PTG Driving Efficient Markets

SECURITIES • DERIVATIVES • DIGITAL ASSETS

April 30, 2026

Christopher J. Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: CFTC Advance Notice of Proposed Rulemaking – Prediction Markets
RIN 3038–AF65

Dear Mr. Kirkpatrick:

PTG[1] appreciates the opportunity to comment on the Commodity Futures Trading Commission's ("Commission" or "CFTC") Advance Notice of Proposed Rulemaking ("ANPRM")[2] concerning prediction markets. PTG supports a regulatory framework that safeguards market integrity while preserving the conditions necessary for deep, competitive liquidity formation in the United States. Prediction markets can provide valuable mechanisms for information aggregation, price discovery, and risk transfer, but these benefits depend on several essential conditions: fair and equal access to event relevant information; neutral and transparent exchange governance; clear and reliable settlement and dispute resolution processes; and regulatory requirements calibrated to the actual risks these products present. Consistent with principles applied in other markets and the objectives underlying CFTC surveillance, prediction market event contracts are particularly sensitive to information asymmetries and settlement uncertainty. In this context, fair access to information directly supports tighter quoting, narrower spreads, greater displayed depth, and higher quality execution for all market participants.

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[1] PTG, formerly known as the FIA Principal Traders Group ("FIA PTG"), is a leading trade association of principal trading firms advocating for fair, transparent, and robust markets. Members provide essential liquidity and facilitate price discovery, both critical to well-functioning markets. PTG engages with policymakers and regulators to safeguard market integrity by offering expert guidance on market structure while highlighting the positive contributions of liquidity providers.

[2] https://www.cftc.gov/LawRegulation/FederalRegister/proposedrules/2026-05105.html

I. Treatment of Cleared Swaps Should Be Addressed Before the Commission Finalizes a Broader Rule on Prediction Markets

As a threshold matter, PTG believes the Commission should address the treatment of centrally traded and cleared swaps—including event contracts—before finalizing any broader regulatory framework for prediction markets. This issue is narrower in scope and more immediately actionable than many of the policy questions raised in the ANPRM, yet it has outsized implications for U.S.-based liquidity provision and market quality on regulated domestic venues.

PTG has long advocated that centrally traded and cleared swaps present materially different considerations and risks than the over-the-counter ("OTC") swaps that Dodd Frank Title VII was designed to address.[3] The swap dealer framework and its requirements were crafted primarily to mitigate risks associated with bilateral OTC derivative dealing, including large counterparty exposures, limited transparency, and uncleared, bespoke transactions.[4] Those concerns do not translate neatly to standardized event contracts and other cleared products traded on transparent, regulated venues, where counterparty risk is mutualized and mitigated through central clearing.

Counting activity in such products toward swap dealer de minimis thresholds is therefore disproportionate to the risks presented and carries adverse market structure consequences. In practice, this treatment may discourage U.S. firms from providing liquidity on regulated venues, widen spreads, reduce displayed depth, and ultimately shift activity toward foreign or less constrained platforms—preventing U.S. markets from achieving their full liquidity potential.

In the context of prediction markets, such an outcome would undermine, rather than advance, the Commission's objectives of promoting transparent, cleared, and well supervised U.S. markets. It would also risk ceding market leadership in these emerging products to foreign jurisdictions prepared to offer a more appropriately calibrated regulatory approach.

PTG therefore urges the Commission to clarify—through rulemaking, interpretation, or exemptive relief—that activity in centrally traded and cleared swaps, including prediction market event contracts, does not count toward swap dealer de minimis thresholds. Addressing this issue as a threshold matter would foster a more competitive domestic environment, improve liquidity conditions on regulated U.S. venues, and provide a sound foundation for any subsequent rulemaking addressing broader prediction market issues.

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[3] *See* Letter from Mary Ann Burns to Christopher J. Kirkpatrick, Secretary (Jan. 27, 2016), and Letter from Allison Lurton to Christopher J. Kirkpatrick, Secretary (Aug. 13, 2018).

[4] "Financial Regulatory Reform, A New Foundation: Rebuilding Financial Supervision and Regulation," October 8, 2009, US Department of Treasury https://fraser.stlouisfed.org/files/docs/historical/fct/treasury_finregreform_20090617.pdf?utm_source=direct_download

II. Deep Liquidity in Prediction Markets Benefits Consumers and Promotes Market Integrity

Prediction markets—particularly event contracts—depend on deep and competitive liquidity to function effectively. Because contract values can adjust sharply and discontinuously as new information emerges, liquidity conditions play an unusually important role in determining whether participants receive fair, reliable, and timely execution. In this setting, inadequate liquidity is not merely a matter of market efficiency; it increases costs to investors and undermines market integrity.

