SUSQUEHANNA

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VIA ELECTRONIC SUBMISSION

Michael S. Selig
Chairman
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Comments on Event Contracts and Prediction Markets

Dear Chairman Selig:

Susquehanna International Group, LLP and its affiliated entities ("Susquehanna") appreciate the opportunity to submit these comments in response to the Commodity Futures Trading Commission's ("Commission") Advance Notice of Proposed Rulemaking addressing event contracts and prediction markets.

Susquehanna is a global quantitative trading firm that has been a leading market maker across asset classes—including equities, fixed income, commodities, and derivatives—for more than 35 years. In 2023, Susquehanna became the first quantitative trading firm to establish a dedicated prediction markets trading desk. Today, Susquehanna is an active participant in market maker programs on multiple designated contract markets ("DCMs") and a leading provider of liquidity in prediction markets spanning finance, cryptocurrency, elections, culture, weather, sports, and other event-based outcomes. In that capacity, Susquehanna provides consistent two-sided liquidity that supports orderly markets, price discovery, and risk transfer.[1]

Event contracts provide an efficient means for market participants to hedge and speculate discrete binary risks that can have immediate and material financial consequences. Outcomes such as regulatory approvals, election results, sporting results, court decisions, public events, and macroeconomic policy actions may affect asset values, operational planning, and compliance obligations in ways that traditional derivatives do not readily capture. Other markets may develop accepted risk management use cases as the industry grows and matures. Compared to insurance and other bespoke contractual arrangements, event contracts offer a transparent and flexible mechanism for risk mitigation. They permit tailored exposure, provide near-immediate settlement following resolution of the underlying event, and avoid the delays and uncertainty associated with claims-based processes. Event contract prices also reflect the collective judgment of diverse

[1] Susquehanna also has an ownership interest in Rothera, owned and operated as a joint venture with Robinhood, which operates a futures and derivatives exchange and clearinghouse through its subsidiary, Rothera E&C. Susquehanna does not wholly own or operationally control Rothera and its subsidiaries.

market participants employing varying information sets and analytical models, enabling prices to function as continuously updating probability estimates.

Institutional market makers play a critical role in supporting well-functioning prediction markets. By providing continuous two-sided quotes, institutional participants tighten bid-ask spreads, facilitate efficient price discovery, and create depth in order books that allows markets to absorb imbalances without sharp price dislocations. Clear, well-defined rules and processes are essential to fostering institutional participation in prediction markets. While informal staff guidance can be helpful, durable regulations provide significantly greater certainty to market participants.

Susquehanna supports the Commission's longstanding principles-based approach to regulation and its efforts to foster responsible innovation while preserving market integrity, protecting market participants, and preventing manipulation. Our comments focus on how these objectives can best be achieved in the context of event contracts and prediction markets. In brief, Susquehanna respectfully requests that the Commission consider the following measures in forthcoming rulemaking to ensure continued integrity and innovation in prediction markets:

- Preserve the Commission's authority to prohibit event contracts contrary to the public interest, while avoiding self-executing blanket prohibitions on entire categories of event contracts.

- Decline to reintroduce a strict "economic purpose" test for event contracts, which could stifle innovation and impede market development.

- Strengthen safeguards against manipulation and insider trading, including clear guidance and post-listing procedures relating to contract review, modification, and orderly delisting.

- Address operational, risk-management, and supervisory challenges associated with margin trading in continuously open markets before permitting event contracts to be traded on margin.

- Apply a technology-neutral regulatory framework to blockchain-based prediction markets, ensuring that such markets are subject to the same substantive standards as traditional markets.

- Allow market makers to exclude cleared swap transactions executed on DCMs from the swap dealer de minimis threshold.

Contract Approval Process

Section 5c(c)(5)(C) of the Commodity Exchange Act ("CEA") provides that no event contract "determined by the Commission to be contrary to the public interest . . . may be listed" on a DCM and states that the Commission "may" determine that certain enumerated categories of event contracts—those involving terrorism, assassination, war, gaming, illegal activity, or other similar activity—are contrary to the public interest. Pursuant to this authority, the CFTC adopted Regulation 40.11, which states that a registered entity "shall not" list for trading contracts that

involve, relate to, or reference these activities. The Commission should consider revising Regulation 40.11 by replacing the categorical phrase "shall not" with language that preserves the Commission's authority to prohibit contracts that are contrary to the public interest while avoiding self-executing blanket prohibitions. This revision would maintain the discretion that Congress delegated to the Commission pursuant to CEA Section 5c(c)(5)(C), thereby allowing the Commission to prohibit listings where appropriate (including those involving terrorism, assassination, war, gaming, or illegal activity), while preserving the Commission's flexibility to adapt to rapidly evolving event contract markets.

