April 30, 2026

BY ELECTRONIC SUBMISSION

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

Re: Advance Notice of Proposed Rulemaking on Prediction Markets, 91 Fed. Reg. 12516 (Mar. 16, 2026) (RIN 3038-AF65)

Dear Mr. Kirkpatrick:

Dragonfly appreciates the opportunity to respond to the Commodity Futures Trading Commission's advance notice of proposed rulemaking on prediction markets and is grateful for the Commission's attention to and consideration of this important issue.

Dragonfly is a global investment firm that invests in cryptocurrency assets, infrastructure, applications, and markets. Founded in 2018, the firm now has more than $3.4 billion in assets under management across multiple funds. As an early-stage investor with a long-term strategy, Dragonfly is committed to the sustained growth and maturity of the crypto industry.

Dragonfly is an investor in Polymarket and has closely followed the development of U.S. event-contract markets since 2020. In our view, prediction markets offer substantial benefits to individuals, businesses, researchers, and policymakers seeking to make informed decisions and manage risk. When properly regulated, event-contract markets can generate reliable forecasts, support hedging, and aggregate dispersed information into a single, observable price signal.

We recognize that some event contracts raise legitimate concerns, including manipulation, the misuse of nonpublic information, and threats to market integrity. We believe, however, that the Commission can preserve the benefits of these markets while imposing targeted controls against the conduct that genuinely warrants them.

I. Summary

Prediction markets provide valuable information that is difficult to obtain through traditional surveys and forecasts alone. Market prices aggregate the views of participants in real time and can produce useful signals about elections, macroeconomic indicators, weather, earnings, public events, and other uncertain outcomes. These products help businesses, researchers, policymakers, and the public make decisions and manage risks in a way that is not addressed by existing financial instruments. We believe that properly regulated prediction markets can advance the core objectives of the Commodity Exchange Act ("**CEA**") by improving price discovery, disseminating useful information, supporting risk management, and increasing competition.

We understand the Commission is considering how to address real concerns around manipulation, insider trading, market integrity, and the public interest while preserving the benefits prediction markets can offer. The Commission already has significant tools available through the designated contract market ("**DCM**") framework, including exchange surveillance, audit trails, position limits, market-participant protections, anti-fraud and anti-manipulation

authority, disciplinary procedures, and enforcement powers. Together with prediction-market-specific additions, such as guidelines for contract-resolution processes, integrity monitoring, participation restrictions, and identification of categories that warrant heightened scrutiny, these tools are sufficient to address the risks presented by these new markets.

Overbroad restrictions would likely undermine the very interests they are intended to protect. If U.S. users cannot access regulated prediction markets, activity may migrate to offshore or less regulated platforms where the Commission has less visibility and consumers receive fewer protections. Likewise, a fragmented state-by-state approach to federally regulated event contracts would create uncertainty, impair innovation, and weaken the development of consistent national standards. We believe that a coherent federal framework is the sounder path for market integrity and consumer protection.

For these reasons, Dragonfly respectfully urges the Commission to adopt a risk-based framework. The Commission should read CEA section 5c(c)(5)(C) with limiting principles and should distinguish contracts that have genuine economic, commercial, hedging, forecasting, or price-discovery value from those that present unredeemable public-interest concerns. Wherever practicable, the Commission should prefer targeted safeguards to categorical bans. A risk-based framework can preserve the benefits of prediction markets while addressing the Commission's legitimate concerns about misconduct and manipulation.

II. Prediction markets further the CEA's public-interest objectives.

The CEA does not treat derivatives markets as permissible only when they resemble traditional agricultural hedges. Congress identified broader public interests including facilitating hedging and price risk management, promoting price discovery and the dissemination of pricing information, protecting market participants, and ensuring fair, orderly, and financially sound markets free from fraud and manipulation. Properly supervised event-contract markets can serve each of those public-interest purposes.

