2 Embarcadero Ctr.
#08-133
San Francisco, CA 94111

April 30, 2026

Christopher J. Kirkpatrick
Secretary, U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Re: Response to Advance Notice of Proposed Rulemaking and Request for Comment on Prediction Markets

Dear Mr. Kirkpatrick:

Backpack Exchange ("**Backpack**"),[1] respectfully submits the following comments in response to the advance notice of proposed rulemaking ("**ANPRM**") and request for comment on prediction markets issued by the Commodity Futures Trading Commission (the "Commission" or "CFTC") on March 12, 2026.[2] We appreciate the Commission's thoughtful approach to soliciting public input on these issues and offer the following views to assist in the development of a sound regulatory framework to promote responsible innovation with respect to event contracts traded on prediction markets.

I. Background On Backpack

Backpack is a global exchange founded in 2023 and operated on a proprietary, layer-1 blockchain, operating markets for digital assets and, for non-U.S. users, event contracts. Since its inception, Backpack has operated in full compliance with U.S. laws, including by implementing a Bank Secrecy Act ("BSA")-compliant, anti-money laundering ("AML") program with a robust customer-identification and know-your-customer ("KYC") program, and restricting U.S. users from derivatives trading on its platform, while pursuing continued growth and global licenses.

In September 2025, Backpack became one of the first to launch a fully EU-regulated crypto perpetuals ("perps") trading platform under the EU's Markets in Financial Instruments Directive II (MiFID II) framework. In addition, Backpack has secured various other licenses in the U.S.,[3] Australia, United Arab Emirates, the European Union, and other jurisdictions. Today, Backpack's trading platform holds over $300 million in customer assets, has processed over $400 billion in perps trading volume, and serves customers in over 150 countries.

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[1] Trek Labs, Inc. d/b/a Backpack Exchange is a registered Money Services Business with the Financial Crimes Enforcement Network (FinCEN) (BSA ID: 31000315905825) with its principal address at 2 Embarcadero Ctr. #08-133 San Francisco, CA 94111, phone: 833-623-5237.
[2] Prediction Markets, Advance Notice of Proposed Rulemaking, 91 FR 12516 (Mar. 16, 2026).
[3] Backpack has money transmission licenses in 19 states.

Backpack

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II. Discussion

We at Backpack believe that the core principles framework for a designated contract market ("DCM") and derivatives clearing organization ("DCO") established in the Commodity Exchange Act ("CEA") and the Commission's rules are well suited for the oversight of prediction markets. This principles-based framework allows DCMs and DCOs to tailor their rulebooks and policies and procedures to properly manage the unique nature of these markets. We applaud the CFTC's effort through this release to further inform the agency on the ways it might provide additional policymaking and guidance to further refine these frameworks.

We note that prediction markets, while technically available in the U.S. in certain circumstances for more than a decade, remain relatively nascent and have seen trading volumes grow to meaningful levels only in the last couple of years. The benefits of these markets, therefore, are just beginning to come into view, including with regard to their value as distribution networks for pricing information and therefore price-discovery mechanisms as well as for use in hedging markets. These benefits weigh in favor of the Commission taking a supporting stance on event contracts traded on CFTC-registered exchanges so long as it is satisfied that its regulatory objectives under the CEA can be met, including its mandate to prevent manipulation or other disruptions to market integrity. The ANPRM will enable the CFTC and participants in these markets to learn more about the unique nature of prediction markets in the coming months and years, which will allow the CFTC to continue to optimize its regulatory program for these markets.

THE CFTC'S EXCLUSIVE JURISDICTION OVER EVENT CONTRACTS

As a preliminary matter, the CFTC's exclusive jurisdiction over event contracts traded on prediction markets is clear. We believe the structure and the wording of the CEA as well as the legislative history definitively support this conclusion.[4] From its inception in 1974, the Commission was established to create a uniform federal system for regulating derivatives markets that would replace the existing patchwork of state-by-state regulation that had stunted the development of these markets.[5] To achieve this objective, Congress empowered the CFTC with exclusive jurisdiction over futures, options on futures, swaps and other commodity-based financial instruments under Section 2(a) of the CEA.[6] With respect to swaps, it defined the term broadly as encompassing, in relevant part, "any agreement, contract, or transaction . . . that provides for any purchase, sale, payment, or delivery . . . that is dependent on the occurrence,

