**April 30, 2026**

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

*Via Electronic Submission*

**Re: Advance Notice of Proposed Rulemaking; Request for Comments on Prediction Markets**

Dear Mr. Kirkpatrick,

Global Futures and Options Ltd (GFO-X) welcomes the opportunity to respond to the CFTC's Consultation Paper on Prediction Markets. RIN 3038-AF65 (the "Consultation Paper").

By way of introduction, GFO-X is the UK's first FCA-regulated and centrally cleared MTF for digital asset derivatives. GFO-X operates regulated derivatives markets offering futures and options contracts on digital-asset derivatives to institutional and professional market participants. Contracts listed on the GFO-X Market are cleared through a recognised clearing house, LCH SA, which is part of the London Stock Exchange Group (LSEG). GFO-X has been authorised and regulated by the Financial Conduct Authority in the UK since February 2022. Our principal investor is the FTSE 100 fund management group M&G. We went live with our venue on 09 May 2025 and among our Day 1 Participants are the FTSE 100 bank, Standard Chartered, alongside other Tier 1 financial institutions ABN Amro, Nomura International, Laser Digital, IMC and Virtu Financial. We also recently onboarded Marex as a Clearing Participant.

This response reflects general market observations and regulatory considerations relevant to trading venues operating across multiple jurisdictions. It does not describe any specific commercial strategy or planned market entry by GFO-X.

**Executive Summary**

GFO-X welcomes the opportunity to respond to the Commission's request for comment on the regulation of prediction markets and event contracts.

A central theme of our response is that a functional, substance-based approach to classification and regulation will support coherent and proportionate outcomes. In particular, where event contracts are standardised, exchange-traded, and centrally cleared, and where the principal risks relate to market integrity, price formation, and settlement, they align closely with existing futures and options frameworks. In such cases, established regulatory structures provide an appropriate basis for oversight without the need for a separate, product-specific regime.

Event contracts are not uniform in nature. Contracts linked to financial, economic, or commercial outcomes align more naturally with derivatives market frameworks, given their connection to variables that influence asset prices and market conditions. Conversely, contracts linked to sport or political events prima facie do not align with traditional derivative market frameworks. A focus on economic substance and functional equivalence may therefore support consistent treatment across comparable products.

We also note the importance of cross-border access and regulatory interoperability. Prediction markets - like many traditional derivative markets - are inherently global, and clarity regarding the treatment of event contracts within established frameworks may be relevant to the continued operation of access arrangements between jurisdictions which will benefit US-domiciled markets as well as those based outside of the US. Absent such clarity, differences in classification may contribute to fragmentation of liquidity or the migration of activity to less regulated environments.

Our response further recognises that many of the key risks associated with prediction markets, including manipulation, information asymmetries, and settlement integrity, can be addressed through existing regulatory tools, including anti-manipulation provisions, exchange-level surveillance, and established clearing and settlement frameworks.

In light of these considerations, GFO-X encourages the Commission to:

- provide clarity on the classification of event contracts based on functional characteristics;
- consider how such classification interacts with existing regulatory frameworks, including futures and options regimes; and
- continue to prioritise proportionate, principles-based approaches supported by targeted guidance.

**1. Existing Core Principles provide a sufficient regulatory framework**

As outlined in the Executive Summary, many event contracts may be accommodated within existing regulatory frameworks. In this context, the Core Principles applicable to DCMs and DCOs provide a well-established and flexible foundation for oversight, particularly for products listed and traded as futures or options.

Where event contracts are standardised, exchange-traded, and centrally cleared, the principal risks may relate to market integrity, price formation, and settlement processes. These risks are already addressed through the Core Principles applicable to DCMs, including requirements relating to market surveillance, prevention of manipulation, orderly trading, and transparent price discovery, as well as through DCO requirements relating to margining, risk management, and settlement. In practice, this may suggest that targeted clarification of how existing DCM requirements apply to event contracts could be more effective than introducing new, product-specific rules. Such an approach may:

- support the continued operation of the self-certification and contract listing framework;
- reduce unnecessary complexity in implementation; and
- allow for the continued development of products within established futures and options market structures.

