April 30, 2026

COMMODITY FUTURES TRADING COMMISSION

Ref.: **Prediction markets - notice of proposed rulemaking; request for comments**

Dear Sirs,

B3 S.A. – Brasil, Bolsa, Balcão ("**B3**"), a company incorporated under the laws of Brazil, authorized to operate securities, commodities and futures exchanges, as well as over-the-counter (OTC) markets, and also authorized to act as a clearinghouse, foreign exchange clearinghouse, central securities depository and trade repository, welcomes the opportunity to submit comments on the Notice of Proposed Rulemaking published by the Commodity Futures Trading Commission ("Commission" or "CFTC") in March 2026, regarding prediction markets.

While the term prediction markets has gained prominence more recently, particularly in the context of event-based forecasting and information aggregation, the underlying payoff structure commonly associated with these markets is not novel. In fact, event-contingent and binary payoff profiles with similar economic outcomes have long existed within the *over the counter* (OTC) derivatives market and regulated exchange-traded markets.

In OTC markets, instruments with payoffs contingent on the occurrence or non-occurrence of a specific event have been available since the early development of European-style barrier options. Notably, cash-or-nothing (also known as binary) options provide a fixed payout if a predefined condition at expiration is achieved, and zero otherwise. This payoff profile is economically equivalent to the binary outcomes observed in modern prediction market contracts.

In exchange-traded markets, comparable fixed-payoff outcomes have traditionally been achievable through combinations of standard derivatives designed to cap gains and losses and strictly limit risk exposure. While such strategies effectively replicate binary outcomes, they typically require greater structural complexity, higher operational sophistication and the use of multiple instruments.

From this perspective, prediction markets can be understood as a broader application of binary payoff profiles that have long existed within regulated derivatives markets. Their economic substance is therefore firmly rooted in established financial principles.

Building on this foundation, the recent popularization of the term prediction markets reflects the emergence of a new derivative structure designed to simplify and operationalize these well-known event-contingent payoff profiles, often oriented toward public event forecasting. By offering direct, single-instrument exposure to an event outcome, these contracts reduce structural complexity and improve accessibility. As a result, event-based contracts with predefined and limited risk profiles are often more suitable for retail participation when compared to traditional derivatives.

It is within this context that B3 has developed and offered event-based contracts in the exchange-traded market environment since 2020, operating within a fully centralized and regulated framework. These instruments are designed as exchange-traded derivatives with predefined payoffs, centralized clearing, robust risk management and full market surveillance. Over time, B3 has expanded its event-based offering across asset classes, including monetary policy decisions, foreign exchange, equity indices, and digital assets, while maintaining a consistent focus on transparency, investor protection, and orderly price formation.

Accordingly, the development and expansion of event contracts in a regulated environment is a core component of B3's strategy to foster market innovation and broaden investor access to financial instruments. These contracts share key economic features with traditional options, while offering a simplified structure with fixed payouts and limited risk exposure for both counterparties. In this context, B3 believes that offering such products within a robust regulatory

framework, supported by high standards of transparency, price formation, and risk management, is essential to ensuring market integrity and investor protection.

It is important to note that, as a regulated market infrastructure that plays a central role in Brazil's capital markets, B3's comments in this submission focus on event contracts designed to support the management and mitigation of financially relevant risks - namely, risks that have the potential to materially affect investors' financial positions and portfolio outcomes. These contracts are therefore primarily related to financial variables and indicators, including price movements across multiple asset classes (such as commodities, equities, exchange rates, and interest rates), macroeconomic indicators and monetary policy decisions, as well as other economically significant events that may include certain public events with demonstrated financial relevance, such as elections. These events are widely recognized as capable of producing discrete and sometimes abrupt impacts on asset prices, cash flows and portfolio valuations.

It is also important to emphasize that any offering of event contracts by B3 is strictly subject to prior regulatory approval and ongoing supervision under the Brazilian regulatory framework, as overseen by the Brazilian Securities and Exchange Commission - "Comissão de Valores Mobiliários (CVM)" - and the Central Bank of Brazil.

For ease of reference, this submission is organized around five thematic topics that relate to the Commission's questions and areas of interest. Each section identifies the specific questions it seeks to address and provides B3's views accordingly. The topics are: (1) Prediction markets in regulated infrastructures; (2) Characteristics of event contracts and their economic benefits; (3) Differences between institutional and retail investor behavior; (4) Margining and risk models; and (5) Monitoring and surveillance.

1. Prediction markets in regulated infrastructures

This section is linked to the questions:

2-a) Core Principle 2 states that a DCM "shall establish, monitor, and enforce compliance with the rules of the [DCM], including--(i) access requirements; …and (iii) rules prohibiting abusive trade practices." Regulation 38.151, adopted under this core principle, requires that a DCM provide "impartial access to its markets and services, including …[a]ccess criteria that are impartial, transparent and applied in a non-discriminatory manner." What aspects of prediction markets affect how a DCM provides impartial access and prohibits abusive trade practices? Are there potential barriers to impartial access that the Commission should consider? Are there particular risks of abusive trading?

3) Are there aspects of the clearing of event contracts that the Commission should consider in applying the DCO Core Principles in CEA section 5b(c)(2)? Are there specific points on which the Commission should provide guidance or adopt rule amendments? If so, why?

5) What factors should the Commission consider in determining whether to provide guidance or amend any other of its regulations with respect to the listing, trading, and clearing of event contracts on prediction markets?

