-listing clarifications. Should DCMs be expected to treat the original contract specification as the complete reference document for resolution, with any post-listing language changes that affect resolution criteria subject to a defined amendment process under existing Part 40 self-certification rules?

Resolution-source hierarchy. Should event contracts specify, at certification, which sources control resolution and in what order? A primary source. A secondary source if the primary is unavailable or ambiguous. A tertiary source if the secondary is also ambiguous. The hierarchy fixed at listing.

Diversification and robustness of data sources. Where a contract resolves to a single signal (a sensor reading, an API call, an official tally), should DCMs be expected to assess the cost of corrupting that signal relative to the value of the contracts that depend on it, and to maintain redundancy or cross-checks where feasible?

Independence of resolution from trading interest. Should DCMs be expected to demonstrate, as part of their compliance with Core Principle 2, how their resolution process maintains independence from the trading interests it affects? The expectation can be functional rather than structural. Different DCMs may achieve independence through different institutional arrangements, and the demonstration should be specific.

Documentation of disputed resolutions. When resolution is disputed or produces an outcome that contradicts widely reported facts, should DCMs be expected to publish the reasoning: which contract terms were applied, how conflicting evidence was weighted, why the resolution hierarchy produced this outcome? Published reasoning creates accountability and builds a body of precedent that makes future contracts clearer.

Connection to Q2c and Q5b

The ANPRM asks how a determination of whether an event contract is "readily susceptible to manipulation" should be made. A contract can be not readily susceptible to manipulation of the underlying event (a presidential election is too distributed for any single actor to rig) and still susceptible to manipulation of the settlement when the resolver can be captured at a cost below the contract's value. The Commission's manipulation analysis can usefully consider the full chain. Event. Reporting. Resolution source. Settlement. Weakness at any link makes the contract manipulable.

On Q5b, the same logic applies to wash and pre-arranged trade detection. Surveillance for anomalous trading patterns at and near resolution windows is most informative when the resolution criteria are stable and the resolver is independent. When either is in question, surveillance produces pattern data without an interpretive frame.

V. Conclusion

This comment has tried to do three things. Offer a structured way to think about differences between event contract types when making public-interest determinations under §5c(c)(5)(C). Clarify the relationship between informed trading and the public interest by separating information asymmetry, duty breach and outcome influence. Identify resolution integrity as a dimension of market regulation that Core Principles 2, 3 and 4 directly address and that has received less attention in the public record than its weight warrants.

I am available to discuss any of the above with Commission staff. Submitted in my individual capacity.

Respectfully,

Michael Li

Appendix A: CFTC ANPRM questions referenced in this comment

The questions below are reproduced from the ANPRM (91 FR 12516, March 16, 2026), Section II, "Questions and Request for Comment." Each question is anchored so that section references in the body of the comment link directly to the question text.

Question 2.b — Core Principle 2 (terms, conditions and resolution)

"Core Principle 2 also requires a DCM to 'establish, monitor, and enforce compliance with . . . the terms and conditions of' contracts traded on the DCM. In this regard, what factors should the Commission consider regarding a DCM's rules related to resolution criteria for event contracts? For example, if there is a dispute regarding how an event contract is resolved or how the trigger event for an event contract is determined (such as a dispute regarding whether an event underlying a contract has occurred), what factors should the Commission consider in setting expectations for DCMs to have rules to resolve the dispute? Are dispute resolution procedures for other types of swaps, such as credit default swaps, helpful precedents?"

Question 2.c — Core Principle 3 (readily susceptible to manipulation)

"Core Principle 3 states that a DCM may list 'only contracts that are not readily susceptible to manipulation.' How should a determination of whether an event contract is 'readily susceptible to manipulation' be made? What factors should be considered? Are there particular aspects of event contracts that make this determination different from the determination with respect to other listed contracts?"

Question 2.d — Core Principle 4 (manipulation, surveillance and settlement)

"Core Principle 4 states that a DCM 'shall have the capacity and responsibility to prevent manipulation, price distortion, and disruptions of the delivery or cash-settlement process through market surveillance, compliance, and enforcement practices and procedures.' Do any aspects of prediction markets pose challenges to compliance with this Core Principle or, on the other hand, facilitate compliance? Are there market surveillance, compliance, or enforcement practices on which the Commission should focus?"

Question 5.b — Pre-arranged or noncompetitive trades and wash sales

"CEA section 4c(a)(1) and (2)(A) provide that it is unlawful to enter into a transaction involving a futures contract, option thereon, or swap, if the transaction is a pre-arranged or noncompetitive trade, or a wash sale. What factors should the Commission consider in applying these provisions to prediction markets? Are there aspects of prediction markets that make them more or less susceptible to pre-arranged or noncompetitive trades, or wash sales?"

Question 7 — Public interest factors

"As described above, CEA section 5c(c)(5)(C) provides for the Commission to make a determination that event contracts are 'contrary to the public interest' if the event contracts involve any of five listed activities or 'other similar activity determined by the Commission, by rule or regulation, to be contrary to the public interest.' In general, what factors should the Commission consider in making a public interest determination under this section?"

Question 10 — Hedging, price discovery and price dissemination

"What role do event contracts play in 'managing and assuming price risks, discovering prices, or disseminating pricing information' as contemplated by CEA section 3(a)? How are event contracts used in hedging, which is one aspect of managing price risks? How should the Commission incorporate considerations of hedging, price risk, price discovery, and price dissemination in its public interest determination under CEA section 5c(c)(5)(C)?"

Question 29 — Asymmetric information and public-interest utility

"The price on a prediction market could be viewed as an indication of how likely the underlying event is to occur. The price may be a more reliable indicator of probability if the people trading on the prediction market have some insight into how likely the underlying event is to occur. On the other hand, trading by these informed participants may lead to manipulation, unfairness, and the misuse of inside information. Is there some public interest utility if people with an asymmetric information advantage on a particular event contract are able to trade on prediction markets? Does the public interest utility depend on the type of event in question? What factors should the Commission consider in evaluating and balancing the public interest in this scenario?"

Question 30 — Single-individual or small-group control

"Some events underlying event contracts are under the control of a single individual or small group of individuals. What role should this aspect of event contracts play in the Commission's consideration of how prediction markets should be regulated? Do the considerations change depending on the type of event in question? Are there particular challenges related to cross-market manipulation . . . ? Are prediction markets more likely than other DCMs or SEFs to be susceptible to manipulation? Why or why not?"

Question 31 — CEA section 6(c)(1) (manipulative or deceptive device)

"CEA section 6(c)(1) provides that '[i]t shall be unlawful for any person, directly or indirectly, to use or employ, or attempt to use or employ, in connection with any swap, or a contract of sale of any commodity in interstate commerce, or for future delivery on or subject to the rules of any registered entity, any manipulative or deceptive device or contrivance . . . .' What aspects of prediction markets are relevant to the application of this statute? Are prediction markets more or less likely than other derivative markets to be susceptible to 'any manipulative or deceptive device or contrivance'?"

Question 32 — CEA section 4c(a)(3) (federal employee trading)

"CEA section 4c(a)(3) provides that '[i]t shall be unlawful for any employee or agent of any department or agency of the Federal Government or any Member of Congress or employee of Congress . . . or any judicial officer or judicial employee . . . who, by virtue of the employment or position of the Member, officer, employee or agent, acquires information that may affect or tend to affect the price of any commodity in interstate commerce, or for future delivery, or any swap . . . to use the information in his personal capacity and for personal gain to enter into . . . [a futures contract, option, commodity option, or swap].' . . . How are prediction markets likely to be affected by nonpublic information that is available to Federal Government employees or officials?"