This may be particularly relevant in a cross-border context, where alignment with established DCM-based frameworks may support more predictable regulatory outcomes and facilitate access through existing arrangements, including those applicable to trading venues operating under different regulatory frameworks.

**2. Product classification and regulatory alignment**

The classification of event contracts has practical implications for how such products are structured, admitted to trading, and accessed within regulated markets, particularly within DCMs.

As discussed in our responses to Questions 33–35, certain event contracts may fall within the statutory definition of swaps. At the same time, many event contracts exhibit characteristics commonly associated with exchange-traded futures and options, including standardisation, central clearing, and transparent trading within a DCM framework. In practice, classification may be informed by factors such as:

- the degree of standardisation and fungibility;
- whether trading occurs on a centralised, exchange-based venue;
- the presence of central clearing and margining through a DCO; and
- the nature of the underlying event, including whether it relates to financial, economic, or commercial outcomes.

Event contracts linked to such outcomes may align more closely with established futures and options frameworks, particularly where their primary function relates to price discovery or risk transfer within a regulated market structure. Providing additional clarity on how these factors are applied may reduce uncertainty where economically similar products might otherwise be treated differently depending on classification. This may also support the development of products within established futures and options frameworks that are already designed to address the relevant risks.

**3. Cross-border access and interoperability**

Prediction markets operate within a global environment, and participation often extends across jurisdictions. The Commission's cross-border framework, including FBOT arrangements, has historically supported access to trading venues and market participants operating under comparable regulatory regimes.

In this context, the classification of event contracts may have practical implications for cross-border framework. For trading venues operating under different regulatory frameworks, the ability to structure event contracts within existing futures or options frameworks may be an important factor.

Where contracts are standardised, exchange-traded, and centrally cleared, and where their risk characteristics align with those typically addressed within DCM-based futures market structures, clarity on their treatment within these frameworks may facilitate alignment with established access models. Absent such clarity, differences in classification may create uncertainty as to whether economically similar products can be offered across jurisdictions through existing arrangements. This may, in some cases, contribute to fragmentation of liquidity or influence decisions regarding where products are developed and listed.

A clear and consistent approach to classification may therefore support both effective oversight and continued cross-border participation within established regulatory frameworks.

**4. Key Recommendations to the Commission**

In light of the considerations set out above, GFO-X would welcome further clarity from the Commission in the following areas:

- Clarification that event contracts can, in appropriate cases, be accommodated within the existing Core Principles framework applicable to DCMs;
- Additional guidance on the classification of event contracts, including the circumstances in which standardised, exchange-traded, and centrally cleared contracts may be treated within futures or options frameworks;
- Clarity on how the treatment of event contracts may interact with existing cross-border frameworks;
- Further guidance on the application of the public interest framework, particularly how risks relating to market integrity and settlement are assessed in practice; and
- Continued use of interpretive guidance and supervisory engagement to support clarity and consistency while preserving flexibility for market development.

Such clarity may assist trading venues and market participants in assessing how event-based products may be developed and structured within established regulatory frameworks across jurisdictions.

We appreciate the opportunity to contribute to the Commission's review and would welcome further engagement with the Commission on these important issues. If there are any questions or if you need additional information, please do not hesitate to contact me at mark.woodward@gfo-x.com.

Respectfully submitted,

*Mark Woodward*

**Mark Woodward**
**Global Head of Compliance and Regulatory Affairs**

# Annex: Detailed Responses

## A. Core Principles and Commission Regulations

### *Question 1: What factors should the Commission consider in determining whether to provide guidance or amend its regulations regarding how the DCM Core Principles in CEA section 5(d) apply to prediction markets? Are there specific points on which the Commission should provide guidance or adopt rule amendments? Why or why not?*

In determining whether to provide guidance or amend its regulations, the Commission may find it helpful to consider whether any identified issues reflect gaps in the existing framework or, alternatively, uncertainty in how existing Core Principles apply to event contracts.