38) As noted above, CEA section 15(a) requires that the Commission, before it promulgates a regulation under the CEA, consider the costs and benefits of its action, including an evaluation "in light of--(A) considerations of protection of market participants and the public; (B) considerations of the efficiency, competitiveness, and financial integrity of futures markets; (C) considerations of price discovery; (D) considerations of sound risk management practices; and (E) other public interest considerations.'' How are these five considerations relevant to the Commission's regulation of prediction markets? In general, what other costs and benefits should the Commission consider as it determines whether to adopt or amend any regulations with respect to prediction markets? Are there less costly alternatives that the Commission should consider? If possible, please provide specific information, data, or studies that you believe would be helpful to the Commission in this regard.

40) As noted above, the Commission has received recent applications for DCM registration from entities that have indicated that they are interested primarily, or exclusively, in operating prediction markets. While registered entities are not considered small entities by the Commission for Regulatory Flexibility Act (RFA) purposes, the Commission is nevertheless seeking information on how any potential rule changes for prediction markets would impact "small entities'' as defined by the RFA. What projected cost increases would there be for any

small entities impacted by a potential rule of change? What less costly alternatives or flexibility should the Commission consider? In general, how do small entities use prediction markets?

As previously noted, prediction markets are built upon well-established financial principles that have long guided derivatives markets. While they are characterized by a simplified structure, they remain firmly within the scope of the broader derivatives ecosystem. This characterization is supported by several fundamental attributes: (i) the contract's value is contingent on the realization of an underlying variable or event outcome; (ii) settlement occurs at a future point in time, either at a predetermined date or upon the occurrence or nonoccurrence of a specified future event; and (iii) participation generally requires an upfront financial commitment at trade inception, which may take the form of a premium or margin requirement.

Accordingly, as derivative instruments, **event contracts should be subject to the same foundational considerations that apply to other derivatives, including their operation within regulated market infrastructures**. This encompasses operation on platforms, whether exchange-based or OTC markets, that are duly authorized and supervised to provide market infrastructure services, with established rules, governance and accountability.

This regulatory treatment is essential because, as with other derivatives, event contracts involve core market functions that are central to the integrity of financial markets. They facilitate risk transfer, contribute to price discovery, and attract participation from a diverse range of market participants. These characteristics underscore the importance of appropriate oversight, governance, and risk controls to ensure orderly trading, market integrity and investor protection, including high standards of transparency, fair and non-discriminatory access, comprehensive monitoring and surveillance, sound risk management frameworks and enforceable rules to deter market abuse.

These requirements are only effectively met when event contracts are offered through regulated market infrastructures. Such infrastructures operate within a comprehensive and robust framework of statutory, regulatory, operational and technical standards that ensure impartial access and mitigate abusive or

manipulative practices. As a result, the infrastructure of a regulated market provides multiple safeguards that contribute directly to the preservation of market integrity and investor protection. These safeguards typically include, among others:

a) The admission and trading requirements are subject to compliance with regulatory conditions established by applicable laws and regulations.

b) Pre-trade transparency, including bid and offer data for event contracts and reference prices of the underlying assets, and post-trade transparency, encompassing executed trades, intermediary identification and transaction prices, as applicable according to the market segment, whether exchange-traded or OTC. In a manner consistent with the specific characteristics of these markets, such information is publicly disseminated in a standardized format, ensuring the integrity of the price discovery process, promoting informational symmetry, and enabling investors to make fully informed decisions.

c) Oversight and supervision of trading activity by both the regulator and the self-regulatory organization (SRO), which are vested with mechanisms and controls to monitor atypical trading behavior and to conduct enforcement proceedings in cases of noncompliance. These mechanisms deter abusive practices, such as market manipulation, insider trading and fraud.

d) Establishment and monitoring of minimum margin requirements and effective leverage controls, when applicable.

f) Contract settlement pursuant to pre-established procedures, providing legal certainty, operational security and predictability to market participants.

In addition, within the regulated market environment, market participants, particularly intermediaries, are subject to specific disclosure obligations and standards of conduct. Intermediaries are also required to implement robust product suitability assessments, ensuring that the products offered are appropriate for the client's investment profile. Together, these rules ensure that investors have timely access to all material information necessary for decision making and, critically, that they can understand the structure and risks associated

with the products offered, while mitigating conduct that may conflict with investors' best interests.

While it is clear that both exchange-traded and OTC market infrastructures can incorporate safeguards and controls that mitigate risk, it is equally important to recognize that the dynamics of these environments differ materially, making them suitable for different investor profiles.

OTC markets are inherently more flexible, with less standardized approaches to price formation, transparency and execution. Trading typically occurs on a bilateral basis rather than through multilateral order interaction, meaning that, for event contracts, OTC environments could be used by intermediaries to register off-book transactions, either when acting as principal or when facilitating arranged trades between clients. In the case of event-based contracts - where outcomes are binary and payoffs are fixed - this dynamic is particularly sensitive, as the intermediary's economic incentives may be directly opposed to those of the investor. The absence of multilateral price formation and real time transparency increases the risk that pricing, execution quality or product distribution may favor the intermediary at the expense of the client, especially in retail facing contexts.

By contrast, exchange-traded markets are characterized by centralized, multilateral trading environments in which orders compete openly in a consolidated order book. Price formation is transparent, pre- and post-trade information is broadly disseminated and access to market data is provided on equal terms. Exchange-traded event contracts may also benefit from the presence of market makers or liquidity providers. While such participants may act as counterparties, their remuneration or incentives - such as fee rebates - are typically contingent upon the fulfillment of predefined obligations aimed at enhancing liquidity and market quality. The presence of multiple market makers operating under competitive conditions further supports efficient price formation and market resilience.