[4] In 1992, the CFTC officially recognized the first event contracts by allowing the Iowa Electronic Markets to offer contracts pegged to events such as presidential elections and corporate earnings. *See also* 156 Cong. Rec. S5923 (daily ed. July 15, 2010) (statements of Sen. Lincoln and Sen. Feinstein); broad definition of "swap" in CEA Section 1(a)(47), 7 U.S.C. § 1a(47).
[5] *See* H.R. Rep. No. 93-975, at 51 (1974); S. Rep. No. 93-1131, at 36 (1974), reprinted in 1974 U.S.C.C.A.N. 5843, 5885.
[6] CEA Section 2(a), 7 U.S.C. § 2(a).

nonoccurrence, or the extent of the occurrence of an event or contingency associated with a potential financial, economic, or commercial consequence."[7] This broad definition of swaps together with Section 5c(c)(5)(C) of the CEA, which governs the listing of certain enumerated event contracts, reflects Congress's intent to capture event contracts traded on prediction markets under the CFTC's exclusive jurisdiction. We believe this is the correct outcome and one that will benefit market participants, the larger derivatives market ecosystem, and the financial system as a whole by promoting uniform market oversight and transparency, consistent regulatory standards, and the protection of customers and the integrity of the markets.

BLOCKCHAIN-BASED PREDICTION MARKETS[8]

The Commission asks what factors are relevant to blockchain-based prediction markets and whether existing regulations and guidance present challenges or advantages in this context. Backpack has a unique perspective on this consideration due to the fact that our exchange, custody, and clearing and settlement system run on a proprietary blockchain. Indeed, blockchain-based markets with appropriate security features offer several features that align with the Commission's core regulatory objectives.

First, all transactions conducted on a public blockchain system are transparent, replayable, and auditable. This provides regulators and market participants with a level of post-trade visibility that is not always or is difficult to achieve in traditional market structures. ***Second***, blockchain ledgering of transactions and assets enables real-time proof of reserves, thereby increasing customer protections and providing real-time visibility into the assets supporting a platform's obligations. Additionally, due to the real-time settlement, bearer-asset collateral, and transparency of blockchain-based systems, leverage and risk management can become transparent in the same way proof of reserves is. ***Third***, blockchain-based systems allow users to retain a higher level of ownership, control, and visibility of their assets. A variety of distributed custody mechanisms — including Multi-Party Computation ("MPC") — are available to reduce counterparty and custody risk. Unlike traditional custodial arrangements, a custodian in a tokenized system cannot misuse another's assets without the owner at least becoming aware of the action. ***Finally***, the programmability inherent in blockchain systems provides the ability to build direct compliance and collateral controls into the network protocol itself.

Importantly, Backpack strongly believes that blockchain-based systems are capable of complying with DCM and DCO core principles. There is nothing unique to blockchain technology underpinning a DCM or DCO that hinders compliance; to the contrary, as indicated above, the technology in fact could optimize core-principle compliance. So long as the blockchain system operating as a DCM or DCO can demonstrate that it continues to meet the CFTC's specified regulatory requirements – including important obligations related to systems

[7] CEA Section 1a(47)(A)(ii), 7 U.S.C. § 1a(47)(A)(ii).
[8] Responding to Question 2.h of the CFTC's release.

safeguards and business continuity, as well as custody of customer assets – these systems should become an important part of CFTC-regulated markets, including prediction markets.

MARKET INTEGRITY CONSIDERATIONS

A. Abusive Trade Practices (Including Insider Trading) and Susceptibility to Manipulation[9]

Core Principle 2 requires a DCM to establish, monitor, and enforce compliance with its rules, including rules prohibiting abusive trade practices.[10] Core Principle 3 requires that a DCM list only contracts that are not readily susceptible to manipulation.[11] Applying these standards to event contracts requires a more nuanced analytical framework than is typically used for traditional futures and swaps because the manipulation risk in event contracts is often concentrated in the definition and determination of the underlying event. While some event contracts might present certain heightened manipulation risks that the Commission should carefully consider, many of the same risks are found in other markets offered by DCMs (and overseen by the CFTC) that continue to expand and grow in substantial volumes, indicating that market participants continue to have confidence in the integrity of those markets as well as the structure and enforcement of the CFTC's regulatory program. Nevertheless, we highlight several risks here.