In this context, several areas may benefit from targeted guidance:

- Product classification: Clarification on how event contracts may be classified by reference to their functional characteristics (including trading structure, clearing model, and payoff design) may help reduce legal uncertainty.
- Market surveillance: Guidance on how existing surveillance expectations apply in information-driven, event-based markets may support consistent implementation, particularly in relation to cross-market monitoring and information asymmetries.
- Self-certification: Additional clarity on the types of analysis expected when listing event contracts, including settlement design and susceptibility to manipulation, may assist exchanges in applying the Core Principles.
- Settlement governance: Guidance on the use of objective data sources, fallback mechanisms, and governance processes may support confidence in contract outcomes.
- Cross-border considerations: Clarification on how event contracts may be treated in a cross-border context, including for trading venues operating under different regulatory frameworks that may consider US participation, may support regulatory predictability.

On balance, these considerations suggest that targeted, principles-based guidance may be sufficient to address current uncertainties without requiring broader rule amendments.

### *Question 2: With respect to the following DCM Core Principles, what factors are relevant to prediction markets?*

***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?***

Prediction markets raise considerations under Core Principle 2 in relation to both the prevention of abusive trading practices and the provision of impartial access. These considerations are not unique to prediction markets but may manifest differently given the characteristics of event-based contracts.

**Abusive trading practices**

Event contracts are inherently information-driven, with prices reflecting market expectations regarding future outcomes. This may give rise to:

- information asymmetry risks, particularly where certain participants may have access to non-public or specialised information;
- event-driven volatility, with price movements concentrated around announcements or developments; and
- potential manipulation risks, including attempts to influence the underlying event or distort short-term price signals in less liquid markets.

These risks are conceptually similar to those observed in other derivatives markets and can generally be addressed through existing surveillance tools, including position monitoring, cross-market surveillance, and rules prohibiting manipulative conduct. Targeted guidance on how these tools may be applied in event-driven markets, particularly in relation to information-based trading patterns, may support consistent implementation.

**Impartial access**

From an access perspective, prediction markets may present certain structural considerations:

- participation may vary depending on the level of specialisation or information required to trade particular contracts;
- contract design and margining approaches may influence the extent to which different categories of participants are able to engage; and
- liquidity may be concentrated in certain contracts or around specific events.

These factors do not appear to require different regulatory treatment but may be relevant to how trading venues design access criteria and ensure fair and open participation.

**Overall**

On balance, the considerations identified above appear capable of being addressed within the existing Core Principle 2 framework. Targeted guidance, rather than new prescriptive requirements, may be sufficient to support consistent application.

***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?***

Clear and well-defined rules governing the terms, conditions, and resolution of event contracts play an important role in supporting market confidence and ensuring that contracts are administered consistently with their stated terms.

**Factors relevant to resolution criteria**

In setting expectations for DCM rules, the Commission may find it helpful to consider whether:

- the underlying event is clearly defined and not subject to material ambiguity;
- settlement is based on objective and publicly verifiable data sources;
- the timing and methodology for determining outcomes are specified in advance; and
- appropriate fallback procedures are in place where primary data sources are unavailable or outcomes are unclear.

Disputes are more likely to arise where these elements are not clearly specified, particularly in relation to whether a triggering event has occurred or how it should be interpreted.

**Governance and dispute resolution processes**

Transparent governance processes for resolving settlement questions may also be beneficial. In practice, exchanges could establish clearly defined procedures for handling potential disputes, including:

- pre-identified authoritative data sources and fallback sources;
- a documented escalation process where outcomes are unclear or contested;
- a designated internal committee or function responsible for making determinations; and
- record-keeping and audit trails to support transparency and review.

These processes would typically be embedded within the exchange's rulebook and governance framework, with appropriate oversight and, where relevant, the ability to consult external data providers or subject matter experts.

