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April 30, 2026

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

Re: Proposed Rule 91 FR 12516; 17 CFR Chapter I Prediction Markets

Mr. Kirkpatrick:

I am submitting a comment for consideration regarding the CFTC's above Proposed Rule regarding Prediction Markets and the potential regulatory oversight structure of these new markets.

Many of Prediction Markets' Designated Contract Markets ("DCMs") being established are being set up or structured on a disintermediated basis. In this structural set up investors, both individuals and legal entities, can become participants in the DCM without having to go through a Futures Commission Merchant ("FCM") or Introducing Broker ("IB") in order to place their investment on the DCM contract.

This disintermediated structure is atypical to other futures and derivatives markets where FCMs and IBs directly interface with an investing customer and it is the FCM or IB who will be a participant in the DCM.

With this disintermediated structure, without FCM and IB intermediating involvement, there will be no financial institution designated under the USA PATRIOT Act by FinCEN to perform AML/CFT KYC and transaction monitoring requirements and performing sanctions (i.e., OFAC) compliance. The disintermediated structure creates a new gap in the US financial system for AML/CFT and OFAC compliance.

While each new applicant to become a DCM or has already been designated as a DCM, is required to comply with CFTC Core Principle #3 that "only contracts that are not readily susceptible to manipulation" can be traded by the DCM, the DCMs have no current obligation to comply with the AML/CFT Program requirements of the USA PATRIOT Act and

the regulations of FinCEN, nor establishing a formal OFAC Program, per OFAC's Framework for Compliance Commitments of May 2019 (i.e., OFAC Issues a Framework for Compliance Commitments | U.S. Department of the Treasury). This is partially due to the fact that DCMs (as well as DCOs) have not been designated by FinCEN to implement AML/CFT Programs (i.e., only FCMs and IBs currently are required to do so in the commodity futures/derivatives markets).

While Prediction Market DCMs are required to monitor for market manipulation, the effectiveness of their monitoring programs have been at best debatable to date. In addition, it is unclear if the DCM truly knows who their participants are (i.e., KYC), and in the case of legal entity participants who their ultimate beneficiary owners are if the legal entity participant is not publicly traded on a recognized exchange. Transaction monitoring, beyond just market manipulations, where payments are coming from and going to high-risk jurisdictions, and if the initial investment and subsequent payment(s) are made in convertible virtual currencies ("CVCs") also further complicates transaction monitoring that is needed to prevent money laundering or terrorist financing.

Other areas of concern without DCMs having to comply with the USA PATRIOT Act and formal OFAC requirements include, but are not limited to:

- Customer Identification (and Verification) Program ("CIP") requirements– Section 326
- Know Your Customer ("KYC"): Customer Due Diligence ("CDD")/Enhanced Due Diligence ("EDD")/Beneficial Ownership and Control Person of legal entities, including identification and verification of beneficial owners and control person
    - KYC risk rating of a customer (or participant in a DCM)
    - KYC performed at onboarding
    - Ongoing periodic risk-based updates to KYC information
    - Trigger events initiating a KYC update in-between periodic risk-based updates
- AML/CFT and OFAC Risk Assessments
- Information Sharing with Law Enforcement/FinCEN – Section 314(a)
- Information Sharing with Other Registered Financial Institutions – Section 314(b)
- Special Measures – Section 311
- Filing of a Suspicious Activity Report ("SAR") (e.g., for market manipulations, avoiding KYC, etc.)
- Training (of DCM staff, management, Board)
- Independent Audit of AML/CFT and OFAC Programs (of the DCM)

- OFAC monitoring and reporting:
  - Screening at onboarding
  - Re-screening of DCM participants upon release of an OFAC list update
  - Filtering of all transactions to/from the DCM
  - Blocking transactions/assets
  - Rejecting transactions
  - Annual reporting of blocked assets

You may finalize a regulatory structure, but I would suggest you work with FinCEN to set up a structure that will comply with all the requirements of the USA PATRIOT Act and all OFAC requirements.

Sincerely,
Stephen J. Lurie

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