THE FOUNDATION FOR SECURE MARKETS®

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April 30, 2026

Via Electronic Submission

Mr. Christopher Kirkpatrick
Secretary of the Commission
U.S. Commodity Futures Trading Commission
Three Lafayette Center
1155 21st St. N.W.
Washington, DC 20581

Re: **CFTC Advanced Notice of Proposed Rulemaking: Prediction Markets**

The Options Clearing Corporation ("OCC") appreciates the opportunity to provide comment on the Commodity Futures Trading Commission's ("CFTC or Commission") Advanced Notice of Proposed Rulemaking ("ANPRM") on prediction markets.

OCC operates as a central counterparty ("CCP") under the jurisdiction of both the CFTC and the Securities and Exchange Commission ("SEC"). As a registered Subpart C derivatives clearing organization ("DCO") under the CFTC's jurisdiction, OCC clears and settles transactions in futures and options on futures. As a registered clearing agency under the SEC's jurisdiction, OCC is the sole clearing agency for equity options listed on national securities exchanges. OCC also provides central counterparty clearing and settlement services for securities lending transactions. OCC has been designated by the Financial Stability Oversight Council as a systemically important financial market utility ("SIFMU") under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). As a SIFMU, OCC is subject to prudential regulation by the Federal Reserve Board. OCC operates as a market utility and is owned by five options exchanges.

OCC appreciates the Commission's efforts to engage with the public on prediction markets including by releasing an ANPRM ahead of a potential proposed rule. OCC has provided responses to specific questions included in the Commission's ANPRM below.

Intermediated Clearing Model

OCC strongly believes that the current intermediated clearing model has served financial markets well historically and continues to function at a high level today. Under this model, CCPs have predominantly Futures Commission Merchants ("FCM") and Broker-Dealers ("BD") as clearing members. These members in turn provide access to a CCP on behalf of their customers and guarantee the financial performance of their customers to the CCP. OCC currently has 106 clearing members that collectively possess approximately $300 billion in net capital available to absorb potential losses from their customers. By contrast, under the direct clearing model

implemented by several DCOs, all participants including individual traders are clearing members of the DCO and the DCO is directly exposed to the financial risk of all participants.

Trading Prediction Markets on Margin – ANPRM Questions 2f and 3c

The Commission notes that currently event contracts are traded on a fully collateralized basis and requests comment on whether it should permit the contracts to trade on margin.[1] However, in addition to being fully collateralized, most event contracts are currently traded in non-intermediated markets, meaning all market participants, including retail traders, are clearing members of the DCO. OCC believes this structure provides inferior risk management when compared to an intermediated model in which most market participants trade through a registered FCM or BD and believes that any margin trading for event contracts should be limited to intermediated markets.

To manage the risk from clearing members' and their customers' positions, intermediated DCOs collect initial margin from clearing members that is calculated to cover potential adverse price moves over the time it would take to liquidate a defaulting clearing member's positions. Additionally, intermediated DCOs typically establish clearing funds[2] funded by their members to cover potential exposures beyond what is covered by initial margin. By contributing to a clearing fund, Clearing Members in the intermediated model provide additional capital that can help prevent a default by one member from spreading and impacting the broader financial system. Additionally, by mutualizing the risk of default, clearing fund deposits provide an additional incentive for members to manage the risks they present to a CCP. OCC's Clearing Fund is sized to provide a high degree of confidence that market integrity can be maintained in a wide range of stress scenarios that include the default of OCC's two largest clearing members and their participants—collectively involving potentially tens of thousands of individual customer accounts—under extreme but plausible market conditions. As of December 31, 2025, OCC held over $20 billion in clearing fund deposits.

Intermediated DCOs, therefore, traditionally have a significant amount of prefunded resources they can draw on to assist them in managing a default. The DCO's rules and procedures establish the order in which the resources are used, known as the "default waterfall." In OCC's case, the default waterfall uses 1) the clearing member's initial margin and Clearing Fund deposit, 2) OCC's own financial resources or "skin in the game", and then 3) non-defaulting clearing members' Clearing Fund contributions.

In addition to the prefunded resources held at the DCO, each clearing member of an intermediated DCO holds net capital available to absorb potential losses from its own customers. Additionally, FCMs and BDs often collect initial margin from their customers beyond what is required by the DCO. By participating in the intermediated model, clearing members can act as

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1 Prediction Markets, 91 Fed. Reg. 12516 (March 16, 2026) at 12519 and 12520.

2 These funds are also often referred to as default funds or guaranty funds.

shock absorbers and prevent a default by one customer from impacting the DCO, other clearing members, or the markets as a whole.

In addition to providing inferior risk management, non-intermediated DCOs offering contracts that trade on margin would likely struggle to meet the requirements of Core Principle C and Commission Regulation 39.12, which require DCOs to have rules to ensure that all clearing members "have sufficient financial resources and operational capacity to meet obligations arising from participation in the [DCO].[3]" Intermediated CCPs establish and enforce rigorous membership standards and monitor the creditworthiness and operational reliability of their clearing members on an initial and ongoing basis, while still permitting access to retail traders through an intermediary. For example, OCC admits clearing members in accordance with the membership criteria set forth in its By-Laws and Rules[4] and monitors ongoing compliance with those standards as provided in OCC's Third-Party Risk Management Framework.[5] Intermediaries also meet comprehensive regulatory requirements, including establishing a comprehensive risk management program[6] and establishing and monitoring risk limits for each of their customers.[7]

In contrast, many non-intermediated DCOs currently have minimal membership standards that allow individuals to become clearing members but are not conducive to ensuring that all members have sufficient financial and operational capacity. Clearing members in a DCO need to have the ability to, among other things, meet margin calls and participate in the DCO's default management process; a significant number of individuals as retail clearing members participating in a market raises the risk of a DCO having clearing members that cannot meet these obligations. Non-intermediated DCOs as currently structured are not in position to ensure members can meet the obligations listed in Core Principle C.

