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

Submitted via: CFTC Comments Portal

April 30, 2026

Dear Mr. Kirkpatrick:

Prediction Markets (RIN 3038-AF65)

The Alternative Investment Management Association ("AIMA")[1] appreciates the opportunity to respond to the Commodity Futures Trading Commission ("CFTC" or "Commission") on its advance notice of proposed rulemaking ("ANPR") and comment solicitation regarding event contract derivatives traded on markets commonly referred to as "prediction markets" (the "ANPR").[2] AIMA members include institutional investment managers, many of whom are active participants in CFTC-regulated markets for investing, hedging and other risk management needs. Given the recent dramatic growth of prediction markets and the increasing role they are playing in derivatives markets, we are very interested in how the CFTC addresses the issues such growth presents.

AIMA members may use prediction markets as a hedging tool for traditional products, particularly those associated with macro-related events, for assessing public sentiment for other investment strategies or otherwise. It is therefore critical that designated contract markets ("DCMs") that list event contracts adhere to the DCM Core Principles ("CPs"),[3] particularly those CPs that address

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1 AIMA is the world's largest membership association for alternative investments managers. Its membership has more firms, managing more assets than any other industry body, and, through our 10 offices located around the world, we serve over 2,000 members in 60 different countries. AIMA's mission, which includes that of its private credit affiliate, the Alternative Credit Council is to ensure that our industry of hedge funds, private market funds and digital asset funds is always best positioned for success. Success in our industry is defined by its contribution to capital formation, economic growth and positive outcomes for investors, while being able to operate efficiently within appropriate and proportionate regulatory frameworks. AIMA's many peer groups, events, educational sessions and publications, available exclusively to members, enable firms to actively refine their business practices, policies and processes to secure their place in that success.

2 CFTC, "Prediction Markets", 91 Fed. Reg. 12516 (Mar. 16, 2026).

3 7 U.S.C. § 7(d).

maintaining efficient and fair markets and ensuring that contracts listed are not readily susceptible to manipulation. With this in mind, there are several issues we would like to highlight.

1. **The wide-ranging scope of potential event contracts could have negative, unintended consequences for market integrity, with spillover effects on other asset classes. (ANPR Questions 1, 2, 5, 29-32)**

CFTC regulations permit DCMs to list certain contracts for trading if enumerated conditions are complied with, i.e., the "self-certification process".[4] The self-certification process is the predominant, if not primary, means by which DCMs, including prediction market DCMs, list contracts. Given the wide-ranging scope of "events" that can become tradeable contracts, prediction market DCMs have broad discretion to determine which events to self-certify for trading on their venues. Some contracts may attract little interest and liquidity, e.g., those based on niche mentions, while others may receive significant interest and therefore liquidity, e.g., the winner of the 2028 U.S. presidential election. Each presents market integrity-related concerns.

The Commodity Exchange Act ("CEA") and the CFTC's implementing regulations require DCMs to comply with various CPs to ensure market integrity, the financial integrity of market transactions, transparency and other operational issues. In this letter, we highlight the importance of rigorous compliance with several of those CPs designed to address market integrity concerns highlighted by event contracts.

CP 3 requires that contracts listed for trading are not readily susceptible to manipulation.[5] CP 3 is critical if the contract is to be able to perform a useful hedging or price discovery function. For event contracts, implementation of CP 3 should address two distinct concerns. First, the outcome of the contract – namely, whether or not the event occurred – should not be readily susceptible to manipulation. Second, the price of the contract as it is being traded should not be readily susceptible to manipulation.

To address the first concern, the CFTC should ensure that prediction market DCMs design event contracts that are well-defined and have objective criteria to determine whether or not the event occurred. This should include publicly accessible rules governing all material aspects of the event contract – the precise definition of the triggering event, the criteria and methodology for determining the contract's final settlement, the identity and qualifications of any third-party determination agents and the procedures applicable in the event of ambiguity or dispute.[6] The Commission should further require prediction market DCMs to publish complete contract specifications at the time of self-certification or pre-listing review in a standardized format prescribed by the Commission.

The Commission should establish a clear prohibition on material changes to the rules or settlement criteria for an event contract after trading has commenced, except in narrowly defined circumstances, e.g., manifest error in the original contract specification or a significant unforeseen change in the underlying event that renders the original terms unworkable. If a prediction market DCM alters a

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4 7 U.S.C. § 40.6

5 7 U.S.C. § 7(d)(3).

