Submitted via CFTC Comments Portal

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

April 30, 2026

Re: Response to the Commodity Futures Trading Commission's Request for Comments on Event Contract Derivatives Traded on Prediction Markets (RIN 3038-AF65)

Dear Secretary Kirkpatrick,

Paradigm Operations LP ("***Paradigm***") is a frontier technology investment firm that invests and builds in crypto, AI, robotics, and across new frontiers from the earliest stages.[1] Paradigm supports the broad availability of regulated prediction markets to American investors. These markets are not merely innovative in the technological sense; they are also a valuable source of information to the public, creating signal from the chaos of news and commentary. Among other things, these exchanges also allow market participants, especially investors and entrepreneurs, to hedge exposure to specific events.

Paradigm is also active in the ongoing litigation concerning whether the Commodity Exchange Act ("***CEA***") preempts state regulation of sports- or politics-related event contracts. Paradigm has appeared as an amicus party in multiple pending or resolved cases, including alongside the Commodity Futures Trading Commission ("***CFTC***" or the "***Commission***") in the Ninth Circuit.[2] As a participant in this developing field, Paradigm brings a valuable perspective and a wealth of experience to these issues.

The CFTC's advance notice of proposed rulemaking (the "***ANPRM***") represents a critical opportunity for prediction markets' growth and success, consistent with the provisions of the CEA[3] and CFTC regulations thereunder.[4] Paradigm supports flexible, principles-based, and nuanced rulemaking that will enable responsible innovation in prediction markets as was specifically intended by Congress, and appreciates the Commission's proactive and open-minded engagement on these critical issues.

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[1] More information about Paradigm is available online at https://www.paradigm.xyz.
[2] *See, e.g.*, Amicus Curiae Brief of Paradigm Operations LP in Support of Appellant, *North American Derivatives Exchange, Inc. v. State of Nevada, et al.*, No. 25-7187, Dkt. 15 (9th Cir. Jan. 15, 2026).
[3] 7 U.S.C. § 1a *et seq*.
[4] 17 C.F.R. § 1.1 *et seq*.

I. General Observations

Prediction markets may be new in their application, but they have a storied lineage. At the heart of the CFTC's jurisdiction lies a "futures contract"[5] (*i.e.*, a contract for "future delivery"),[6] which seeks to predict what the price of a certain "commodity"[7] will be at some point in the future. By definition, that price is unknown absent the discovery function of a marketplace. Over the last several millennia,[8] markets have been developed to help discover the future price of various commodities through the interaction of participants' long and short positions, including on designated contract markets ("***DCMs***").[9] Futures markets have been federally regulated since 1922[10] and are subject to the exclusive jurisdiction of the CFTC, preempting state law.[11] The CEA provisions and CFTC Regulations applicable to futures and swap contracts traded on DCMs and swap execution facilities ("***SEFs***") apply to event contracts when they are traded on those platforms.

The concept of markets on events themselves is a more recent innovation of our current generation. These "prediction markets" do not have as their focus an underlying physical commodity but instead reference various events or occurrences. These events fall under CFTC jurisdiction as "excluded commodities,"[12] and the contracts on them typically trade in the form of binary options (*i.e.*, "swaps").[13] The first time Congress specifically addressed "event contracts" was in 2010 when it added to the CEA a "Special Rule for Review and Approval of Event Contracts and Swap Contracts" (the "***Special Rule***").[14] Notably, this Special Rule provides that the CFTC "may," but is not obligated to, determine that certain event contracts are "contrary to the public interest."

Of course, the CFTC's first instinct was to wedge as much power as possible through this sliver of statutory discretion. Following that legislative enactment, the CFTC addressed event contracts in 2011 and adopted Rule 40.11(a), which arguably deemed all event contracts described in the Special Rule to be contrary to the public interest.