From a post-trade and risk-management perspective, the exchange-traded market framework also relies on central counterparties (CCPs) for clearing and settlement, which play a critical role in maintaining orderly markets through

centralized margining, default management, concentration monitoring and risk control, mitigating settlement and counterparty risk by ensuring the fulfillment of contractual obligations. Multilateral net settlement and margin offsets further enhance operational and capital efficiency.

In addition to these structural features, exchange-traded markets also offer well-established investor protection mechanisms. These include price controls, as well as formal procedures for monitoring, investigation, adjudication, and remediation in cases of misconduct. Intermediaries operating in this environment are subject to stringent conduct rules, including transparency requirements regarding remuneration and potential conflicts of interest, which contribute to aligning intermediary behavior with client interests.

Finally, product promotion and distribution within exchange-traded markets are governed by consolidated and enforceable rules, resulting in a lower propensity for aggressive or misleading marketing practices. The promotion and distribution of investment products are governed by well-established and consolidated rules, thereby reducing the risk of investor misrepresentation or inducement to error.

In light of these considerations, while OTC execution can appropriately serve legitimate purposes for certain trading strategies, products and investor categories, B3's view is that **event contracts present specific characteristics that make their offering to retail investors most appropriately conducted within the exchange-traded market environment**. Event contracts involve binary outcomes, fixed payoffs and event-driven pricing dynamics, which heighten the importance of transparent price formation, competitive execution, centralized clearing, and robust surveillance. These features are inherent to exchange-traded markets and play a critical role in aligning intermediaries' incentives with those of their clients and in mitigating abusive market practices. In the context of event contracts, OTC markets are more appropriately tailored to sophisticated, professional or institutional investors who possess the expertise, resources and risk management capabilities required to navigate less standardized trading environments.

This same reasoning applies irrespective of the size, scale, or business model of the entity offering event contracts. Firms seeking to specialize exclusively in the

offering, trading, or settlement of prediction markets should not be treated differently from established exchanges or market operators and, accordingly, should be required to hold the appropriate licenses to operate as regulated market infrastructures. **Regulatory equivalence should be assessed based on functions performed and risks assumed, rather than on institutional form or technology**. Therefore, where event contracts are offered to retail investors, such entities should be required to operate within an exchange-based market environment and to hold the appropriate authorizations to function as an exchange or organized trading venue, as well as a central counterparty (CCP). Where event contracts are offered solely to institutional investors, the requirement to operate as regulated market infrastructure should likewise apply, whether through an exchange-based model or an over-the-counter (OTC) framework.

With respect to listing, trading, and clearing arrangements, **B3 understands that event contracts should be subject to the same core regulatory principles that govern other exchange-traded derivatives**. This includes clearly defined product approval processes, transparent contract specifications, standardized trading rules, and comprehensive surveillance obligations. Where centrally cleared, event contracts should be subject to CCP risk management frameworks encompassing margining methodologies, default management procedures, concentration monitoring, and financial resource requirements commensurate with the risk profile of the product.

Applying consistent listing, trading, and clearing standards ensures that event contracts benefit from the same safeguards that underpin confidence in established derivatives markets, while allowing innovation in product design and market use cases. In B3's view, regulatory clarity and functional consistency are essential to supporting the responsible development of event-based derivatives, preserving market integrity, and ensuring appropriate levels of investor protection across market infrastructures.

2. Characteristics of event contracts and their economic benefits

This section is linked to the questions:

2-b) Core Principle 2 also requires a DCM to "establish, monitor, and enforce compliance with …the terms and conditions of contracts traded on the DCM." In this regard, what factors should the Commission consider regarding a DCM's rules related to resolution criteria for event contracts? For example, if there is a dispute regarding how an event contract is resolved or how the trigger event for an event contract is determined (such as a dispute regarding whether an event underlying a contract has occurred), what factors should the Commission consider in setting expectations for DCMs to have rules to resolve the dispute? Are dispute resolution procedures for other types of swaps, such as credit default swaps, helpful precedents? Also, what considerations under Core Principle 14, which requires a DCM to have "rules regarding, and provide facilities for alternative dispute resolution as appropriate for, market participants and any market intermediaries," are relevant in this regard?

5-a) CEA section 2(a)(13) authorizes the Commission "to make swap transaction and pricing data available to the public in such form and at such times as the Commission determines appropriate to enhance price discovery.'' CEA section 2(a)(13)(G) states that each swap "shall be reported to a registered swap data repository.'' What factors should the Commission consider in applying these provisions to prediction markets listing event contracts as swaps? Are there aspects of event contract swaps that hinder or facilitate their reporting to a swap data repository or the public availability of the relevant transaction and pricing data? To what extent should such reporting and data availability be standardized in order, for example, to facilitate Commission analysis and to detect potential cross-market activity from a risk or manipulation perspective? Are public identifiers (e.g., CUSIP/ISIN/LEI) appropriate for event contracts? How does such reporting and data availability relate to enhanced price discovery?

10) What role do event contracts play in "managing and assuming price risks, discovering prices, or disseminating pricing information'' as contemplated by CEA section 3(a)? How are event contracts used in hedging, which is one aspect of managing price risks? How should the Commission incorporate considerations of hedging, price risk, price discovery, and price dissemination in its public interest determination under CEA section 5c(c)(5)(C)?