First, some event contracts might be prone to greater risk of manipulation of the resolving event referenced by the contract. Such contracts include those based on "narrow" resolving events, or "ambiguous" resolving events:

- Narrow Resolving Events:
    - Contracts that resolve based on a single, easily observable data point — e.g., a token price of a thinly traded digital asset — can be more susceptible to manipulation than contracts resolving on broad, diffuse outcomes that aggregate across many inputs. A narrow, easily targeted trigger gives a would-be manipulator a clear and attainable objective.
    - Contracts that resolve based on the choices of a small number of identifiable individuals — a board vote, a rating agency decision, a regulatory committee ruling — are more vulnerable than those driven by aggregate behavior, market prices, or natural phenomena. Human decision-makers can be tempted, pressured or otherwise compromised in ways that aggregate market outcomes or physical events cannot.

[9] Responding to Question 2.a and 2.c from the CFTC's release.
[10] CEA Section 5(d)(2), 7 U.S.C. § 7(d)(2).
[11] CEA Section 5(d)(3), 7 U.S.C. § 7(d)(2).

    - Contracts with a specific, known resolution time are more susceptible to manipulation than those that resolve on a rolling or continuous basis. A manipulator can concentrate activity around a known deadline in a manner analogous to banging the close in futures markets. The Commission should pay particular attention to contracts with precise resolution windows.

- Ambiguous Resolving Events:

    - Contracts with ambiguity in the event definition can be more susceptible to manipulation, as greater interpretive latitude in determining whether the triggering event has "occurred" creates opportunity to manipulate the resolution process itself — distinct from manipulating the underlying event. The history of credit default swaps ("CDSs") is illustrative: the ambiguity in the definition of "restructuring" as a credit event became, in practice, a manipulation surface. Event contracts with vague or highly interpretive triggering conditions present analogous risks.

Second, trading in most event contracts has substantially lower trading volumes than that found in other CFTC-regulated markets. A relatively modest amount of capital, therefore, can create positions in such contracts that could move prices significantly, making manipulation both cheaper to execute and harder to correct through natural arbitrage activity.

Third, prediction markets frequently involve non-financial events — e.g, elections, geopolitical developments — where the definition of "inside information" does not map cleanly onto traditional insider-trading frameworks, after which the CFTC's own insider trading standards are modeled. A political operative with access to an unreleased internal poll, for example, occupies a gray zone that existing law was not designed to address. This type of gray zone unfortunately can invite bad actors into these markets.[12]

Recommendations. In light of the foregoing, we offer the following recommendation for the CFTC's consideration:

- In the approval and examination processes for DCMs listing event contracts, the CFTC should review whether the platform's surveillance program is adequately tuned to identify aberrant trading behavior in markets for event contracts with narrow resolving

[12] To be sure, existing statutory authority clearly does reach certain categories of government insiders. Section 4c(a)(4) of the CEA, colloquially known as the "Eddie Murphy Rule," prohibits government personnel from imparting confidential government information in their personal capacity and for personal gain with intent to assist another person in using that information to enter into trades. CEA Section 4c(a)(4), 7 U.S.C § 6c(a)(4). It also reaches persons who knowingly use such confidential information obtained from a government employee in that manner.

events, particularly as such an event contract approaches the time of the resolving event;

- Also in the approval and examination processes, the CFTC should evaluate whether the DCM's contract-design procedures operate to prevent ambiguous resolving events;

- The CFTC should consider whether to tailor position limits specifically for event contracts with narrow resolving events;

- The CFTC should clarify how it defines "insider trading" in the context of event contracts and whether and to what extent that definition constitutes "manipulation" under Section 9(a)(2) of the CEA, "fraud" under Section 4b of the CEA, or could be (i) a manipulative device or scheme to defraud, (ii) an act that operates as a fraud or deceit under Section 6(c)(1) of the CEA or under Rule 180.1 of the CFTC's rules, or (iii) price manipulation under Rule 180.2 of the CFTC's rules.[13]

B. Dispute Resolution[14]

Core Principle 2 also requires a DCM to establish, monitor, and enforce compliance with the terms and conditions of its listed contracts. This requirement takes on particular significance in the context of event contracts, where disputes may arise not over the price of a traded instrument but over whether the triggering event underlying a contract has actually occurred — and if so, how it should be characterized for purposes of resolution.