Additionally, in its February 27, 2026, comment letter to the CFTC in response to the Request for Comment on Direct Clearing of Derivatives by Retail Participants,[8] OCC raised several other key concerns with non-intermediated clearing models. Specifically, OCC identified as concerns: the concentration of AML/KYC responsibilities in a single entity; the inadequacy of a DCO's own capital as a substitute for mutualized clearing funds; and, in a hybrid model offering direct and intermediated clearing, the need to protect intermediated clearing members from bearing mutualized losses attributable to direct retail participants. OCC also flagged systemic risk

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3 7 U.S.C. § 7a-1(c)(2)(C); 17 C.F.R. § 39.12(a)(2), (3).

4 OCC's current By-Laws and Rules are available at: https://www.theocc.com/company-information/documents-and-archives/by-laws-and-rules.

5 *See* Exchange Act Release No. 34-101792 (Dec. 2, 2024), 89 FR 97127 (Dec. 6, 2024), File No. SR-OCC-2024-015.

6 17 C.F.R. § 1.11

7 17 C.F.R. § 1.73

8 OCC Comment Letter Re: CFTC Request for Comment on the Direct Clearing of Derivatives by Retail Participants (Feb. 27, 2026) *available at* https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=114033&SearchText=.

concerns with direct retail clearing stemming from correlated retail trading behavior, particularly the susceptibility of non-intermediated markets to meme-driven, directional trading activity.

Finally, OCC warned that auto-liquidation, which non-intermediated markets have proposed as a means to offer margined trading without intermediation, is a poor substitute for the risk management provided by current intermediated DCOs. OCC cited auto-liquidation's dependence on market liquidity at the exact time a liquidation is triggered, its potential to harm retail investors (particularly during overnight or volatile market conditions), and its tendency to amplify volatility through cascading liquidations as reasons auto-liquidation should not be permitted as a DCO risk management tool.

OCC renews those concerns here and encourages the Commission to limit DCOs that provide direct retail clearing to clearing only fully-collateralized products.

Types of Event Contracts – ANPRM Questions 33-36

The Commission asked whether event contracts should be classified as swaps or futures, and whether there are contracts similar to event contracts that are not listed on either a Designated Contract Market or Swap Execution Facility. OCC notes, however, that many binary options, which have similar characteristics to event contracts, are properly classified as securities and have been traded on National Securities Exchanges. A binary option is a type of option having only two possible payoff outcomes: either a fixed amount or nothing at all.[9] Binary options are also sometimes referred to as digital options, fixed return options, binary return derivatives, or all-or-nothing options. The holder of a binary option has the right to receive (and the writer of a binary option has the obligation to pay) the exercise settlement amount for the option if the value of the underlying interest as of the time specified by the applicable listing options market (*i.e.*, the exercise settlement value) meets the criteria for automatic exercise of the option, as specified in the rules of the listing options markets. National securities exchanges previously listed, and OCC has previously cleared, binary options on broad-based indexes (*e.g.*, the S&P 500), on individual securities and ETFs, and credit default options.

It is well established that such binary options are securities within the exclusive jurisdiction of the SEC. The definition of security includes any put, call, straddle or other option on any security or index of securities (including any interest therein or based on the value thereof).[10] The Shad-Johnson Accord in the 1980s between the CFTC and SEC established that the SEC holds exclusive jurisdiction over options on individual stocks, options on narrow-based and broad-based stock indexes (equity options), and options on foreign currency traded on national securities exchanges. This understanding was later codified into the Commodity Exchange Act.[11]

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9 *See* Characteristics and Risks of Standardized Options (June 24, 2024), *available at* https://www.theocc.com/company-information/documents-and-archives/options-disclosure-document.

10 15 U.S.C. § 77b; 15 U.S.C.§ 78c.

11 *See* 7 U.S.C. § 2(a)(1)(C)(i).

Pursuant to this understanding, OCC filed, and the SEC approved, OCC's By-Laws and Rules for the clearance and settlement of binary options listed on a national securities exchange,[12] including credit default options.[13] OCC encourages the Commission to consider these types of securities products when proposing rules for event contracts.

Conclusion

OCC appreciates the opportunity to provide comment and commends the Commission for seeking input regarding prediction markets. OCC hopes the Commission will continue to engage market participants as it considers or develops new regulations in this space, and remains available to provide additional information or perspective that may assist the Commission in its important work.

Sincerely,



Megan Malone Cohen
General Counsel

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12 *See* Exchange Act Release No. 56875 (Nov. 30, 2007), 72 FR 69274 (Dec. 7, 2007) (SR-OCC-2007-08).

13 *See* Exchange Act Release No. 55872 (June 6, 2007), 72 FR 32693 (June 13, 2007) (SR-OCC-2007-01). With respect to credit default options, OCC also sought and obtained exemptive relief from the Commission pursuant to Section 4(c) of the Commodity Exchange Act. *See* Order Exempting the Trading and Clearing of Certain Credit Default Products Pursuant to the Exemptive Authority in Section 4(c) of the Commodity Exchange Act ("CEA") (June 5, 2007), 72 FR 32079 (June 11, 2007).