33) As noted above, event contracts may be covered by the statutory definition of the term "swap" in CEA section 1a(47)(A). What aspects of prediction markets are relevant to whether event contracts should, or should not, appropriately be classified as swaps? What aspects, if any, distinguish event contracts from other types of swaps? The definition in CEA section 1a(47)(A)(ii) includes an event contract that "is dependent on the occurrence, nonoccurrence, or the extent of the occurrence of an event or contingency associated with a potential financial,

economic, or commercial consequence." What potential financial, economic, or commercial consequences underlie event contracts? Similarly, CEA section 1a(47)(A)(ii) includes an event contract that is an option "based on the value of … financial or economic interests or property of any kind." How are any event contracts based on the value of financial or economic interests or property? What idiosyncratic risks embedded in event contracts differentiate them from other commodity derivative instruments? How should the Commission take these risks into account when considering how to regulate event contracts and prediction markets? Commodity options are also covered by the statutory swap definition in CEA section 1a(47)(A)(i). How are event contracts similar to, or different from, other types of commodity options?

37) In the 2012 joint rulemaking to further define the term "swap," the CFTC and the SEC adopted an interpretation which, in part, listed certain types of agreements, contracts, or transactions that "will not be considered swaps or security-based swaps when entered into by consumers (natural persons), … primarily for personal, family, or household purposes." In doing so, the CFTC and SEC stated that they "do not believe that Congress intended to include these types of customary consumer and commercial agreements, contracts, or transactions in the swap or security-based swap definition, to limit the types of persons that can enter into or engage in them, or to otherwise subject these agreements, contracts, or transactions to the regulatory scheme for swaps or security-based swaps." Are any event contracts similar to, or different from, the types of agreements, contracts and transactions that are excluded from the swap definition under this interpretation? How are such similarities or differences, if any, relevant to the CFTC's regulation of those event contracts?

This section addresses three aspects related to the characteristics of event contracts: (i) their regulatory characterization and interaction with different market structures; (ii) financial-markets event contracts and their economic benefits; and (iii) settlement rules and dispute-resolution mechanisms.

2.1. Regulatory characterization of event contracts

Under CFTC regulatory framework and as noted in the consultation, event contracts may be classified either as **futures contracts or as swaps**. While it is not B3's intention to advocate for or against any particular classification for the operation of event contracts, it is important to note that this legal characterization carries distinct regulatory implications.

Since swaps are traditionally associated with OTC market structures, their regulation has been designed to address risks that typically arise in noncentralized and bilateral trading environments. Accordingly, swap related regulatory requirements - such as a **distinct product approval process, mandatory reporting of transaction data to Swap Data Repositories (SDRs), and the inclusion of event contracts' trading volumes in the calculation of *de minimis* threshold to entities that are not currently registered as a swap dealers** - aim to enhance transparency, manage counterparty risk, and mitigate the potential for abuse practices in markets that do not necessarily rely on centralized execution and clearing.

However, B3 considers it important to distinguish between the legal classification of a contract and the market structure in which it is offered and traded. Event contracts that are listed and traded on regulated exchange-based infrastructures, even when legally classified as swaps, already operate within a framework that incorporates many of the same controls and risk-mitigation mechanisms that swap-specific requirements are designed to address in OTC markets.

As mentioned previously, in an exchange-traded environment, event contracts are subject to rigorous listing and product-approval processes overseen by the relevant regulatory authority. Trading activity is conducted on a transparent, multilateral platform with public dissemination of pre- and post-trade information by the market infrastructure operator. Position limits, concentration monitoring, real-time surveillance, and other market-integrity tools are embedded in the trading framework, significantly mitigating risks that may arise in bilaterally negotiated markets. These mechanisms substantially reduce systemic and counterparty risks and enhance market discipline in ways that are functionally comparable to many requirements imposed on swaps traded bilaterally.

Operations carried out on B3 benefit from a high level of regulatory security and supervisory oversight, supported by a robust monitoring framework and by formal mechanisms of international cooperation. At the domestic level, B3 operates under the supervision of the Brazilian Securities and Exchange Commission (CVM), with advanced systems for trade surveillance, detection of

market abuse, and continuous information sharing with the regulator. At the international level, this security is further strengthened by global coordination among authorities, materialized through agreements that enable information exchange, mutual assistance, and coordinated enforcement actions, such as the Memorandum of Understanding between the CVM and the U.S. Commodity Futures Trading Commission (CFTC), which allows for substituted compliance and mutual recognition with respect to markets and supervised participants, including in the context of FBOTs, thereby reducing regulatory asymmetries. In addition, the CVM's adherence to the IOSCO Multilateral Memorandum of Understanding (MMoU) consolidates an international standard for cooperation in investigations and cross-border monitoring, ensuring that transactions executed on B3 take place within an integrated, transparent supervisory environment aligned with global best practices in market security and integrity.

For these reasons, B3 believes that **event contracts that are legally classified as swaps but are offered and traded within regulated exchange-based market infrastructures should be subject to the rules applicable to exchange-traded derivatives**. In particular, B3 considers that, in such cases, additional reporting to SDRs and inclusion in swap-dealer *minimis* threshold may not be necessary, given that transaction data is already publicly disseminated, centrally monitored and subject to comprehensive regulatory oversight, and those rules were created to capture market participants whose swap activities involve economically significant intermediation, ongoing exposures, credit risk, and potential systemic impact.

From a policy perspective, applying a consistent, function-based regulatory approach promotes efficiency, avoids regulatory fragmentation and ensures that event contracts benefit from strong investor protections without imposing redundant obligations. This approach supports innovation while preserving market integrity and aligns regulatory requirements with the actual risks posed by the trading environment in which event contracts are offered.

2.2. Financial markets event contracts and their economic benefits

Another topic addressed in the consultation concerns the economic benefits associated with event contracts offered in prediction markets. In this context, focusing on event contracts that materially affect investors' financial positions and portfolio outcomes, three main categories of economic benefits can be identified, as outlined below.

a) Risk Management and Hedging Benefits

Event contracts provide an effective mechanism for managing price risks that are event-driven and discrete in nature. This is particularly important because many of the risks faced by investors and institutions arise from the occurrence or non-occurrence of specific events - such as monetary policy decisions, changes in inflation dynamics, exchange-rate realignments or other macro-financial announcements - that may trigger non-linear and abrupt adjustments in asset prices, cash flows and portfolio valuations.