In developing such arrangements, exchanges may draw on operational practices used in index and benchmark administration, where outcomes are determined by reference to predefined methodologies and supported by clear governance, rather than ad hoc judgment. In addition, certain structured determination processes used in other derivatives markets, such as credit derivatives, illustrate how predefined procedures and indepedent review can support consistent and timely resolution of complex events.

**Finality and timeliness of outcomes**

Given the event-driven nature of these contracts, it may also be important for DCM rules to ensure that outcomes are determined and communicated within clearly defined timeframes, and that settlement decisions are final, transparent, and consistently applied, subject to limited and well-defined review processes.

**Alternative dispute resolution (Core Principle 14)**

Consistent with Core Principle 14, it may be helpful for exchanges to provide appropriate facilities for alternative dispute resolution, including mechanisms through which participants can raise concerns and seek review of determinations. These mechanisms should be:

- clearly documented;
- subject to defined timelines; and
- designed to balance fairness with the need for timely finality.

**Overall**

Taken together, clear contract design, objective settlement criteria, and structured governance and dispute resolution processes appear capable of supporting compliance with Core Principle 2. Existing practices from other derivatives and benchmark-based markets may provide useful reference points when appropriately adapted to the characteristics of event contracts.

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? See also the questions regarding inside information in part II.E. below.***

In assessing whether an event contract is "readily susceptible to manipulation," the Commission may find it helpful to adopt a structured approach that considers both the characteristics of the underlying event and the design of the contract.

**Determining susceptibility to manipulation**

A determination may be informed by whether the outcome of the contract can be influenced, directly or indirectly, by market participants, or whether it is sufficiently independent, observable, and verifiable. In particular, contracts may be less susceptible to manipulation where:

- the underlying event is externally determined and not capable of being influenced by trading activity;
- the outcome is based on objective and publicly available information; and
- the settlement methodology is clear, rule-based, and not subject to discretion.

**Relevant factors**

In applying this assessment, the Commission may wish to consider factors including:

- Independence of the underlying event – whether outcomes can be influenced by a limited group of participants;
- Settlement integrity – including the use of reliable data sources and clearly defined fallback procedures;
- Clarity of contract specifications – to minimise ambiguity or interpretive disputes;
- Market liquidity and depth – as thinner markets may be more susceptible to price distortion or concentrated positions; and
- Transparency of information – including the availability and dissemination of relevant data.

**Distinguishing features of event contracts**

Event contracts may differ from traditional commodity derivatives in that their outcomes are often discrete and event-based, rather than linked to continuously traded underlying assets. This may increase the importance of:

- the integrity and independence of the referenced event; and
- the design of settlement mechanisms, particularly where outcomes depend on external determinations.

At the same time, where event contracts reference widely observed and independent economic or financial indicators, the assessment may be broadly comparable to that applied to other cash-settled derivatives.

**Existing rules and practices**

A range of existing rules and practices used in other derivatives markets may mitigate manipulation risk and may be relevant in the context of prediction markets, including:

- position limits or accountability frameworks, which restrict the ability of participants to accumulate positions capable of influencing prices;
- market surveillance systems, including real-time monitoring and cross-market analysis;
- rules prohibiting manipulative or deceptive conduct, including attempts to influence settlement outcomes; and
- contract design standards, requiring objective settlement criteria and robust governance processes.

These tools are widely used across futures and options markets and may, in many cases, be appropriately applied to event contracts, subject to calibration to reflect their event-driven characteristics.

**Overall**

While certain event contracts may require careful assessment, particularly where outcomes could be influenced or where settlement is less clearly defined, the existing regulatory framework combined with robust contract design and governance is likely to support compliance with Core Principle 3. Particular scrutiny may be appropriate where a participant could, through commercial, financial, or informational influence, affect the outcome of the underlying event.

***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?***

Prediction markets may present certain considerations in relation to market surveillance, while also including features that can support effective compliance with Core Principle 4.