A. Prediction markets provide accurate information aggregation.

Prediction markets function as information-aggregation machines: their prices reflect participants' collective beliefs about whether specified events will occur. Prediction markets tend to outperform traditional surveys and professional forecasters for several reasons. First, prices update continuously, incorporating new information and shifts in sentiment in real time. Second, order-book depth produces a probability distribution over outcomes rather than a single point estimate, giving observers a useful signal about the likelihood of tail events. Third, because certain prediction markets permit any user to propose a contract, they can list instruments that reference a specific event directly rather than a correlated proxy, enabling businesses to hedge precise risks that traditional markets do not address.

Prediction markets have demonstrated their accuracy in election forecasting. Berg, Nelson, and Rietz found that Iowa Electronic Markets presidential vote-share prices were closer than contemporaneous polls 74% of the time across 964 polls from 1988 through 2004, while Wolfers and Zitzewitz's review similarly found that prediction-market forecasts were typically accurate and often outperformed conventional benchmarks. More recent work by Ng, Peng, Tao, and Zhou

finds that modern prediction markets substantially outperformed polls in predicting 2024 presidential-election outcomes, with Polymarket outperforming across platforms.[1]

Prediction markets have demonstrated accuracy beyond just elections. Reichenbach and Walther analyze more than 124 million Polymarket trades across markets covering politics, sports, and financial-asset-related events. They find that decentralized prediction-market prices generally track realized probabilities and, where available, slightly outperform bookmaker odds.[2]

Prediction markets also show accuracy in macroeconomic forecasting. A February 2026 Finance and Economics Discussion Series paper by Anthony M. Diercks, Jared Dean Katz, and Jonathan H. Wright evaluates Kalshi's implied macroeconomic forecasts against traditional survey and market-implied benchmarks. The authors conclude that Kalshi markets can supply a high-frequency, continuously updated, and distributionally rich benchmark of value to researchers and policymakers. They found that, in the sample studied, the Kalshi median and mode produced a perfect forecast record on the day before FOMC meetings, a statistically significant improvement over fed funds futures, and a statistically significant improvement over the Bloomberg consensus for headline CPI. Notably, several of the variables studied previously had fewer or no direct traded hedging instruments, meaning that prediction markets now offer pricing information for these risks.[3]

These findings demonstrate that prediction markets contribute a distinct and useful signal that complements existing forecasting tools. A Commission rule that unnecessarily suppresses these markets would therefore impose real costs on price discovery and on the scope of information available to policymakers, academia, businesses, and the general public.

B. Earnings contracts provide useful predictive signals.

Recent financial-market examples also point to the accuracy of prediction markets. A Wolfe Research analysis showed that Polymarket company earnings event contracts carried meaningful predictive power relative to historical baselines. Companies that Polymarket users expected to miss earnings reportedly missed at a materially higher rate than the historical norm (44% versus an 18% baseline), and companies for which Polymarket users were highly confident in a beat reportedly beat at a higher rate than the baseline (90% versus 81%).[4]

C. Mainstream financial-information providers are incorporating prediction-market data.

Prediction market data is also becoming a routine input for the news media and the investing public. In January 2026, Polymarket and Dow Jones announced a partnership to make real-time prediction-market data available across Dow Jones consumer platforms, including The

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[1] Joyce E. Berg, Forrest D. Nelson & Thomas A. Rietz, *Prediction Market Accuracy in the Long Run*, 24 Int'l J. Forecasting 285 (2008); Justin Wolfers & Eric Zitzewitz, *Prediction Markets*, 18 J. Econ. Persp. 107 (2004); Hunter Ng, Lin Peng, Yubo Tao & Dexin Zhou, *Price Discovery and Trading in Modern Prediction Markets* (SSRN Working Paper, last revised 2026), https://ssrn.com/abstract=5331995.

[2] Felix Reichenbach & Martin Walther, *Exploring Decentralized Prediction Markets: Accuracy, Skill, and Bias on Polymarket* (SSRN Working Paper, Dec. 2025), https://ssrn.com/abstract=5910522.