By linking payoffs directly to the realization of such events, event contracts enable market participants to hedge exposures that may be inefficiently or only imperfectly addressed through traditional linear instruments. Investors facing downside risk from an adverse event can transfer or mitigate that exposure, while other participants may assume it based on different expectations, views or risk tolerance. This allows risk to be allocated more efficiently across market participants.

A clear illustration of this functionality arises in the context of monetary policy decisions. Consider, for example, an investor or institution whose portfolio is sensitive to unexpected changes in policy interest rates - such as a surprise tightening by a central bank. With an event contract specifically linked to the outcome of a monetary policy meeting (for instance, whether rates will be increased beyond a certain threshold), the investor can hedge that discrete risk directly and with precision.

In the absence of event contracts, market participants seeking protection against such outcomes would typically rely on proxy instruments, such as equity indices, bond futures or interest rate derivatives with broader exposure. While these

instruments may provide partial protection, they do not isolate the specific risk associated with the policy decision itself. As a result, hedging through proxies may be imperfect, exposing the portfolio to residual risks and introducing additional sources of volatility unrelated to the underlying event. In some cases, the hedge may even add new risks, stemming from market movements driven by factors other than the monetary policy outcome.

Event contracts address this limitation by allowing investors to hedge the event itself, rather than relying on instruments whose prices are influenced by multiple, overlapping drivers. This targeted exposure reduces basis risk, enhances capital efficiency and improves the accuracy of risk management strategies.

Finally, from a risk-management perspective, event contracts are characterized by a structurally simple and clearly limited risk profile for both counterparties. Because payoffs are predefined and fixed, the maximum potential gain and loss of each position are known *ex ante*. This contrasts with traditional derivatives, particularly options, where sellers may be exposed to theoretically unlimited losses. By design, event contracts impose explicit and predefined limits on potential losses for both buyers and sellers. This predefined exposure, combined with reliance on a single underlying event, enhances risk predictability, reduces structural complexity and facilitates clearer and more straightforward risk assessment by market participants.

b) Investment Function and Liquidity Provision

In addition to their hedging role, event contracts serve a legitimate and well-recognized investment function. From an individual investor's perspective, these contracts provide a structured means of allocating capital based on expectations about future outcomes. Investors who anticipate particular event realizations, such as asset price appreciation or depreciation, may seek to express these views through event contracts and realize financial gains if those expectations materialize.

Although this activity is sometimes described as "speculative," it is both legitimate and economically beneficial within well-functioning derivatives markets. Investment in derivatives plays an essential role in transferring risk, facilitating

price discovery and improving market efficiency. By increasing the number of active buyers and sellers, investors seeking returns provide liquidity that benefits both hedgers and other market participants, contributing to tighter spreads and more reliable prices. As participation broadens, price formation becomes more robust and less susceptible to idiosyncratic or random shocks.

c) Price Discovery and Information Aggregation

Event contracts also generate significant public-interest benefits through their contribution to price discovery and information aggregation. Markets for event contracts bring together dispersed information, beliefs and expectations held by a wide range of participants and translate them into transparent and observable prices. These prices reflect collective assessments of both the probability and potential impact of future events.

In this regard, markets with broad participation, including retail investors, can act as efficient real-time indicators of market sentiment and expectations. Unlike traditional survey-based mechanisms, which are often periodic, limited in scope and constrained in sample size, event-contract markets continuously update prices as new information becomes available. Moreover, they provide not only point estimates of expected outcomes but also a distribution of market views, allowing observers to assess uncertainty, asymmetry, and tail-risk perceptions.

Academic research and regulatory commentary have increasingly recognized this informational role. Event-contract markets have been shown to provide timely and high-frequency forecasts for macroeconomic indicators and policy outcomes for which option-implied distributions may be limited or unavailable. Importantly, the participation of retail investors enhances this process by introducing information and sentiment derived from real-economy experiences and immediate reactions to news, complementing institutional perspectives that may be influenced by portfolio constraints or hedging considerations.

Taken together, these features demonstrate that event contracts serve legitimate economic purposes. They enable market participants to hedge event-driven risks, support efficient allocation of capital through investment activity, enhance liquidity in derivatives markets and contribute meaningfully to price discovery and

information dissemination. When offered within regulated market infrastructures, event contracts can fulfill these functions while maintaining high standards of transparency, market integrity, and investor protection.

For these reasons, B3 believes that event contracts linked to financial-market variables and financially material event, designed and offered within robust regulatory frameworks, are aligned with the public interest and represent a valuable addition to the set of risk-management and price-discovery tools available to market participants.

2.3. Rules of settlement and situations of dispute

Finally, a defining characteristic of event contracts is that their underlying reference is the occurrence or non-occurrence of a specific event. As a result, the exercise of the contract and the determination of the applicable payout - whether in favor of the buyer or the seller - may, in certain circumstances, give rise to questions or disputes if the triggering event or its outcome is perceived as ambiguous.

To ensure legal certainty and to avoid controversies at settlement, it is essential that regulated **market-infrastructure operators explicitly and publicly define the resolution criteria applicable to each event contract**. Such criteria should be objective, clearly articulated and publicly disclosed in advance, specifying how each contract will be settled, which authoritative source will publish the reference information, the timing and frequency of such publication and the procedures to be followed in the event that the primary source fails to publish the required data by the contract's expiration, in accordance with determinations made by the market-infrastructure operator on which the contract is listed.