Wide spreads, shallow order books, and stale pricing disproportionately disadvantage less sophisticated or less technologically equipped participants. By contrast, deeper and more competitive liquidity supports higher quality execution, enhances the informational content of prices, and enables prediction markets to serve their intended role as mechanisms for information aggregation.

Robust liquidity also promotes more accurate and dependable price discovery by ensuring that quoted prices reflect the aggregation of many informed views, rather than the idiosyncratic impact of a small number of transactions. In thinly traded or narrowly scoped event contracts, even a modest order can sweep a shallow book and materially shift the implied probability, producing a misleading market signal driven by liquidity scarcity rather than genuine consensus about the underlying event.

PTG believes that fair access to information and deep, competitive liquidity are essential preconditions to reliable price discovery in prediction markets. In considering any future rulemaking, the Commission should favor approaches that promote independent market making, open participation, and competitive quoting. Such an approach is consistent with the ANPRM's public interest and cost-benefit framework, including the Commission's focus on price discovery, the dissemination of pricing information, and the broader public interests identified in Section 3 of the Commodity Exchange Act ("CEA").[5]

III. Fair Information Access Produces Better Markets

In prediction markets, fair and equal access to event relevant information is a critical determinant of quote quality and market performance. When information is broadly and contemporaneously available, liquidity providers can quote with greater confidence, and participants are more likely to transact at competitive prices. Conversely, where certain participants receive material event information earlier, more comprehensively, or on preferential terms, adverse selection risk increases, spreads widen, and displayed liquidity deteriorates.

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[5] Commodity Exchange Act § 1, 7 U.S.C. § 1, available at https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title7-section1&num=0&edition=prelim.

These concerns are particularly acute for event contracts tied to sports and other fast-moving real-world events. In such markets, even modest disparities in access to source data or event updates can materially affect pricing and execution quality. In the sports context, leagues frequently enter into exclusive arrangements with designated data providers, which may then control the dissemination of key real-time game-state data, including whether such data is made available to certain parties at all and, when it is, on materially different commercial terms. In addition, data providers with exclusive distribution arrangements may be able to influence which exchanges receive access to data, thereby affecting which venues are able to compete effectively in listing and supporting these products. This kind of fragmented and selectively distributed data environment can impair price formation and market making, particularly during high-volume or fast-moving periods, with predictable effects including wider bid-ask spreads, reduced depth, higher trading costs for end users, and reduced participation by professional liquidity providers.

Exchanges should not permit discriminatory access to material event related information, whether through official league arrangements, proprietary data relationships, preferred event feed access, or functionally similar mechanisms. Where an exchange relies on a particular data provider or source relationship for trading or settlement, the exchange should seek to ensure that materially relevant source data is made broadly available to market participants on fair, transparent, and nondiscriminatory terms, including in real time where appropriate given the nature of the product.

In addition, where a contract relies on an official or authoritative source, the exchange should clearly disclose the primary source, any fallback sources, applicable timing conventions, correction policies, and any known limitations that could affect dissemination, interpretation, or settlement. Such disclosures are essential to reducing ambiguity, supporting fair and informed quoting, and promoting confidence in contract design and resolution.

PTG does not suggest that exchanges should be prohibited from using official or authoritative data sources. On the contrary, such sources can improve contract clarity, reduce settlement disputes, and strengthen market integrity. However, reliance on these arrangements should not create discriminatory access to market relevant information or confer a structural advantage on a subset of participants. As official data relationships expand, they should be structured to enhance the quality and reliability of event information while preserving fair and equal access for all market participants.

The Commission should continue to encourage memoranda of understanding and similar arrangements with relevant data sources where such frameworks can improve the integrity, availability, and standardization of event related information. The Commission's memorandum of understanding with Major League Baseball—and the resulting expansion of accessible sports data through related commercial arrangements—provides a useful template.[6] Similar approaches may be appropriate across other categories of event contracts.

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[6] Press Release, Commodity Futures Trading Commission, CFTC and MLB Sign Groundbreaking MOU Mar. 19, 2026), https://www.cftc.gov/PressRoom/PressReleases/9199-26.