6 Current practice at some prediction market DCMs involves the publishing of contract terms that are insufficiently specific or that rely on informal or discretionary interpretation at settlement. This is inconsistent with CP 3 and its requirement that contracts not be readily susceptible to manipulation as vague criteria create opportunities for prediction market DCMs or other actors to influence outcomes through post-hoc interpretation.

contract's rules, settlement methodologies or determination criteria while a market is live and positions are open, it creates material prejudice to participants who entered positions in reliance on the original terms. This undermines the basic principle that derivatives contracts represent binding and predictable obligations. Even if such changes are permitted under a prediction market DCM's rulebook, they are inconsistent with the market integrity principles that underpin the CEA and CPs. Additionally, the DCM should have appropriate limits on participation in a contract (i.e., who may participate in the trading of the contract) so that no market participant has the ability to determine or significantly affect the outcome of the contract.[7]

To address the second concern, in accordance with CP 5,[8] a DCM should be required to establish position limits for each event contract that it intends to list that are specifically tailored to that contract that are appropriate to limit the ability of any trader or group of traders to manipulate or distort the price of that contract. The position limits for a particular contract should take into account the liquidity of the market for that contract and thus may vary as the liquidity of the contract varies.

In accordance with CP 4,[9] the prediction market DCM should also have a robust surveillance and enforcement program to detect manipulative activity, take any corrective actions that are necessary and commence an enforcement action as appropriate. The CFTC should require prediction market DCMs to maintain written rules and an adequate surveillance and enforcement program to prohibit and detect, respectively, manipulative trading based on material nonpublic information ("MNPI"). These surveillance capabilities have been well-developed for other commodity and securities markets and can also be applied to prediction markets.[10]

The erosion of market integrity in prediction markets can affect other financial markets and contracts, especially if or when event contract prices feed into, correlate with or are used as inputs to regulated securities or derivatives pricing. Manipulation of event contracts can therefore constitute indirect manipulation of those regulated markets and products. The Commission should establish a formal mechanism for coordinated surveillance with the SEC, including information-sharing protocols and joint examination authority where appropriate, to monitor for such instances of cross-market manipulation. This surveillance gap represents one of the most significant risks posed by the growth of prediction markets and should be addressed proactively rather than reactively.

2. The CFTC should ensure that event contract DCMs do not list contracts that are security-based swaps ("SBS"). (ANPR Question 37)

In several instances, the ANPR discusses the distinction between swaps and SBS, as well as certain types of agreements, contracts or transactions that are not considered swaps or SBS when entered into by certain parties. The delineation of authority over swaps and SBS between the Commission and Securities and Exchange Commission ("SEC"), respectively, was set forth in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") and ultimately the product of a

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7 Discussed further below in Section 4.
8 7 U.S.C. § 7(d)(5).
9 7 U.S.C. § 7(d)(4).
10 For example, existing CFTC guidance on information barriers and the framework for national securities exchanges under SEC Regulation SCI.

joint rulemaking between the Commission and SEC, mandated by section 712(d)(1) of Dodd-Frank (the "2012 Joint Rulemaking").[11]

Since the 2012 Joint Rulemaking, oversight of the swaps and SBS markets has worked relatively well. It is critical, therefore, that the listing of contracts be consistent with the jurisdictional boundaries established in Dodd-Frank and the 2012 Joint Rulemaking. Failure to do so can create the opportunity for regulatory arbitrage by DCMs and market participants, which can result in oversight gaps and reduced protections to investors and other market participants. We applaud the current harmonization efforts between the CFTC and SEC and both agencies' efforts to avoid overlap and duplication. We support and encourage both agencies to work together to ensure that prediction markets operate within the existing jurisdictional boundaries.

Nevertheless, the current framework places the practical burden of jurisdictional compliance on the regulators to identify whether, in this instance, a swap is in fact an SBS after the contract has been listed and is already trading, rather than on the prediction market DCM at the point of listing the contract. The Commission should consider requiring prediction market DCMs to obtain an independent legal opinion or staff guidance that confirms that a proposed event contract does not constitute a SBS before self-certifying such contract. Shifting the burden to the prediction market DCM is consistent with the broader regulatory principle that market participants bear the primary responsibility for ensuring their products comply with applicable law and would meaningfully reduce the risk of regulatory arbitrage at the CFTC-SEC jurisdictional boundary.