3. Institutional and retail investors behavior in event contracts

This section is linked to the questions below.

Seção II.A - Core Principles and Commission Regulations

2.f) Core Principle 11 requires that a DCM have "rules and procedures for ensuring the financial integrity of transactions entered into on or through facilities of the [DCM] (including the clearance and settlement of the transactions with a derivatives clearing organization [(DCO)]);

and rules to ensure the financial integrity of any intermediary and the protection of customer funds." Currently, event contracts are fully collateralized. What factors should the Commission consider in determining whether prediction markets should be permitted to offer trading on margin, and should such factors be different for retail as opposed to institutional customers? (…).

4) Institutional traders (that is, parties that are eligible contract participants) may enter into event contracts on prediction markets registered as SEFs, which are subject to Core Principles in CEA section 5h(f). Are there aspects of prediction markets that the Commission should consider in applying these Core Principles? How is trading on prediction markets by institutional traders the same, or different from, retail trading on prediction markets? How would or does prediction market trading on DCMs and SEFs impact liquidity in both types of exchanges? What factors should the Commission consider in determining whether any public disclosure requirements should apply to prediction market trading on SEFs? For example, would public disclosure help to mitigate, or exacerbate, adverse selection? Are there specific points on which the Commission should provide guidance or adopt rule amendments? If so, why?

29) The price on a prediction market could be viewed as an indication of how likely the underlying event is to occur. The price may be a more reliable indicator of probability if the people trading on the prediction market have some insight into how likely the underlying event is to occur. On the other hand, trading by these informed participants may lead to manipulation, unfairness, and the misuse of inside information. Is there some public interest utility if people with an asymmetric information advantage on a particular event contract are able to trade on prediction markets? Does the public interest utility depend on the type of event in question? What factors should the Commission consider in evaluating and balancing the public interest in this scenario?

38) As noted above, CEA section 15(a) requires that the Commission, before it promulgates a regulation under the CEA, consider the costs and benefits of its action, including an evaluation "in light of—(A) considerations of protection of market participants and the public; (B) considerations of the efficiency, competitiveness, and financial integrity of futures markets; (C) considerations of price discovery; (D) considerations of sound risk management practices; and (E) other public interest considerations."[72] How are these five considerations relevant to the Commission's regulation of prediction markets? In general, what other costs and benefits should the Commission consider as it determines whether to adopt or amend any regulations with respect to prediction markets? Are there less costly alternatives that the Commission should consider? If possible, please provide specific information, data, or studies that you believe would be helpful to the Commission in this regard.

One of the questions raised by the consultation concerns whether institutional and retail investors display materially different behavior when trading event contracts. From B3's perspective, **institutional and retail investors exhibit largely similar motivations and economic behavior in prediction markets**. In both cases, event contracts function as derivative instruments that allow participants to express views on future outcomes, manage risk or transfer exposure in a structured manner. The primary distinction between institutional and retail participation does not lie in the economic purpose of these contracts, but rather in the market environment through which they are accessed.

For institutional investors, event contracts represent an additional tool alongside traditional derivatives, enabling more targeted and efficient risk management. In particular, event contracts can offer a direct hedge for exposures linked to discrete and well-defined events. For example, a financial institution whose portfolio is sensitive to a central bank's interest-rate decision may find that an event contract linked specifically to that decision provides a more precise and straightforward hedge than conventional interest-rate or macro-proxy instruments, which may embed multiple risk drivers beyond the relevant event.

In addition, event contracts allow institutional investors to trade directly on the explicit probability of an event occurring. This contrasts with traditional options markets, in which event probabilities are implicit and must be inferred from option prices through modeling assumptions. By isolating the event outcome itself, event contracts can enhance analytical clarity, improve capital efficiency and support more deliberate exposure management.

For retail investors, event contracts are generally more suitable than traditional derivative instruments, primarily due to their simplified structure and transparency. Fixed payoffs allow investors to know *ex ante* the maximum potential gain, while downside risk is strictly limited for both counterparties. In addition, event contracts typically trade within predefined price ranges and are presented by intermediaries through simplified user interfaces that translate complex derivative concepts into intuitive "yes/no" outcomes. These characteristics reduce operational barriers associated with derivatives trading, making event contracts more accessible for retail participation.

Importantly emphasizing, notwithstanding these differences in user experience, event contracts serve fundamentally the same economic functions for both institutional and retail investors. They can be employed for hedging purposes, trading strategies or the expression of market views regarding the likelihood of specific events. In this sense, event contracts should be understood as derivatives with a simplified payoff profile, rather than as a distinct asset class whose economic purpose varies by investor type.

Where distinctions become relevant is in the trading environment in which event contracts are offered, as mentioned in previous sections. Given the inherent information asymmetry between institutional and retail investors, as well as the potential for conflicts of interest in bilateral trading structures, the execution of event contracts outside an exchange environment may present additional risks, particularly for retail participants. Exchange based markets supported by central counterparties (CCPs) mitigate these risks through centralized and multilateral price formation, transparent pre and post trade disclosure, centralized position limit controls and comprehensive monitoring and surveillance. In this context, the offering of event contracts to retail investors is most appropriately conducted within such regulated exchange environments, which provide the safeguards necessary to support fair, orderly and transparent trading.

Apart from this differentiation regarding the appropriate trading environment, B3 does not consider it necessary to impose materially different contractual rules or product characteristics for institutional versus retail investors, including margin requirements. A consistent set of rules, combined with the protections inherent in regulated exchange-based markets, adequately addresses the needs and behaviors of both investor segments.

4. Margining and risk models

This section is linked to the questions below.