Rule 40.11(a) was a significant step in the wrong direction. Following its promulgation, the CFTC attempted to grab even more power, claiming that political event contracts fell within

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[5] See the CFTC's Futures Glossary, which provides the following definition: "Futures Contract. An agreement to purchase or sell a commodity for delivery in the future: (1) at a price that is determined at initiation of the contract; (2) that obligates each party to the contract to fulfill the contract at the specified price; (3) that is used to assume or shift price risk; and (4) that may be satisfied by delivery or offset." *Futures Glossary*, CFTC, https://www.cftc.gov/LearnAndProtect/AdvisoriesAndArticles/CFTCGlossary/index.htm#F.

[6] *See* CEA § 1a(27); 17 C.F.R. § 1.3.

[7] *See* CEA § 1a(9).

[8] *See* Brian Misamore, *Understanding Financial Derivatives: Forwards, Futures, and Options*, HARV. BUS. SCH. (Nov. 9, 2017) (discussing Greek philosopher Thales' successful use of options on olive pressing in the mid-620s to mid-540s BCE).

[9] *See* 17 C.F.R. § 1.3.

[10] The Grain Futures Act of 1922, Pub. L. No. 67-331, 42 Stat. 998 (1922). See also § 2(a)(1)(A) of the CEA.

[11] 7 U.S.C. § 2(a)(1)(A); *see also KalshiEX, LLC v. Flaherty*, 2026 WL 924004 (3d Cir. 2026).

[12] *See* CEA § 1a(19).

[13] *See* CEA § 1a(47). The first event contract / prediction market was sanctioned by the CFTC in the early 1990s through no-action positions, *see* CFTC Letter No. 93-66, issued to the University of Iowa, in which the CFTC recognized that event contracts are valuable for academic purposes.

[14] *See* CEA § 5c(c)(5).



40.11(a) and, as such, could be banned by the CFTC. In 2024, a D.C. federal court rejected this attempt, ruling against the CFTC and for the prediction market challenging the CFTC's overreach.[15] Subsequently, the CFTC itself acknowledged that the Special Rule's application to sports contracts was, at best, ambiguous, when it proposed a rule defining the term "gaming"[16] before withdrawing that proposal on February 4, 2026.[17]

In short, after years of overreach checked only by the courts, we welcome this CFTC's nuanced approach to the regulation of event contracts articulated on March 12, 2026 in the ANPRM[18] and in the CFTC Staff's Advisory on prediction markets issued on the same date.[19] Below we provide our comments as solicited in the ANPRM.

II. Response to Questions 2.f, 3.c, 4 & 37: Trading Event Contracts on Margin, Institutional Traders, and the Personal Purposes Swap Exception

Several of the Commission's questions in the ANPRM concern the application of existing regulations to event contracts.

First, the Commission asks in the ANPRM whether it should allow prediction market customers to trade event contracts on margin. Currently, as the Commission acknowledges in the ANPRM, event contracts are burdened more heavily than other contracts, as they must be fully collateralized.[20] Allowing margin trading for event contracts will remedy that imbalance and ensure a level playing field across futures and swaps contracts that will foster market growth to the benefit of U.S. consumers and companies.

The status quo disadvantages not only CFTC-regulated prediction markets but, more importantly, their customers. For example, to the extent that contracts are auto-liquidated if there is insufficient collateral, traders' positions could become unhedged, increasing market risk. And as customers must fully fund each contract, they can quickly become illiquid. This illiquidity limits their ability to diversify across event contracts, exposes them to risk, and limits their opportunities to hedge.[21] What is more, this liquidity issue has a broader negative impact on the market as long-term contracts (for example, annual-weather-related event contracts) can lack sufficient volume for high-value uses such as parametric or disaster insurance.[22] In other words, the current approach increases the risk of total losses for customers and makes the overall system less stable and usable.