3. The CFTC should work with the SEC on targeted relief to address RIAs obligations under the SEC Custody Rule. (ANPR Questions 4 and 5)

As AIMA members explore the feasibility of trading event contracts on prediction market DCMs, there are some threshold compliance issues that first need to be resolved, one of which has to do with the self-clearing nature of prediction markets. Many AIMA members are investment advisers registered with the SEC ("RIAs") and are therefore subject to the SEC's Custody Rule, which, broadly, requires RIAs with possession or control of client funds or securities to hold them with a qualified custodian.[12] RIAs wishing to trade on a prediction market that self-clears would need to post cash as collateral; however, CFTC derivatives clearing organizations ("DCOs") that clear event contracts are not classified as qualified custodians with the SEC. This creates some uncertainty whether the Custody Rule is implicated.

We understand that some futures commission merchants ("FCMs") will be, or are considering, offering their institutional clients access to prediction market DCMs and clearing at DCOs. FCM onboarding would ultimately help address these custody-related concerns. In the meantime, and in the spirit of regulatory harmonization, we would support the CFTC working with the SEC for the latter to craft a narrowly tailored regulatory solution to address this ambiguity, through no-action relief or otherwise,

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[11] CFTC & SEC, "Further Definition of 'Swap,' 'Security-Based Swap,' and 'Security-Based Swap Agreement'; Mixed Swaps; Security-Based Swap Agreement Recordkeeping," 77 Fed. Reg. 48208 (17 Aug. 13, 2012).

[12] 17 C.F.R. § 275.206(4)-2.

that would allow RIAs to confidently utilize prediction markets' self-clearing ecosystem. Any such relief should be explicitly conditioned on the relevant prediction market DCM or DCO satisfying enhanced baseline standards for surveillance, position limits (both described above) and participant know-your-customer ("KYC") requirements (described further below).[13]

4. Additional Comments

KYC/AML Requirements

Prediction market DCMs should be subject to KYC and anti-money laundering requirements ("KYC/AML") that are at least equivalent to the standards applicable to FCMs under the Bank Secrecy Act and Financial Crimes Enforcement Network regulations, regardless of whether participants access the market directly or through intermediaries. The current patchwork of DCM-level compliance programs creates material gaps that could allow illicit actors to use prediction markets to launder funds or establish positions in advance of market-moving events. The Commission should promulgate minimum KYC/AML standards for prediction market DCMs as part of any rulemaking in this area.

Government Actors

Contracts tied to U.S. elections, legislative outcomes or national security events present a qualitatively different risk profile from traditional commodity interest contracts, in that government-affiliated actors have a direct and substantial interest in influencing the outcomes on which those contracts are based. The Commission should work with relevant national security and law enforcement agencies to develop a framework for identifying and restricting government-affiliated participation in such contracts. Failure to address this risk proactively would expose prediction markets to interference and could undermine public confidence in the integrity of both the markets and the underlying events they reference.

Pseudonymous Participation

Where prediction markets operate on infrastructure that permits pseudonymous or wallet-based participation – as is the case with certain crypto-native venues – the Commission should require either full participant identification equivalent to FCM onboarding standards or mandatory FCM intermediation as a condition of any institutional access. Anonymous participation is irreconcilable with meaningful MNPI surveillance, position limit enforcement and the government participation restrictions recommended above, as each of those frameworks depends on the ability to identify and monitor individual participants. The Commission should make clear in any rulemaking that the pseudonymous participation models common in decentralized finance are not compatible with CFTC-regulated prediction market operation.

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[13] Unconditional relief risks directing institutional capital into market infrastructure that has not yet demonstrated the operational and compliance maturity necessary to support it safely. A phased or benchmarked approach to relief – in which access expands as a prediction market DCM's infrastructure matures – would better serve both institutional participants and the broader goal of orderly market development.

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For further information on the points raised in this letter, please contact Daniel Austin, Head of U.S. Markets Policy and Regulation, by email at daustin@aima.org.

Yours sincerely,



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AIMA

Cc: Hon. Michael S. Selig, Chairman