"Economic Purpose" Test

A prior version of the CEA included an "economic purpose" test that asked whether a contract served hedging or price-discovery functions. That test was repealed in 2000, and there is no need to reintroduce it in the context of event contracts. The statutory definition of "swap" already requires an association with a potential financial, economic, or commercial consequence. 7 U.S.C. § 1a(47). Moreover, while many people trade event contracts for speculative purposes, risk management use cases will likely evolve as the industry grows and matures and liquidity deepens in these markets. Indeed, many derivatives markets, such as weather contracts and bitcoin futures, followed the same path. Imposing a further "economic purpose" requirement risks constraining innovation and preventing the organic development of useful markets.

Requiring only a *potential* economic consequence, rather than an *actual* economic purpose, fosters innovation and allows the market to experiment with new ways to hedge risk. Sports-related event contracts provide one example where this is already occurring. As the Commission itself has correctly recognized, event contracts based on sporting events can be associated with a potential financial, economic, or commercial consequence. Consider a media company that buys broadcast rights to televise the NBA Finals. Those rights require a substantial upfront payment, which the company expects to recover, plus profit, through the sale of advertising. Advertising rates depend on demand, which depends on viewership. Viewership, in turn, depends on the teams playing, the size of their respective media markets, the length of the series, and the point margin, among other factors. A Finals matchup between Los Angeles and New York based teams is likely to draw higher ratings; a seven-game series generates more value than a four-game sweep; and a close game creates higher engagement than a blowout. A media company can hedge these risks through sports-based event contracts traded on DCMs, including contracts based on point spreads and totals.

More granular outcomes can also carry economic significance. An advertiser that purchases a commercial slot late in the Super Bowl faces the risk that the game becomes uncompetitive, reducing viewer engagement before the advertisement airs. Markets based on spreads and totals provide a direct way to hedge this exposure.

These examples are not merely hypothetical. Although sports-based event contracts are relatively new, businesses are already using them to hedge real economic risks, and the specific use cases have not always been predictable in advance. This experience is instructive for the Commission's

focus on "potential" economic consequences. If the permissible scope had been defined by attempting to enumerate qualifying risks ex ante, several of these applications would likely have fallen outside that framework. A permissive standard that recognizes potential economic consequences is therefore essential to ensure that legitimate hedging activity is not excluded simply because the relevant risk was not foreseeable at the time of rulemaking. Susquehanna has seen this play out in its own business, as described in the following real examples.

A recent promotion by Jordan's Furniture illustrates this point. Customers who purchased furniture during a specified period would receive the furniture for free if both the University of Connecticut men's and women's basketball teams reached their respective NCAA championship games. The men's team advanced, while the women's team lost in the semifinals. Because the rebate was triggered only if both events occurred, the firm's exposure resembled a "combo" meaning had Jordan's wanted to hedge this risk through an event contract, they would have needed to use a combo instrument. Jordan's did in fact hedge this risk through an insurance product which Susquehanna reinsured a meaningful portion of. Susquehanna was able to provide tighter pricing and larger size due to the presence of related markets on DCMs for price discovery and potential hedging. Ultimately, as the tournament progressed and the risk grew large, Susquehanna actively managed the resulting exposure, including placing hedges exceeding $500,000 via event contracts traded on CDNA as the tournaments progressed and the probability of the combined outcome increased.

A second example occurred on Kalshi. PrizePicks, a daily fantasy sports operator, accumulated significant exposure in a specific fantasy contest. The firm faced a substantial risk depending on real-world event outcomes. To hedge this exposure, PrizePicks submitted a request for quote on Kalshi for a contract that would pay $25 million in the event of a specific scenario occurring. Multiple market makers responded and assumed non-trivial portions of the risk, allowing the exposure to be transferred efficiently at the best price the market would bear.

Susquehanna hopes these real-world examples will be instructive to the Commission as it considers whether certain events have potential financial, economic, or commercial consequences. Such consequences may be idiosyncratic, contingent, and difficult to anticipate. Rigid or proscriptive standards for assessing such consequences could prohibit categories of event contracts that may serve legitimate—but currently unforeseeable—hedging purposes.

Preventing Manipulation and Insider Trading

DCM Core Principle 3 requires that a DCM list only contracts that are not readily susceptible to manipulation. 17 U.S.C. § 38.200. The Commission should provide additional guidance on how this standard applies across the wide range of events that underlie prediction markets and should restrict specific categories of contracts that present heightened risks.

In its March 12, 2026, guidance, the Commission correctly observed that contracts for which the outcome or settlement are controlled by a single individual or small group of people, in certain scenarios, may pose an elevated risk of manipulation. CFTC Letter No. 26-08 (Mar. 12, 2026). Two scenarios warrant particular attention. *First*, contracts in which the *outcome* of an event is

controlled or determined by the actions of a single individual or a small group are inherently vulnerable to manipulation by the people who control the event. "Mention markets," for example, which are based on what a particular person says rely entirely on the subjective choices of individuals without any rules-based controls. *Second*, contracts whose *settlement* depends on a single unofficial information source, such as a newspaper article, raise concerns regarding timing, accuracy, and susceptibility to influence. Reliance on unofficial data sources may also result in settlement delays that diverge from the timing of the underlying event.