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[15] *KalshiEX LLC v. CFTC*, 2024 WL 4164694 (D.D.C. Sept. 12, 2024).
[16] *See Event Contracts*, 89 FED. REG. 48968 (June 10, 2024).
[17] *See Event Contracts; Withdrawal of Proposed Regulatory Action*, 91 FED. REG. 5386 (Feb. 6, 2026).
[18] *See Prediction Markets*, 91 FED. REG. 12516 (March 16, 2026).
[19] *See* CFTC Rel. No. 9193-26.
[20] *See* 91 FED. REG. at 12519.
[21] *See* Victoria Liu and Djavaneh Bierwirth, *A Primer on Prediction Markets*, WHARTON INITIATIVE ON FIN. POL'Y & REGUL.: BLOG (Jan. 23, 2025), https://wifpr.wharton.upenn.edu/blog/a-primer-on-prediction-markets/ ("Increasingly liquid prediction markets in an interconnected, digital today beckon promising utility for tomorrow. As platforms better manage the liquidity lever, users will be able to better hedge risks as well as capitalize upon informed opinions.").
[22] *See* Patrick Brown, *Disaster Insurance Applications of Forecast Contracts*, INTERACTIVE BROKERS (June 5, 2025), https://www.interactivebrokers.com/campus/traders-insight/ibkr-climate-energy/disaster-insurance-applications-of-forecast-contracts/.



A better approach to margin trading is possible. The Commission can adopt commonsense guardrails to address investor protection concerns, including margin limits and disclosure requirements. Event contracts should be treated like all other contracts listed on DCMs, and customers should be able to choose whether to trade on margin through an intermediary, such as a registered futures commission merchant, or directly on a DCM via fully collateralized and auto-liquidating accounts.

Second, the Commission asks in the ANPRM whether event contracts are similar to the types of "customary consumer and commercial agreements" for "personal . . . purposes" that Congress did not intend to regulate as "swaps."[23] Event contracts are distinct from these agreements, and Paradigm agrees that the former belong under CFTC jurisdiction and the latter are properly exempt from CFTC regulation. Differences between event contracts and these agreements are manifold. Event contracts are standardized financial instruments that otherwise meet the statutory definition of "swap,"[24] are traded on federally regulated and registered platforms (*e.g.*, a DCM), and are compliant with platform rules. Moreover, event contracts serve a broader hedging, informational, and investment function beyond their utility to a single consumer.[25] In short, while event contracts and commercial or customer agreements may look similar from a distance, when placed side-by-side under clear analytical light, they are as distinct as dogs from deer.

Third, the Commission asks in the ANPRM how to apply its Core Principles to institutional trading of event contracts on SEFs. We agree that all market participants should be treated equally and consistently by trading platforms (DCMs and SEFs), as they operate markets under the CEA and CFTC Regulations. But that also means that the same exemptions should apply to eligible contract participants ("***ECPs***")[26] on prediction markets as they do for other comparable markets. For example, the exemptions on block trades should also apply to prediction markets. To the extent that "institutional traders," *i.e.*, ECPs, choose to trade event contracts in over-the-counter markets, they should be able to choose the terms of transactions as they would with any other swap. There is a natural transitive process to how exemptions should work: if prediction markets are under the same core principles as DCMs and SEFs, they should also be under the same exemptions.

III. Response to Question 2.h: Blockchain-based prediction markets

The Commission should support technological innovation, including the use of blockchain technology. However, the use of alleged or purported decentralized platforms should not be an automatic license to operate in the U.S. outside of CFTC oversight. Unlike traditional prediction markets, off-shore markets, whether blockchain-based or not, may lack a centralized controlling entity and may not be able to exercise their duties as self-regulatory organizations ("***SROs***").

In its rulemaking, the Commission should consider the unique challenges of regulating a decentralized entity that operates in but is located outside of the United States. Such challenges

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[23] 91 FED. REG. at 12523; *see Further Definition of "Swap," "Security-Based Swap," and "Security-Based Swap Agreement"; Mixed Swaps; Security-Based Swap Agreement Recordkeeping*, 77 FED. REG. 48208, 48246 (Aug. 13, 2012).
[24] *See* CEA § 1a(47).
[25] *Cf.* 77 FED. REG. at 48247.
[26] *See* CEA § 1a(18).

include the potential for manipulation of decentralized resolution mechanisms.[27] Decentralization is a worthy goal, but it should not become a license for avoiding all regulation, especially where an entity's "decentralization" may be more PR than reality. Innovators should not be punished for wrongdoing by others, but, at the same time, a decentralized design should not be a tool for evading CFTC regulation. In short, blockchain technology should certainly be permitted, but not to the detriment of SROs' responsibilities.