Where access to materially relevant real-time data is distributed selectively, execution may cease to be meaningfully open or competitive because certain participants are able to trade with a structural informational advantage. The same asymmetries can frustrate surveillance, impair an exchange's ability to enforce its rules, and undermine fair access by making effective participation dependent on private discriminatory arrangements rather than transparent market-wide standards.

IV. Internal Market Makers Create Conflicts and Should Be Limited, Disclosed, and Closely Controlled

Prediction markets can present acute and structural conflicts when an exchange or exchange affiliate acts as a market maker. In certain circumstances, internal market makers may benefit from advantages that cannot be meaningfully neutralized, including privileged visibility into order flow, superior latency and systems integration, influence over product design and listing decisions, and greater familiarity with resolution, settlement, and dispute handling processes. In thin or newly listed contracts—where prediction market liquidity is most fragile—even modest structural advantages can decisively distort competition, crowd out independent liquidity providers, and impair the credibility of price formation.

For these reasons, internal market makers should not be viewed as a routine or acceptable market structure model for prediction markets. While such arrangements are sometimes framed as liquidity bootstrapping mechanisms, they too often hardwire conflicts into the market's foundation and deter the participation of independent firms whose presence is essential to competitive, resilient liquidity. Experience across financial markets has repeatedly demonstrated that when exchanges or their affiliates trade as principals, conflicts of interest are difficult to manage in practice and corrosive to confidence in market integrity.[7]

PTG therefore believes that internal market making should be strongly disfavored and permitted, if at all, only under narrow, exceptional circumstances subject to rigorous controls. At a minimum, the Commission should require prominent disclosure that an affiliated market maker is active, clear identification of affected products, strict participation caps, robust and enforceable information barriers, affiliate specific surveillance, and governance controls that categorically prohibit influence over market operations, product listing, surveillance, settlement, or contract interpretation.

Any permitted affiliated market making activity must be insulated by demonstrable, well documented information barriers separating such affiliates from exchange personnel responsible for listing decisions, surveillance, enforcement, and resolution. Absent such safeguards—and credible regulatory scrutiny—affiliated market making risks undermining the Commission's core

[7] David Yaffe-Bellany, Matthew Goldstein & Emily Flitter, How FTX's Sister Firm Brought the Crypto Exchange Down, N.Y. Times (Nov. 18, 2022), https://www.nytimes.com/2022/11/18/business/ftx-alameda-ties.html.

principles of impartial access, prevention of manipulation, and protection against undue price distortion.

The Commission's focus on exchange core principles, fair access, and the costs and benefits of alternative regulatory approaches provides a strong basis for concluding that neutral, independently provided liquidity, is the soundest and most defensible foundation for prediction market design.

V. Contract Design Must Be Grounded in Manipulation Resistance

PTG agrees that event contracts should be evaluated with particular rigor as to whether they are readily susceptible to manipulation. In prediction markets, that assessment must begin with contract design. Not every proposition is suitable for listing on a regulated market, and the Commission should be clear that poor contract design can itself create manipulation risk.

Contracts are especially problematic where outcomes depend predominantly on the discretionary actions of a single individual, opaque internal determinations, unverifiable facts, or conditions that can be strategically created, influenced, or timed by a small number of actors. Such propositions invite manipulation, undermine confidence in settlement, and are poorly suited to transparent, surveilled markets. By contrast, stronger candidates are contracts tied to observable, independently verifiable, broad based external events supported by transparent data sources and limited susceptibility to strategic distortion.

The Commission should provide guidance clarifying that a principal component of the contract design analysis under Core Principle 3 is whether the underlying event is sufficiently objective, verifiable, and surveillable. This inquiry is particularly critical in prediction markets, where the line between legitimate forecasting and structurally manipulable propositions can be unusually thin. The ANPRM's discussion of core principles and event contracts that are "not readily susceptible to manipulation" directly supports a more disciplined, design focused approach to contract review.

More broadly, designated contract markets' ("DCM") use of the self-certification process should be subject to rigorous standards and should not diminish a DCM's obligation to ensure that listed contracts adhere to the CEA's core principles. Given the unique risks presented by event contracts, the Commission should articulate clear and robust expectations regarding the analysis and documentation that DCMs must undertake when self-certifying such products. In particular, these expectations should reinforce disciplined contract design, careful evaluation of susceptibility to manipulation, and full disclosure of data sources and settlement methodologies.