We suggest that the Commission's primary focus in this area, in addition to preventing ambiguous resolving events as discussed above, should be ensuring that each DCM maintains a transparent structure and process for resolving disputes over contract terms and resolution criteria. With respect to the mechanics of dispute resolution, a committee-based governance structure is superior to a model vesting resolution authority in a single arbiter. A committee structure distributes decision-making authority, reduces the risk that any single individual could be pressured or unduly influenced, and creates a more defensible record for purposes of regulatory review.

Dispute resolution procedures developed for CDS — particularly around the determination of whether a credit event has occurred — offer instructive precedent. The CDS market developed detailed protocols for convening determination committees, managing conflicts of interest among committee members, and establishing timelines for resolution. These structures reflect

[13] CEA Sections 4b, 6(c)(1), and 9(a)(2), 7 U.S.C. §§ 6b, 9(c)(1), and 13(a)(2); CFTC Regulations 180.1 and 180.2, 17 C.F.R. §§ 180.1 and 180.2.
[14] Responding to Question 2.b from the CFTC's release.

hard-earned lessons about the governance challenges that arise when contract resolution depends on the interpretation of real-world events rather than objective market prices.

Recommendations. Based on the above, Backpack recommends as follows:

- The Commission should issue an advisory drawing attention to the requirement that a DCM offering prediction markets must have a dispute resolution structure, including for resolving events, and setting out appropriate standards for disclosure of the dispute resolution structure to market participants. Customers should not learn about the dispute resolution framework only after a dispute has arisen.

- While many DCMs that offer event contracts do have event resolution committees under their exchange rules, the Commission should issue guidance or rules that expressly require a committee structure for dispute resolution of events.

C. Position Limitations and Accountability[15]

Core Principle 5 requires a DCM to adopt position limitations or position accountability levels for speculators as necessary and appropriate to reduce the potential threat of market manipulation or congestion.[16] The position limit analysis for event contracts is complicated by the relationship between thinly traded event contracts and any external market to which the resolving event is related. Where an event contract is thinly traded but tied to a resolving event that itself has an underlying market — for example, an economic data release that will affect interest rate futures — the risk of collateral consequences rises. A trader with a large position in the event contract has an incentive to influence the resolving event, which in turn could influence the correlated financial market, and thin liquidity in the event contract makes that incentive harder for the market to correct, and the potential risk to the correlated futures market harder to avoid.

The Commission should consider this specific scenario — thinly traded event contracts with potential collateral consequences for other markets related to the resolving event — including whether position limits, or position accountability levels, are appropriate in such circumstances, and whether and how aggregation should work across substantially similar contracts (for example, multiple contracts referencing the same resolving event with slight variations in trigger definitions).

MARGIN CONSIDERATIONS[17]

DCM Core Principle 11 requires a DCM to have rules and procedures ensuring the financial integrity of transactions, including clearance and settlement, and to ensure the financial integrity

[15] Responding to Question 2.e of the CFTC's release.
[16] CEA Section 5(d)(5), 7 U.S.C. § 7(d)(5).
[17] Responding to Question 3 from CFTC's release.

of intermediaries and the protection of customer funds.[18] DCO Core Principle D requires that margin demanded from each member and participant be sufficient to cover potential exposures in normal market conditions, and that each model and parameter used in setting margin requirements be risk-based and reviewed on a regular basis.[19]

We at Backpack do not believe these core principles should be assessed in a materially different manner for event contracts than for other types of derivatives — the fundamental requirements of risk-based margin and regular model review apply with equal force. Often, however, the resolving event for an event contract does not have the historical data commonly used as inputs for risk models in traditional derivatives, making it challenging to model for volatility.[20] Prediction market contracts are bounded between 0 and 1 (or par), which caps absolute loss exposure. However, the risk is highly nonlinear near the resolution boundary. A contract trading at 50 cents has maximum variance; one trading at 95 cents appears low-risk but can gap to zero on a single piece of news.