IV. Response to Question 9: The Economic Purpose Test and Rule 40.11

The economic purpose test was established over 50 years ago, when the CFTC was first formed and the CEA newly expanded to cover non-agricultural commodities. As markets matured and new products, such as contracts on "excluded commodities" not based on physically deliverable items, were developed, it became clear that the test was unworkable.[28] Congress rightly recognized in 2000 that a flexible, principles-based regime more effectively regulates modern derivatives trading and struck the test from the CEA. And while the Commission briefly attempted to revive the rule in 2024, it quickly recognized that it should not look to the past to regulate the future and correctly abandoned that ill-advised effort. That decision should not be revisited.

Prior to the Commodity Futures Modernization Act of 2000 ("***CFMA***"), the CEA bound the derivatives market in a regulatory straitjacket. In the CFMA, Congress replaced this one-size-fits-all approach—including the economic purpose test—with a flexible, principles-based structure.

The legislative history of the CFMA, including the CFTC's original proposal, reveals three reasons for the change. *First*, the CFMA modernized the one-size-fits-all approach. The old regime was not suited to modern derivatives markets, treating vastly different commodity types and counterparties the same.[29] The new principles-based approach instead "permit[ted] the markets the flexibility to respond to technological and structural changes in the markets."[30] *Second*, the CFMA promoted innovation in derivatives markets.[31] *Third*, the CFMA enhanced derivatives markets' efficiency and transparency. Eliminating rigid standards and removing regulators' discretion to reject disfavored products also enhanced the fairness and competitive functioning of derivatives markets.[32] Each of those rationales holds equally true today.

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[27] 91 FED. REG. at 12519 (discussing Core Principles concerning prevention of market manipulation, including of the "cash-settlement process").

[28] *See Testimony of Chairman Alan Greenspan, S. 2697, the Commodity Futures Modernization Act of 2000*, FED. RSRV. (June 21, 2000), https://www.federalreserve.gov/boarddocs/testimony/2000/20000621.htm.

[29] MARK JICKLING, CRS REPORT: THE COMMODITY FUTURES MODERNIZATION ACT (P.L. 106-554) (Feb. 3, 2003), available at https://digital.library.unt.edu/ark:/67531/metacrs9288/m1/1/.

[30] *A New Regulatory Framework for Multilateral Transaction Execution Facilities, Intermediaries and Clearing Organizations*, 65 FED. REG. 38986, 38992 (June 22, 2000).

[31] House Committee on Agriculture, *Congress Concludes Commodity Futures Modernization Act* (Dec. 15, 2000) (quoting Committee Chairman Rep. Larry Combest: "These legislative reforms are aimed at . . . removing barriers to financial innovation that are threatening America's global competitive position in financial markets[.]"); William J. Clinton, *Statement of Administration Policy: H.R. 4541 – Commodity Futures Modernization Act of 2000* (Oct. 19, 2000), https://www.presidency.ucsb.edu/documents/statement-administration-policy-hr-4541-commodity-futures-modernization-act-2000 ("A failure to modernize the Nation's framework for OTC derivatives during this legislative session would deprive American markets and businesses of these important benefits and could result in the movement of these markets to overseas locations with more updated regulatory regimes.").

[32] JICKLING, CRS REPORT, supra note 29; Clinton, Statement of Policy, supra note 31.



But despite the economic purpose test's unambiguous excision from the CEA, the CFTC attempted to revive it in 2024.[33] This proposal was misguided, and the CFTC rightly abandoned it earlier this year.[34] Commissioner Mersinger's criticisms of the 2024 attempt also retain their force today. Commissioner Mersinger explained that the economic purpose test "was designed for traditional futures contracts that have been listed and traded on exchanges for decades," not binary event contracts.[35] Applying this rigid test to event contracts, she noted, would automatically invalidate several types of contracts not correlated with economic measures, even if those contracts served other important purposes like information aggregation.[36]