VI. Market Surveillance and Anti-Abuse Programs Should Be Tailored to Prediction Markets

Prediction markets require robust surveillance and anti-abuse programs because information shocks can produce immediate repricing. Surveillance in these products should be calibrated to unusual trading ahead of key event developments, patterns suggesting collusive or coordinated conduct, activity around known information release windows, affiliate or insider trading, and attempts—where feasible—to unduly influence or interfere with event outcomes themselves.

Prediction market surveillance should not be treated as a simple extension of surveillance in traditional futures markets. Event contracts present distinct abuse patterns and require tailored surveillance logic, escalation procedures, and review mechanisms. Exchanges should be expected to maintain procedures for investigating anomalous trading patterns, reviewing source data irregularities, and coordinating surveillance and market operations responses where edge cases arise.

PTG encourages the Commission to provide guidance regarding what constitutes a robust anti-abuse and surveillance framework specifically for event contract venues. Such guidance would be responsive to the ANPRM's discussion of exchange obligations to monitor trading and prevent manipulation, price distortion, and disruption of settlement.

VII. Inside Information and Improperly Obtained Nonpublic Information Require Specific Rules

Prediction markets may be particularly vulnerable to misuse of nonpublic information where participants obtain event relevant information through improper means before it becomes generally available. Such conduct may involve breaches of ticket terms or event attendance restrictions, unauthorized rebroadcasting, contractual use violations, hacking, theft or misuse of proprietary communications, unauthorized access to restricted systems, or other forms of wrongfully obtained nonpublic information.

These risks undermine market quality even apart from traditional fairness concerns. If liquidity providers believe a market is exposed to repeated jumps driven by illicit informational advantage, they will widen spreads, reduce size, or withdraw from quoting entirely. That outcome harms all participants and degrades the informational quality of the market.

For these reasons, the Commission should encourage exchanges to adopt explicit rules addressing trading based on improperly obtained nonpublic information and to maintain operational procedures for investigating such conduct. The Commission should also permit exchanges to use tools such as geofencing and access controls where appropriate to mitigate identifiable contract specific information risks. These issues correspond directly to the ANPRM's discussion of inside information and its broader concern with market integrity and public interest.

VIII. Cost-Benefit and Public Interest Analysis Should Favor Rules That Improve Fairness, Liquidity, and Integrity Without Freezing Innovation

In evaluating potential regulatory changes for prediction markets, the Commission should prioritize whether a proposed approach enhances executable liquidity, narrows spreads, supports independent market making, curbs informational abuse, strengthens settlement certainty, and preserves space for responsible innovation. In PTG's view, a framework centered on broad prohibitions or the wholesale application of rules designed for materially different products is unlikely to advance these objectives and may instead impair market quality.

In many cases, the Commission's goals can be achieved more effectively through less costly and more targeted alternatives. These may include disclosure-based requirements rather than outright restrictions, conflict mitigation measures rather than categorical exclusions, objective settlement and source governance standards rather than ad hoc intervention, and modular compliance pathways that accommodate innovative market structures, including on-chain systems. The Commission's statutory obligation to consider costs, benefits, and the public interest strongly supports this calibrated and proportionate approach.

PTG also cautions that poorly calibrated regulation is unlikely to eliminate demand for prediction markets. Instead, it risks displacing activity to offshore, unregistered, or less transparent venues where surveillance is weaker and customer protection is diminished. A sound U.S. regulatory framework should aim to retain activity on well-regulated domestic venues while improving fairness, market integrity, and resilience.

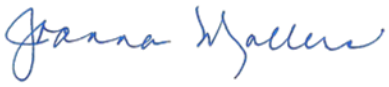
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PTG appreciates the Commission's thoughtful consideration of the issues raised in the ANPRM and urges an approach that recognizes the distinctive features and risks of prediction market event contracts. A regulatory framework that promotes fair and equal access to information, independent and competitive liquidity provision, manipulation-resistant contract design, and tailored surveillance will best advance market integrity, price discovery, and public interest. Addressing threshold issues—such as the treatment of centrally traded and cleared event contracts—before finalizing broader rules will help preserve U.S. market competitiveness and encourage activity on transparent, well-regulated domestic venues. With proportionate, risk-calibrated regulation grounded in core principles the Commission can foster innovation while strengthening confidence in prediction markets and safeguarding market quality for all participants.

If you have any questions or need more information, please contact Joanna Mallers (jmallers@ptgmarkets.org).

Sincerely,

PTG



Joanna Mallers
Secretary

cc: Michael S. Selig, Chairman