Standard Value at Risk ("VaR") models might pose the danger of underestimating tail risk in event contracts, particularly as contracts approach their resolution date. Historical price distributions for near-certain events might not capture jump risk effectively, because the contract can move instantaneously to 0 or 1 on a single piece of new information. Ideally, margin models would stress-test gap scenarios — instantaneous moves to 0 or 1 — rather than relying solely on historical volatility; alternatively, and where prediction markets introduce new products rapidly, and specific margin models for specific contracts are not practical, margin requirements should be calculated with these assumptions in mind and set conservatively to address jump risk near resolution.[21]

Some event contracts might be data-sparse relative to exchange-traded futures markets. Historical price series might be short, liquidity might be episodic, and correlation structures shift around information events in ways that standard calibration windows might miss. These features further support relatively conservative margin floors, frequent model recalibration, and a willingness to impose supplemental margin requirements around scheduled resolution events.

Recommendations. Taking these considerations together, the CFTC in its review of an initial margin framework for event contracts should consider whether:

[18] CEA Section 5(d)(11), 7 U.S.C. § 7(d)(11).
[19] CEA Section 5b(c)(2)(D), 7 U.S.C. § 7a–1(c)(2)(D).
[20] For Backpack markets offered outside of the U.S., our risk model involves users prefunding their accounts with specified collateral that correlates with the positions the user takes on in those markets, and the platform does not extend credit to the user. In this respect, the model is designed to ensure collateral always covers maximum exposure. As a result, the user will not lose more collateral than the amount placed in their account, thereby limiting their losses even if there is a deficiency in the margin calculation.
[21] Due to these considerations, Backpack does not use VaR models for its non-U.S. prediction markets.

- If VaR methodology is used, whether the VaR calculation is calibrated to historical distributions as well as explicit jump-to-zero and jump-to-one stress scenarios run at the portfolio level, and with conservative correlation assumptions.

- A liquidity add-on is appropriate that scales nonlinearly with position size relative to average daily volume and order book depth, using stressed liquidity estimates rather than average conditions.

- A concentration surcharge should be applied, including potentially at both single-contract and portfolio levels, escalating nonlinearly above meaningful thresholds of open interest concentration.

- An event risk charge should be charged for contracts with unscheduled resolution, manipulation-susceptible structures, or high correlation to external financial markets.

PUBLIC INTEREST CONSIDERATIONS[22]

Section 3(a) of the CEA identifies managing and assuming price risks, discovering prices, and disseminating pricing information as a national public interest served by transactions and markets subject to the CEA, which Congress intended to promote. Event contracts can serve all three of these functions in meaningful ways, and the Commission should incorporate these considerations when it undertakes its public interest analysis for an event contract enumerated in Section 5c(c)(5)(C) of the CEA.

Using prediction markets for hedging is the most obvious and promising use case. Event contracts can allow market participants to manage risks that are not directly tradeable in existing markets. Beyond hedging, event contracts contribute to price discovery by aggregating dispersed information held by market participants and incorporating it into observable prices. Research on prediction markets has found that market prices aggregate information effectively — often more accurately than traditional polling or expert forecasting methods — and that this price discovery function has genuine economic and social value.[23] Prediction market prices for economic data releases, regulatory decisions, and other similar types of events provide information that helps market participants form expectations and allocate resources more efficiently.

Price dissemination follows naturally from price discovery. Publicly observable prediction market prices communicate information broadly and in real time, reducing information asymmetries and improving the quality of decision-making by a wide range of actors, including

[22] Responding to Question 10 of the CFTC's release.
[23] *See, e.g.*, Jason Dana, Pavel Atanasov, Philip Tetlock, and Barbara Mellers, Cambridge University Press, Are markets more accurate than polls? The surprising informational value of "just asking" (Jan. 1, 2023).

not only financial market participants but also businesses, researchers, and policymakers. As a result, prediction markets can serve as a data-based competition for other information sources, thereby instilling discipline and efficiencies between and among different sources of information.

III. Conclusion

We appreciate the Commission's engagement with these important and complex issues. Prediction markets present genuine opportunities to extend the informational and risk management benefits of organized markets to a broad range of events. We believe that the recommendations set out in this letter provide a sound basis for the development of clear, workable, and market-integrity-preserving guidance and rules relating to prediction markets.

We welcome further dialogue with Commission staff and are happy to provide additional information or analysis on any of the issues raised herein.

Respectfully submitted,



Mark Wetjen
President of Backpack U.S.
mark@backpack.exchange
(202) 277-9518