Commissioner Mersinger also noted that the test could unreasonably constrain investors in making hedging decisions. For example, the 2024 proposal attempting to revive the test claimed that the "economic impact" of many event contracts "generally is too diffuse and unpredictable to correlate to direct and quantifiable [price] changes . . . , limiting the hedging and price-basing utility of [some] event contract[s]."[37] As Commissioner Mersinger read the proposal, this approach disallowed investors from deciding how best to manage their own risk and with what products to do so.[38]

Reintroducing the test today would limit prediction markets' growth, unreasonably constrain investors, and exceed the Commission's authority. Long-term contracts in broader-scoped events such as weather patterns can undoubtedly be highly valuable, including as sources of information. And as courts have found, shorter term event contracts, including those on sports and politics, can have "direct and proximate . . . downstream financial consequences."[39] Indeed, it is hard to imagine an event contract with financial consequences sufficiently direct to constitute a swap but not also evincing an economic purpose.[40] Accordingly, reviving the test would be duplicative as to most, if not all, event contracts currently traded on prediction markets. And, of course, that technical rationale operates against the broader principles of economic freedom, under which investors—not the CFTC—should determine whether an event contract presents a hedging opportunity for themselves.

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[33] CFTC, Release No. 8907-24, *CFTC Issues Proposal on Event Contracts* (May 10, 2024), https://www.cftc.gov/PressRoom/PressReleases/8907-24.

[34] CFTC, Release No. 9179-26, *CFTC Withdraws Event Contracts Rule Proposal and Staff Sports Event Contracts Advisory* (Feb. 4, 2026) https://www.cftc.gov/PressRoom/PressReleases/9179-26.

[35] 89 FED. REG. at 48995 (Statement of Commissioner Mersinger).

[36] *Id.* at 48995–96 (Statement of Commissioner Mersinger); *see Concept Release on the Appropriate Regulatory Treatment of Event Contracts*, 73 FED. REG. 25669 (May 7, 2008).

[37] 89 FED. REG. at 48981.

[38] *Id.* at 48996 (Statement of Commissioner Mersinger).

[39] *See KalshiEX LLC v. Jackie Johnson*, No. 2:26-cv-01715-MTL, Dkt. 65 at 2–3 (D. Ariz. Apr. 10, 2026); *KalshiEX, LLC*, 2026 WL 924004 at *3 ("The outcome of a sports event certainly can be associated with a potential financial, economic, or commercial consequence. The District Court did not clearly err when it identified numerous affected stakeholders, including sponsors, advertisers, television networks, franchises, and local and national communities. The analysis need not go further.").

[40] We note that the definition of "swap" in § 1a(47)(A) describes a swap, among other things, as "any agreement, contract, or transaction – . . . (ii) that provides for any purchase, sale, payment, or delivery (other than a dividend on an equity security) 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."



Separately, the CFTC should repeal Rule 40.11(a), another innovation-restricting regulation. Rule 40.11(a) could be, and has recently been,[41] read to inflexibly and unnecessarily designate entire classes of event contracts as contrary to the public interest. To advance a flexible, principles-based approach—and consistent with the 2010 amendment that added the Special Rule to the CEA—the CFTC should replace Rule 40.11(a) with a rule clarifying that the public interest determination under the CEA is individualized for *each* event contract.[42] This ANPRM represents an important step in the development of such a regulation.

V. Response to Questions 29–32 & 2.c: Rules Concerning Insider Trading on Prediction Markets and the Application of Core Principle 3

Like all futures and swaps markets, prediction markets depend on social trust and transparency.[43] Paradigm supports those restrictions necessary to protect the integrity of these markets.

In the proposal, the Commission asks whether a price may be "a more reliable indicator of probability" if insiders are permitted to buy and sell event contracts.[44] In Paradigm's view, greater market accuracy does not justify permissive insider trading regulations. Parties will be less likely to enter event contract markets if they know they are trading against insiders, resulting in lower market volume and reduced liquidity benefit to hedgers.[45]

Indeed, in many cases, insiders in event contract markets are unlikely to have the kind of material knowledge that would shift a market toward a more accurate price.[46] Many subject events are diffuse (*e.g.*, a movie's aggregate critical rating) or out of human control (*e.g.*, the number of hurricanes in a year) such that insider information is unlikely to move prices. And frequently, the undesirability of insider trading in a subject event will vastly outweigh any economic benefit to a more accurate market—for example, markets related to U.S. military operations.