[3] Anthony M. Diercks, Jared Dean Katz & Jonathan H. Wright, *Kalshi and the Rise of Macro Markets* (Bd. of Governors of the Fed. Rsrv. Sys., Fin. & Econ. Discussion Series Working Paper No. 2026-010, Feb. 2026). The cited findings are author conclusions in a preliminary FEDS working paper and not an official institutional position of the Federal Reserve Board.

[4] Justina Lee, *Wall Street Quants See an Edge in Polymarket Earnings Forecasts*, Bloomberg (Apr. 16, 2026), https://www.bloomberg.com/news/articles/2026-04-16/wall-street-quants-see-an-edge-in-polymarket-earnings-forecasts.

Wall Street Journal, Barron's, MarketWatch, and Investor's Business Daily.[5] Intercontinental Exchange announced in October 2025 that it would invest up to $2 billion in Polymarket at an approximately $8 billion pre-investment valuation and become a global distributor of Polymarket data.[6]

The Commission's own Division of Market Oversight staff has acknowledged the same informational function. Staff Advisory 26-08 states that prediction markets are increasing in popularity both as a financial asset class and as a source of reliable information for news media, sports leagues, financial institutions, and everyday Americans.[7]

III. Event contracts serve economic and commercial purposes.

The ANPR properly asks whether event contracts are being used for hedging, forecasting, operational planning, policy analysis, or capital allocation. The answer is yes: businesses are already using these markets for planning and hedging today, and we expect that use to escalate as the markets mature.

A. Weather and climate contracts can support risk transfer and practical forecasting.

Weather risk is a familiar subject for derivatives markets. CME Group received CFTC approval to list heating and cooling degree-day futures in 1999, and exchange-traded weather products have existed for more than two decades. Weather outcomes affect agriculture, energy demand, transportation, municipal budgets, insurance, and reinsurance. Energy companies, commodity traders, hedge funds, reinsurers, utilities, ski resorts, music festivals, and renewable-energy producers are all users of weather derivatives.[8]

Prediction markets lower the barriers to defining narrowly tailored, verifiable weather outcomes. They can deliver competitive forecasts and, importantly, make these products accessible to small businesses and individuals who have historically been priced out of the bilateral weather-derivatives market.

The SCOR Foundation-funded CRUCIAL project, led by Lancaster University with University of Exeter collaborators, uses expert-participant prediction markets to forecast climate-related risks and to translate market prices into probabilities useful for adaptation planning and financial institutions assessing climate exposure.[9] Interactive Brokers' Head of Climate Analytics has also published preliminary comparisons between ForecastEx high-temperature

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[5] Press Release, Polymarket, *Polymarket and Dow Jones, Publisher of The Wall Street Journal, Announce Exclusive Prediction Market Partnership* (Jan. 7, 2026), https://www.nasdaq.com/press-release/polymarket-and-dow-jones-publisher-wall-street-journal-announce-exclusive-prediction.

[6] Press Release, Intercontinental Exch., *ICE Announces Strategic Investment in Polymarket* (Oct. 7, 2025), https://ir.theice.com/press/news-details/2025/ICE-Announces-Strategic-Investment-in-Polymarket/default.aspx.

[7] CFTC Div. of Mkt. Oversight, *Staff Advisory Letter No. 26-08, Prediction Markets Advisory* (Mar. 12, 2026), https://www.cftc.gov/csl/26-08/download.

[8] Harry Robertson, *Use of Weather Derivatives Surges as Extreme Climate Events Rock the Globe*, Reuters (Oct. 11, 2023) (describing use by energy companies, hedge funds, commodity traders, utilities, reinsurers, ski resorts, and music festivals).