Many event contracts determined by a single individual, like those based on the outcomes of certain sports events (e.g., tennis) and elections, do not pose such risks. These and other events have rigorous infrastructure that mitigates the risk of manipulation, including policies, regulations, and sanctions. Mention markets, in contrast, have no such safeguards. The Commission should consider these distinctions when assessing whether an event contract is readily susceptible to manipulation.

With respect to insider trading, the application of traditional legal principles to prediction markets is not always straightforward. Susquehanna encourages the Commission to provide tailored guidance clarifying the application of insider trading prohibitions in the prediction-market context. This guidance should draw from existing, well-established case law regarding the misappropriation of material non-public information in breach of a duty. Interpretive guidance anchored in existing legal precedent would foster a consistent body of federal insider trading rules focused on prohibiting improper informational advantages, without casting doubt on the legitimacy of the time-tested research techniques that investors routinely rely upon in other markets.

Self-certification under Rule 40.2 has long served as an efficient and effective mechanism for bringing products to market and should remain the primary listing pathway. Rather than limiting self-certification, the Commission should focus on establishing transparent and well-defined post-listing authorities and procedures, including standards for review, contract modification, and, where appropriate, orderly delisting. Given the growing volume of event contracts, robust post-listing oversight, combined with clear expectations for exchange level surveillance and risk assessment, is essential to maintaining market integrity while preserving the benefits of timely product innovation.

Trading on Margin

Margin trading may enhance capital efficiency and liquidity but raises meaningful operational and risk-management concerns in continuously open markets. Existing margining infrastructure was not designed for 24/7 trading and settlement, and extending margin trading to such markets would require substantial changes across exchanges, clearinghouses, futures commission merchants, and other market participants. Continuous trading may strain staffing, risk controls, trade surveillance, and system maintenance, and it may complicate margin collection, default management, and settlement processes. Before authorizing margin trading in prediction markets that operate on a continuous basis, the Commission should ensure these issues are comprehensively identified and addressed.

The Commission should also consider whether margin trading is appropriate for certain categories of event contracts but not others, particularly where margin could amplify manipulation risks or pose heightened consumer-protection concerns. If the Commission considers margin trading for event contracts, it should consider limiting margin initially to institutional participants and to contracts with robust liquidity and clear settlement criteria. The Commission should also consider implementing margin in prediction markets on a "pilot program" basis first, subject to robust post-implementation review.

Blockchain-Based Prediction Markets

The Commission should apply a technology-neutral framework to blockchain-based prediction markets. The CEA and Part 38 of the Commission's regulations impose substantive requirements designed to protect market integrity and participants, including surveillance, emergency authority, and disciplinary powers. Among other things, prediction markets operating as DCMs must have the capacity to detect, investigate, and apply appropriate sanctions to any person that violates any rule of the contract market; maintain an automated trade surveillance system capable of detecting and investigating potential trade practice violations; provide for the exercise of emergency authority, including the authority to liquidate or transfer open positions in any contract; and implement rigorous system safeguards and conduct regular testing of those safeguards. 17 C.F.R. §§ 38.150, 38.156, 38.350. These requirements should apply equally to all prediction markets, including those that use blockchain technology.

In addition, certain unregistered blockchain-based prediction markets currently permit anonymous participation. To protect against manipulation and other abuses, Commission-designated prediction markets should be required to implement robust know-your-customer and anti-money-laundering controls.

Exempting DCM-Traded Swaps from Swap Dealer De Minimis Threshold

Susquehanna supports permitting market makers to exclude cleared swap transactions executed on DCMs from the swap-dealer de minimis threshold provided by CEA Section 1a(49)(D) and Rule 1.3. 7 U.S.C. § 1a(49)(D); 17 C.F.R. § 1.3. DCM-traded centrally-cleared swaps are executed anonymously on regulated facilities, cleared through registered derivatives clearing organizations, and subject to continuous oversight by the DCMs, clearinghouses, and the Commission. As a result, these transactions are already governed by a comprehensive regulatory framework that directly addresses the core objectives of the CEA as amended by Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act—including transparency, risk mitigation, and counterparty protection.

Applying the swap dealer registration regime—which was designed principally to address the risks of bilateral, opaque, over-the-counter dealing activity—to market makers engaging in cleared on-facility trading is not warranted. Market makers' aggregate gross notional trading volumes in these products may be substantial, but their net risk exposure is typically limited, transient, and tightly constrained by exchange rules, clearinghouse margining, and position management. Counting such activity toward the swap dealer de minimis threshold would impose significant

regulatory costs without providing commensurate regulatory benefit and could discourage liquidity provision on Commission-regulated platforms.

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Susquehanna appreciates the Commission's thoughtful engagement with these important issues. Susquehanna welcomes the opportunity for continued dialogue and stands ready to provide further expertise as the rulemaking process proceeds.

Respectfully submitted,

Caitlin Starbuck

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