2-e) Core Principle 5 states that a DCM shall, for each contract, adopt position limitations or position accountability for speculators as is necessary and appropriate to "reduce the potential threat of market manipulation or congestion.'' What factors should the Commission expect a DCM to consider in adopting position limitations or position accountability for prediction markets? For example, what factors should the Commission consider regarding how position

limits across similar event contracts should be aggregated (e.g., whether there is the same underlying reference, or whether there are similar references)? Are there reasons why event contracts, as compared to other swaps and futures contracts, should, or should not, be subject to different position limitations or position accountability? Are existing position limitations or position accountability provisions helpful as precedent for determining how prediction markets should implement such measures?

2-f) Core Principle 11 requires that a DCM have "rules and procedures for ensuring the financial integrity of transactions entered into on or through facilities of the [DCM] (including the clearance and settlement of the transactions with a derivatives clearing organization [(DCO)]); and rules to ensure the financial integrity of any intermediary and the protection of customer funds." Currently, event contracts are fully collateralized. What factors should the Commission consider in determining whether prediction markets should be permitted to offer trading on margin, and should such factors be different for retail as opposed to institutional customers? If margin is provided to retail customers, what disclosure, if any, should the Commission consider to ensure that customers are fully informed of the consequences and potential losses resulting from the customer's failure to meet margin requirements? If prediction markets are allowed to offer trading on margin, what factors should be involved in the calculation of initial margin, such as concentration, or liquidity (i.e., the cost to the DCM to liquidate a defaulting member's portfolio)? What methods should be involved, such as a flat percentage rate or a statistical analysis? Given that some event contracts resolve quickly and others may not resolve for years, what time series of data and other time period considerations should be involved when calibrating appropriate margin? What factors should be involved in considering other issues such as whether daily variation margin should be required, the time intervals for collecting margin, and the instruments permitted for posting initial margin and exchanging variation margin? What products should be eligible for cross-margin with event contracts if trading on margin is allowed?

3-c) What implications for DCOs should the Commission consider if event contracts were traded on prediction markets on margin? Are there any issues arising with respect to, for example, the requirements in DCO Core Principle D that "(iv) . . . [t]he margin required from each member and participant of a [DCO] shall be sufficient to cover potential exposures in normal market conditions" and "(v) . . . [e]ach model and parameter used in setting margin requirements under clause (iv) shall be—(I) risk-based; and (II) reviewed on a regular basis"? What factors should the Commission consider regarding the clearing silo, if any, that would be appropriate for event contracts? What factors should the Commission consider regarding whether event contracts should be eligible for margin credit or cross margin, both on DCOs, and when cross-margined with securities exchanges?

Another point raised in the consultation concerns whether event contracts should permit leverage, and how margining, risk models and position-limit calculations should be designed and applied to such instruments.

Event contracts are typically structured in a manner that requires all market participants to post margin upfront, with margins generally collected in cash. This feature reflects the fixed-payoff and binary nature of these instruments and represents a key difference from traditional derivatives, which may permit leveraged positions and the use of a broader range of eligible collateral. As a result, event contracts are often perceived as conservative from a risk-management perspective.

At the same time, event contracts are firmly grounded in the derivatives markets framework and should therefore be assessed within the broader context of established margining and risk-management practices. From B3's perspective, the **appropriate treatment of margining and risk models for event contracts should be guided primarily by the rules, methodologies and governance of the central counterparty (CCP) through which such contracts are cleared**, in accordance with applicable local regulation and internationally recognized standards, including the Principles for Financial Market Infrastructures (PFMI).

Central counterparties are responsible for designing margin models that adequately capture the risk profile of cleared products under normal and stressed market conditions. The question of whether leverage should be permitted, the level of initial and variation margin required and the eligibility of collateral should therefore be determined by the CCP's validated risk models, subject to regulatory approval and ongoing supervision.

These determinations should consider, among other factors, the historical behavior and maturity of the event contract's underlying asset, the risk characteristics and profile of participating investors, and the liquidity conditions necessary to ensure that the CCP can effectively manage defaults and meet its obligations in the event of participant failure to meet its own obligations.

Where leverage is permitted, enhanced disclosure requirements for retail investors by intermediaries remain essential to ensure a clear understanding of

potential losses, margin obligations and the risks associated with leveraged positions.

By anchoring these assessments within CCP governance frameworks aligned with local regulation and the PFMI, regulators can ensure that margining practices for event contracts remain proportionate, risk-based and consistent with those applied to other centrally cleared derivatives. This approach also supports innovation by allowing event contracts to evolve within a well-understood and trusted risk-management architecture, rather than being isolated under bespoke or overly restrictive regimes.

In summary, B3's view is that margining and risk management arrangements for event contracts should be risk-based, proportionate, and subject to appropriate regulatory oversight, considering the market structure through which such contracts are traded. Where event contracts are centrally cleared, margin, leverage parameters and collateral eligibility should be determined by the CCP's validated risk models, in accordance with local regulation and the Principles for Financial Market Infrastructures (PFMI). This approach ensures consistency with broader derivatives market practices while promoting market integrity, participant protection, and the safe and sustainable integration of event contracts into the financial system.

5. Monitoring and market surveillance

This section is linked to the questions below.

2-c) Core Principle 3 states that a DCM may list "only contracts that are not readily susceptible to manipulation." How should a determination of whether an event contract is "readily susceptible to manipulation" be made? What factors should be considered? Are there particular aspects of event contracts that make this determination different from the determination with respect to other listed contracts? Do any existing rules for other types of exchanges and platforms (i.e., not prediction markets) limit or mitigate the potential for manipulation? If so, how and to what extent are these rules appropriate as requirements for prediction markets?