[9] SCOR Found., *Climate Risk & Uncertainty Collective Intelligence Laboratory (CRUCIAL)* (describing a Lancaster University and University of Exeter project that uses expert-participant prediction markets to forecast climate-related risks).

markets and National Weather Service LAMP forecasts, reporting lower average error for ForecastEx over the sample studied.[10]

As Susquehanna International Group co-founder Jeff Yass remarks, "prediction markets can allow parties to more efficiently share risk on a parametric basis. Hurricane risk for Florida homeowners is an example. Rather than buying annual insurance policies, homeowners could hedge potential property damage risk as hurricanes approach by purchasing a 'Yes' contract that winds will exceed a specified speed in their town, informed by up-to-the-minute meteorological data."[11] In other words, prediction markets can allow users to hedge precise parametric risks where no comparable direct hedge was previously available.

B. Prediction markets can hedge macroeconomic risks.

Beyond weather, event contracts increasingly address macroeconomic, interest-rate, policy, and economic-data risks that directly affect business planning, investment decisions, and portfolio exposures.

Interactive Brokers' ForecastEx materials are explicit about hedging use cases: ForecastEx tells clients they can buy contracts referencing economic data, capital markets, central-bank actions, sovereign debt, and climate. The platform's published topic list includes nonfarm payrolls, retail sales, CPI, housing starts, central-bank rates, unemployment claims, sovereign-debt measures, and global temperatures.[12]

IV. Existing regulatory tools can address the principal risks.

The ANPR is right to focus on insider trading, manipulation, outcome control, and settlement integrity. These risks are real, but the Commission already has tools to address them through DCM registration, the Core Principles, audit trails, market surveillance, and the Commission's enforcement authority. Registered prediction market venues reinforce that framework with their own internal rule enforcement.

A. The registered-DCM framework already applies to key U.S. venues.

KalshiEX LLC and QCX LLC (doing business as Polymarket US) are both listed by the CFTC as DCMs. As DCMs, both venues are subject to the DCM Core Principles, including requirements relating to position limits and accountability, daily trade reporting, KYC/AML, detection of market manipulation, and other surveillance obligations. Staff Advisory 26-08 emphasizes that DCMs are front-line regulators and should account for the characteristics of event contracts when designing surveillance and oversight.[13]

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[10] Patrick Brown, *April 15, 2026 Update: Prediction Markets Might Already Be the Best Source for Today's Weather Forecast*, Interactive Brokers Traders' Insight (Apr. 15, 2026), https://www.interactivebrokers.com/campus/traders-insight/april-13-2026-update-prediction-markets-might-already-be-the-best-source-for-todays-weather-forecast/.

[11] Alicia Park, *Why Billionaires Are Piling Into Prediction Markets*, Forbes (Sept. 15, 2025), https://www.forbes.com/sites/aliciapark/2025/09/15/why-billionaires-are-piling-into-prediction-markets/.

[12] Interactive Brokers, *Forecast Contracts to Hedge*, IBKR Campus, https://www.interactivebrokers.com/campus/trading-lessons/forecast-contracts-to-hedge/ (last visited Apr. 28, 2026).

[13] CFTC Staff Advisory Letter No. 26-08, *supra* note 7.

Like CME exchanges, both Polymarket and Kalshi maintain prohibitions against insider trading and manipulation. Their terms bar trading on misappropriated nonpublic information, trading by participants who can directly influence an outcome, and manipulative practices such as spoofing, wash trading, fraud, and market distortion. Each platform enforces those prohibitions through real-time surveillance, account sanctions, and referrals to regulators or law enforcement.

B. Anti-fraud, anti-manipulation, and nonpublic-information rules already apply to event contracts.

Section 4c(a)(3)-(4) of the CEA addresses certain trading and tipping by federal employees, Members of Congress, congressional employees, judicial officers, and judicial employees using role-derived nonpublic information. CFTC Rule 180.1 and CEA section 6(c)(1) provide a broader anti-fraud and anti-manipulation framework.[14]

Recent events show that this framework is not theoretical. In February 2026, the Division of Enforcement issued an advisory after public release of two Kalshi matters involving misuse of nonpublic information and fraud in event contracts.[15] In April 2026, the CFTC filed a complaint against a U.S. service member alleging insider trading in Polymarket event contracts using classified nonpublic information involving Maduro, and the Division described the case as the first CFTC insider-trading charge involving event contracts.[16]

Those matters illustrate both sides of the regulatory equation: event contracts can create misconduct risks, but those risks can be detected on the venue, sanctioned by the venue, and prosecuted by the Commission. A final rule should build on that enforcement architecture rather than displace it with categorical restrictions.