For a segment of contracts, as the proposal notes, individuals or small groups do have disproportionate control over the resolution of the contract. The existing prohibitions on market manipulation and trading based upon misappropriated material non-public information would

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[41] *See, e.g.*, U.S. COURT OF APPEALS FOR THE NINTH CIRCUIT, *25-7187 North American Derivatives Exchange, Inc. v. State of Nevada, et al.*, at 28:40 (Ninth Circuit Website, Apr. 16, 2026), https://www.ca9.uscourts.gov/media/video/?20260416/25-7187/ (questions of Nelson, J.).

[42] As discussed above, in 2024, the CFTC proposed a rule defining the term "gaming," among other amendments to its event contracts rule, demonstrating that by 2024, it was clear to the CFTC that the approach taken in Rule 40.11(a) was unworkable. The proposed rule was withdrawn in 2026.

[43] We note that prediction markets are currently enforcing insider trading rules. *Insider Trading Prohibitions*, KALSHI, https://kalshi.com/market-integrity/insider-trading; *Polymarket Publishes Enhanced Market Integrity Rules Across Its DeFi Platform and CFTC-Regulated U.S. Exchange*, BUSINESSWIRE (March 23, 2026), https://www.businesswire.com/news/home/20260320997513/en/Polymarket-Publishes-Enhanced-Market-Integrity-Rules-Across-Its-DeFi-Platform-and-CFTC-Regulated-U.S.-Exchange.

[44] 91 FED. REG. at 12522.

[45] *See* Andrew Verstein, *Insider Trading in Commodities Markets*, 102 VA. L. REV. 447, 486 (2016).

[46] *See id.* at 484 ("[V]ery few socially valuable trades would actually be blocked by an expansive insider trading restriction. . . . [For example,] many farmers' knowledge is immaterial; knowledge of their own harvest is probably not enough to implicate insider trading rules since it is unlikely to impact market price and a reasonable investor would not care to be so informed.").



apply in these cases and can protect against such abuses.[47] The Core Principle 3 requirement that contracts not be readily susceptible to manipulation also provides protection, as a DCM designing a contract under the control of an individual or small group will need to design it in such a way as to comply with Core Principle 3.

As such, Paradigm acknowledges that restrictions on certain event contracts in which the outcome is entirely in a single person's control may be appropriate in limited circumstances. For example, a contract hinged on whether a player will miss a game due to injury carries a high risk of manipulation by the player.[48] But the CFTC should not restrict the market for prop contracts writ large; the risk of manipulation is much lower in a contract hinged on, *e.g.*, whether a team will score a certain number of points.

VI. Conclusion

This ANPRM is an essential step towards providing greater certainty to important markets. Because these markets are clearly under the CFTC's jurisdiction, the CFTC can and should apply its existing regulatory authorities, such as its anti-fraud and anti-manipulation regulations, to prediction markets. To address the unique and novel features of these markets, the CFTC should consider a limited number of additional, nuanced rules geared toward specific event contracts.

If you have further questions regarding our comments to the ANPRM, you can contact us at Stefan@Paradigm.xyz.

Sincerely,

/s/ Stefan Schropp

Stefan Schropp
Senior Regulatory Counsel
Paradigm Operations LP

Cc: Peter Y. Malyshev, Sidley Austin LLP

[47] *See, e.g.*, CFTC Rule 180.1; CFTC Release No. 9185-26, *Advisory on Enforcement Authority over Event Contracts* (Feb. 25, 2026), https://www.cftc.gov/PressRoom/PressReleases/9185-26.

[48] As another example, in November 2025, a grand jury returned an indictment against two Major League Baseball pitchers for the Cleveland Guardians who allegedly received bribes and kickbacks from bettors to rig pitches. Indictment, *United States v. de la Cruz*, 1:25-cr-00346-KAM, Dkt. 1 (E.D.N.Y. Nov. 5, 2025).