2-d) Core Principle 4 states that a DCM "shall have the capacity and responsibility to prevent manipulation, price distortion, and disruptions of the delivery or cash-settlement process through market surveillance, compliance, and enforcement practices and procedures." Do any aspects of prediction markets pose challenges to compliance with this Core Principle or, on the

other hand, facilitate compliance? Are there market surveillance, compliance, or enforcement practices on which the Commission should focus? Are there existing surveillance practices for detecting suspicious activity in other types of exchanges and platforms that would be useful in prediction markets?

5-c) CEA section 4c(a)(5) provides that it is unlawful to engage, on any CFTC-registered entity, in disruptive trading practices. What factors should the Commission consider in applying this provision to prediction markets? Are there aspects of prediction markets that make them more or less susceptible to disruptive trading practices?

29) The price on a prediction market could be viewed as an indication of how likely the underlying event is to occur. The price may be a more reliable indicator of probability if the people trading on the prediction market have some insight into how likely the underlying event is to occur. On the other hand, trading by these informed participants may lead to manipulation, unfairness, and the misuse of inside information. Is there some public interest utility if people with an asymmetric information advantage on a particular event contract are able to trade on prediction markets? Does the public interest utility depend on the type of event in question? What factors should the Commission consider in evaluating and balancing the public interest in this scenario?

30) Some events underlying event contracts are under the control of a single individual or small group of individuals. What role should this aspect of event contracts play in the Commission's consideration of how prediction markets should be regulated? Do the considerations change depending on the type of event in question? Are there particular challenges related to cross-market manipulation—for example, where an individual or small group of individuals seeks to move the prediction market to influence another market, or vice versa? Are prediction markets more likely than other DCMs or SEFs to be susceptible to manipulation? Why or why not?

Another issue raised in the consultation concerns the potential for market manipulation and abusive practices in prediction markets, as well as whether market-monitoring and surveillance frameworks should be adapted to address the specific characteristics of event contracts.

As noted throughout this submission, B3's comments focus on event contracts linked to financial-market variables and financially material events. **From this perspective, B3 considers that the monitoring and surveillance of such event contracts does not fundamentally differ from the surveillance of other derivatives traded in regulated markets.** For example, from a market-conduct standpoint, there is no material distinction between monitoring trading activity in traditional foreign-exchange options and binary options linked to the same

underlying reference. In both cases, surveillance seeks to identify abusive behavior, manipulation or conduct that undermines fair and orderly price formation.

As with other derivatives, the determination of whether an event contract is readily susceptible to manipulation should be grounded in an assessment of market structure and participant behavior. Relevant factors include liquidity conditions, concentration of positions, the degree of information asymmetry among participants, and, where applicable, the extent to which market participants may be able to influence the underlying event or its outcome. These considerations are well established in derivatives regulation and remain equally relevant in the context of event contracts linked to financial markets.

From an operational standpoint, existing market-conduct rules and surveillance tools commonly applied to derivatives markets remain appropriate as baseline controls for event contracts. These include prohibitions against manipulative trading practices, monitoring of position concentrations, detection of non-competitive behavior, and real-time surveillance of trading patterns. That said, **certain adaptations may be important to reflect the event-driven and binary pricing dynamics of these products.** In particular, surveillance frameworks may benefit from calibration to identify abnormal trading behavior around key event windows, sudden shifts in implied probabilities, or trading patterns inconsistent with publicly available information.

Because price dynamics in event contracts are closely linked to information flows, surveillance should also incorporate the monitoring of widely observable external signals, such as public news releases, macroeconomic announcements, or policy communications, to help identify potential cross-market manipulation or trading advantages arising from information asymmetries. When appropriately tailored, these surveillance approaches can preserve market integrity while allowing event contracts to fulfill their legitimate risk-management and price-discovery functions.

An additional consideration specific to event contracts concerns the risk of trading on material non-public information (“insider trading”). Event contracts referencing outcomes that may be influenced or known in advance by a limited

group of individuals raise concerns regarding fairness and market abuse. While this risk is not unique to event contracts - and exists in other segments of derivatives and securities markets - it underscores the importance of robust insider-information surveillance. The degree of such risk varies depending on the nature of the event, with contracts linked to broad economic or institutional processes generally presenting lower control and information-asymmetry risks than those dependent on discrete individual actions.

In addressing these risks, market-monitoring efforts should focus on indicators that are within the visibility and control of the market-infrastructure operator. These include abnormal trading timing, unusual position concentrations, and atypical profit patterns around event outcomes, especially when correlated with access to sensitive governmental, policy-related, or issuer-specific information. Surveillance should rely on trading data, order book information, and public sources reasonably available to the market operator, without extending expectations beyond what such infrastructures can legally and operationally observe. In this regard, considering the expansion of prediction markets, it is important that the trading infrastructure's monitoring mechanisms be prepared and able to process a volume of data consistent with a high-volume trading environment.

Finally, any concerns or situations identified through market surveillance should be addressed through established regulatory and self-regulatory processes. This includes escalation to supervisory authorities, enforcement actions where appropriate, and coordination with self-regulatory organizations (SROs). By anchoring monitoring and surveillance obligations within the existing derivatives-market framework and adapting them proportionately to the specific dynamics of event contracts, regulators can mitigate manipulation and misconduct risks while preserving market efficiency and confidence.

B3 appreciates the opportunity to comment on this important and timely matter. We remain at the Commission's disposal to provide any additional information or to engage in further discussions that may assist the Commission in its consideration of the issues addressed in this Notice of Proposed Rulemaking.

Respectfully submitted,

B3 S.A. – Brasil, Bolsa, Balcão