C. On-chain market data can be used to monitor against manipulation.

Blockchain-based prediction markets such as Polymarket's global product can offer a degree of public transparency that traditional equity or derivatives markets do not: trades, positions, and transfers that settle or are recorded on-chain are visible to anyone with access to a block explorer.

On-chain transparency can be a useful complement to audit trails, account records, and beneficial-owner information that registered DCMs and their intermediaries are required to maintain. Specialized analytics tools, such as Solidus Labs, Chainalysis, and TRM, can trace wallets to high-risk actors, and patterns suggestive of manipulation can be identified by independent researchers almost as they unfold.

The recent CFTC enforcement action involving the U.S. service member trading Maduro contracts illustrates the practical value of that transparency. The CFTC complaint relied on blockchain data to identify and describe the unusual trading pattern: according to the complaint, the "Maduro Out by Jan. 31" market had been trading at consistently low prices when a user later

[14] 7 U.S.C. § 6c(a)(3)–(4); 7 U.S.C. § 9(1); 17 C.F.R. § 180.1.

[15] CFTC Div. of Enf't, *Advisory on Enforcement Authority over Event Contracts* (Feb. 25, 2026), https://www.cftc.gov/media/13351/Enf_AdvisoryKalshi022526/download; Press Release, CFTC, No. 9185-26 (Feb. 25, 2026), https://www.cftc.gov/PressRoom/PressReleases/9185-26.

[16] Press Release, CFTC, No. 9217-26, *CFTC Charges U.S. Service Member with Insider Trading in Nicolas Maduro-Related Event Contracts* (Apr. 23, 2026), https://www.cftc.gov/PressRoom/PressReleases/9217-26.

identified as Gannon Ken Van Dyke (operating under the handle "Burdensome-Mix") purchased more than 436,000 YES shares between December 30 and January 2, just before the January 3 public announcement of related U.S. operations. The pattern was suspicious precisely because it was large, concentrated, directionally correct, and tightly timed to a classified event.

The Commission should encourage the publication of machine-readable market data and require registered venues to maintain monitoring programs that can connect order-book activity, account information, and beneficial-owner information where required by law.

D. Resolution processes and dispute-resolution procedures can reduce uncertainty.

A persistent source of uncertainty in event-contract markets is the integrity of the resolution process: who decides what happened, on what record, and within what timeframe. Disputes and perceived manipulation at resolution can erode market confidence quickly.

The Commission can address those concerns by requiring registered venues to designate a primary resolution source, identify objective fallback sources, publish their resolution methodology in advance, and provide a neutral process for contested resolutions. Ex ante clarity about the resolution rules, escalation to neutral arbitrators, public reasoning, and consistent application would meaningfully reduce uncertainty for participants.

The credit-derivatives market offers a useful analogy. Since 2009, ISDA's Credit Derivatives Determinations Committees have managed the analogous resolution problem for the multi-trillion-dollar credit default swap market through regional committees, supermajority voting, published decisions, and external review when a supermajority is not reached.[17]

Consistent and transparent application of these procedures would give the public confidence in how event contracts are resolved.

E. Prediction markets are distinguishable from sportsbooks.

Although prediction markets and sportsbooks both reference real-world events, they differ along several dimensions that should inform the Commission's analysis.

First, the counterparty model is different. In a traditional sportsbook, the customer bets against the house; the book sets or adjusts odds, manages its own exposure, and earns an embedded margin. On Kalshi or Polymarket, by contrast, the exchange does not take the other side of the trade; participants trade against one another, and the platform earns fees without taking directional exposure to the event. That is the classic exchange model, not the house-bettor model.

Second, price formation is different. Sportsbook lines are quoted by the book, whereas prediction-market prices are discovered through trading among market participants. That distinction matters for the CEA because exchange-traded prices can function as market-implied probabilities and price-discovery signals. This is why major information providers are beginning to distribute prediction-market data as financial and news data.[18] Prices generated through open trading are information outputs in a way that house-set sportsbook lines are not.

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[17] *Credit Derivatives Determinations Committees Rules* §§ 1.1(a)–(b), 2.5(c), 3.1(b), 4.1(a), 4.3(a), in Int'l Swaps & Derivatives Ass'n, 2009 ISDA Credit Derivatives Determinations Committees and Auction Settlement Supplement to the 2003 ISDA Credit Derivatives Definitions annex A (Mar. 2009), https://www.cdsdeterminationscommittees.org/wp-content/files_mf/1414607061141443521 3DC_Rules_Original_March_2009.pdf.

[18] *Google to Offer Kalshi and Polymarket Data on Finance Searches*, Bloomberg (Nov. 6, 2025), https://www.bloomberg.com/news/articles/2025-11-06/google-to-offer-kalshi-and-polymarket-data-on-finance-searches.

Third, the regulatory structure is different. CFTC-designated contract markets are federally regulated exchanges subject to the CEA and Part 38 core principles, including prevention of market disruption, position limits or accountability, daily publication of trading information, financial integrity, protection of market participants, disciplinary procedures, recordkeeping, and system safeguards.

Taken together, these differences mean that the mere presence of sports-related subject matter does not render a federally regulated event contract legally or economically equivalent to a sportsbook wager, and the Commission should not treat the two as interchangeable.

V. Overbroad restrictions would harm oversight, competition, and consumer protection.

Overbroad regulation of prediction markets risks several adverse consequences: diminished price discovery, migration of users to less regulated offshore venues, federal-state fragmentation of standards, and anticompetitive effects on innovation.

A. Offshore migration is a realistic alternative.

U.S. demand for these markets does not disappear when access to registered venues is restricted. The realistic outcome is that users will turn to offshore venues, leaving regulators without the audit trails, venue accountability, and ability to enforce U.S. market-integrity standards that they employ onshore.

This exact pattern is what happened with Polymarket: Polymarket settled with the CFTC in January 2022 for $1.4M for operating an unregistered facility for event-based options and only re-entered after acquiring QCEX (a CFTC-licensed DCM and DCO). During the offshore years, the platform grew to roughly $3B in monthly trading volume.[19] We similarly see this pattern often in decentralized finance projects: founders move abroad to start successful DeFi companies and geoblock US users.

US DCMs operate under market-surveillance, keep audit-trails and recordkeeping, fulfill BSA/AML obligations, and engage in trade reporting to the CFTC. Offshore venues, by contrast, are less likely to apply comparable standards. The Commission should therefore encourage onshore, registered, surveilled markets where lawful activity can be observed and misconduct can be addressed.

B. Federal-state regulatory fragmentation is undermining innovation and consumer protection.

The ongoing conflict with state gaming authorities has produced significant legal uncertainty for prediction markets. The National Conference of State Legislatures reported that, as of early 2026, more than 20 lawsuits and cease-and-desist actions concerning prediction markets

[19] MK Manoylov, *US Presidential Winner Prediction Market Crosses $3 Billion on Polymarket a Day Before the Election*, The Block (Nov. 4, 2024, 1:14 PM EST), https://www.theblock.co/post/324357/us-presidential-winner-prediction-market-crosses-3-billion-on-polymarket-a-day-before-the-election

were pending nationwide.[20] In March 2026, Arizona filed 20 misdemeanor criminal counts against Kalshi entities.[21]

The Commission has responded by filing lawsuits against Arizona, Connecticut, Illinois, and New York seeking to preserve its authority over CFTC-registered contract markets. It has also filed an amicus brief in the Massachusetts Supreme Judicial Court and made similar arguments in other proceedings.[22]

The Third Circuit has affirmed preliminary injunctive relief for Kalshi in New Jersey, holding that Kalshi had shown a likelihood of success on CEA preemption as applied to sports event contracts listed on a DCM. That ruling is an important development, but it remains a preliminary-injunction holding rather than a final merits determination, and it does not obviate the need for Commission guidance and rulemaking on the scope of federal preemption.

We agree with the Commission that DCM-listed event contracts fall within the CEA's regulatory framework, and that the CEA preempts state laws that would prohibit or penalize these contracts as unlawful gambling, or otherwise regulate them under state gambling laws. A uniform federal framework is much better suited than fragmented state-by-state gambling regimes to protect market participants in this rapidly growing area. The Commission regulations impose market-integrity, surveillance, recordkeeping, audit-trail, anti-manipulation, and customer-protection requirements that provide greater consistency and more tailored protections than disparate state gambling laws. We therefore appreciate and support the Commission's efforts to defend the CEA's preemptive effect with respect to federally regulated prediction-market contracts.

C. Section 15 counsels against unnecessarily anticompetitive rules.

CEA section 15 requires the Commission to consider costs and benefits, including protection of market participants and the public, efficiency, competitiveness, financial integrity, price discovery, sound risk-management practices, and other public-interest considerations. It also directs the Commission to endeavor to take the least anticompetitive means of achieving the Act's objectives.[23]

Those requirements matter here. A categorical or overbroad reading of 'gaming' could effectively shield incumbent state-licensed gaming operators from competition by federally supervised contract markets, even in cases where the contracts at issue have a clear financial, economic, or commercial nexus and would be better governed through the DCM framework.

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[20] Nat'l Conf. of State Legislatures, *Prediction Markets: A New Frontier in State Regulatory Authority* (updated Mar. 12, 2026), https://www.ncsl.org/state-federal/prediction-markets-a-new-frontier-in-state-regulatory-authority.

[21] Press Release, Ariz. Att'y Gen., *Attorney General Mayes Charges Kalshi With Illegal Gambling Operation, Election Wagering in Arizona* (Mar. 17, 2026), https://www.azag.gov/press-release/attorney-general-mayes-charges-kalshi-illegal-gambling-operation-election-wagering.

[22] Press Release, CFTC, No. 9206-26, *CFTC Sues Trio of States to Reaffirm its Exclusive Jurisdiction Over Prediction Markets* (Apr. 2, 2026), https://www.cftc.gov/PressRoom/PressReleases/9206-26; Press Release, CFTC, No. 9218-26, *CFTC Sues New York Over Prediction Markets Amid Ongoing Efforts to Preserve Jurisdiction* (Apr. 24, 2026), https://www.cftc.gov/PressRoom/PressReleases/9218-26; Press Release, CFTC, No. 9219-26, *CFTC Reaffirms Exclusive Jurisdiction Over Prediction Markets in Massachusetts Supreme Judicial Court Filing* (Apr. 24, 2026), https://www.cftc.gov/PressRoom/PressReleases/9219-26.

[23] 7 U.S.C. § 19(a)–(b).

VI. The Commission should adopt a targeted framework.

Section 5c(c)(5)(C) authorizes the Commission to determine that certain event contracts are contrary to the public interest where they involve unlawful activity, terrorism, assassination, war, gaming, or similar activity. That authority is important, but it should be interpreted with limiting principles. We recommend the following framework.[24]

A. Read 'involve' to require a direct subject-matter connection.

A contract should not be deemed to "involve" an enumerated category merely because real-world events in that category could affect the variable referenced. A GDP contract does not "involve" war simply because wars can affect GDP. A monetary-policy contract does not "involve" terrorism simply because a terrorist event could influence rate expectations. A contrary reading would render the statutory list effectively boundless.

B. Read 'gaming' in context.

Section 5c(c)(5)(C)(i)'s reference to "gaming" should be read narrowly and in statutory context. The term appears alongside terrorism, assassination, war, unlawful activity, and other similar activities that the Commission determines to be contrary to the public interest. That context suggests Congress was not using "gaming" as a catch-all for contracts that are popular or entertaining, but for contracts that are contrary to the public interest. Therefore, "gaming" is better understood to mean gambling or casino-style gaming activities like roulette, blackjack, craps, poker, and slot machines, in cases where the contract is indistinguishable from a gambling and lacks a CEA-recognized market benefit.

A sports event contract should not be deemed "gaming" solely because the underlying event is colloquially called a game. The relevant question is whether the contract is tied to casino-style gambling activity, or whether it operates as an exchange-traded derivative with price-discovery, hedging, information-aggregation value, and a plausible economic nexus. Sports events can carry huge financial, economic, and commercial consequences for venues, hotels, restaurants, media companies, advertisers, municipalities, vendors, and other businesses. That economic nexus distinguishes these contracts from gaming contracts resolving on casino games or random-number generators.

C. Adopt a rebuttable presumption for contracts with a clear economic nexus.

The Commission should adopt a rebuttable presumption that an event contract is not contrary to the public interest where the contract references a variable with a clear financial, economic, or commercial consequence; offers a bona fide hedging or risk-management function; or supplies price discovery in an area where no comparable market-based signal currently exists. That presumption should be rebuttable where a contract creates unusual incentives for harm, depends on a small group of insiders that cannot be effectively walled off, or presents manipulation risks that cannot be mitigated through reasonable safeguards.

[24] 7 U.S.C. § 7a-2(c)(5)(C).

D. Prefer safeguards to prohibition.

For many event contracts, the appropriate response is not categorical prohibition but appropriate safeguards. The Commission should consider safeguards calibrated to the contract: position limits or accountability levels; restrictions on trading by people who can directly affect the outcome; surveillance for linked accounts and unusual trading; machine-readable audit trails; clear public resolution rules; independent dispute escalation; and prominent risk and participation disclosures for products available to retail users.

E. Identify categories that warrant heightened scrutiny and impose safeguards.

Contracts referencing a specific individual's death, injury, or safety should face a high bar and may warrant restrictions. Contracts whose resolution depends on classified information or a small insider group that cannot be effectively walled off should receive heightened review. Individual-athlete or official-specific sports propositions may warrant participant bans, lower position limits, and dedicated integrity-monitoring arrangements. Election contracts may require special rules for candidates, campaigns, officials, and others with material influence over the outcome.

F. Require standardized resolution-source and public-data practices.

Each listed event contract should identify a primary resolution source, objective fallback sources, and a neutral dispute procedure, and should publish both resolutions and the reasoning behind them. Trading data should be made available to the Commission in standardized form, and aggregate market data should be published in machine-readable form to support independent academic and policy analysis.

G. Use sandboxes for novel designs.

For novel contract categories that may be risky, the Commission should consider regulatory sandboxes with limited user populations, lower exposure caps, enhanced reporting requirements, and a defined evaluation period. A sandbox would advance responsible innovation while giving the Commission empirical data before committing to permanent rules.

VII. Conclusion

Prediction markets offer real and increasingly well-documented public benefits in price discovery, risk transfer, and the dissemination of useful information.

Dragonfly respectfully urges the Commission to reject categorical restrictions that would suppress these useful markets or push them offshore. The Commission's existing tools are well suited to addressing manipulation and the misuse of nonpublic information, especially if complemented with guidelines for prediction-market-specific risks. We accordingly encourage the Commission to adopt a targeted framework that reads section 5c(c)(5)(C) with limiting principles and relies on DCM obligations, Commission enforcement authority, transparent resolution rules, and targeted safeguards.

We are grateful for the Commission's work and attention on this important topic. We appreciate the opportunity to comment, and we would welcome the chance to meet with Commission staff and answer any questions the agency may have.

Respectfully submitted,

Rob Hadick, General Partner, Dragonfly Digital Management, LLC
Lindsay Lin, Chief Operating Officer, Dragonfly Digital Management, LLC