**Challenges and facilitating factors**

Event contracts are inherently information-driven and may be subject to:

- information asymmetries, particularly where certain participants may have access to specialised or non-public information;
- event-driven volatility, with trading activity concentrated around announcements or developments; and
- short-duration trading cycles, which may compress the timeframe for monitoring and intervention.

A particularly relevant feature of prediction markets is their connection to underlying events and, in some cases, related financial, economic, or physical markets. Trading in event contracts may be influenced by developments in these related markets, and in certain circumstances, activity in event contract markets may itself influence expectations or behaviour elsewhere. These cross-market linkages may therefore increase the importance of coordinated and holistic surveillance approaches.

However, prediction markets also exhibit characteristics that may facilitate effective surveillance, including:

- clearly defined and binary outcomes, which can simplify the identification of anomalous pricing or trading patterns;
- standardised contract terms, supporting consistent monitoring; and
- transparent price formation, which may enhance the effectiveness of automated surveillance tools.

**Surveillance, compliance, and enforcement practices**

In light of these characteristics, the Commission may find it helpful to focus on the application and calibration of existing tools, with particular emphasis on cross-market monitoring, including:

- real-time surveillance and automated alerts to detect unusual price movements, trading concentrations, or behavioural patterns;
- cross-market surveillance, including monitoring correlations between event contract pricing and related underlying or reference markets, and identifying potentially coordinated or anomalous activity across venues;
- position monitoring and large trader reporting, to identify concentrated exposures that may be relevant in both the event contract and related markets;
- pre-trade and risk controls, including order controls and message rate limits, to support orderly trading; and
- clear rulebook provisions and enforcement processes, including the ability to investigate, sanction, and remediate manipulative or abusive conduct, including conduct that may involve interactions between markets.

Given the potential interconnectedness of event contracts and underlying markets, the ability to integrate data across products and venues, and to analyse trading behaviour in a broader market context, may be particularly important.

**Relevant practices from other markets**

A range of existing surveillance and compliance practices from other exchanges and trading platforms may be relevant, particularly those designed to address cross-market risks, including:

- cross-product and cross-venue surveillance, used in futures and equities markets to detect coordinated activity or market abuse spanning multiple instruments;
- market abuse monitoring frameworks, including those focused on information-based trading and potential misuse of non-public information;
- exception-based alert systems, which flag deviations from expected pricing or trading behaviour across related instruments; and
- post-trade review and enforcement processes, supported by audit trails and data analysis that enable reconstruction of activity across markets.
- These approaches demonstrate how interconnected and information-sensitive markets can be effectively monitored using established tools.

**Overall**

While prediction markets may give rise to certain additional considerations, particularly in relation to information asymmetry and cross-market linkages, the existing surveillance, compliance, and enforcement toolkit appears broadly capable of addressing these risks. Targeted guidance on the application of cross-market monitoring and information-driven surveillance in an event-driven context may further support consistent and effective implementation.

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 limitation or position accountability provisions helpful as precedent for determining how prediction markets should implement such measures?***

Position limits and position accountability frameworks may play an important role in supporting orderly markets for event contracts, particularly where markets may exhibit periods of limited liquidity or concentrated trading.

**Factors relevant to position limits and accountability**

In determining appropriate position limits or accountability thresholds, the Commission may expect DCMs to consider factors including:

- market liquidity and depth, including the ability of the market to absorb large positions without undue price impact;
- concentration of positions, particularly where a small number of participants may hold significant exposures;
- nature of the underlying event, including whether outcomes may be influenced by a limited number of actors;
- contract duration and timing, particularly where positions may build rapidly ahead of event resolution; and

- volatility and trading patterns, including event-driven price movements.

In less liquid or more concentrated markets, stricter limits or lower accountability thresholds may be appropriate.

**Aggregation across related contracts**

The Commission may also wish to consider how positions should be aggregated across related contracts. In particular:

- aggregation may be appropriate where contracts reference the same underlying event or are economically equivalent, even if structured differently;
- aggregation may also be relevant where contracts reference closely related or correlated outcomes, particularly if positions could be used to achieve similar economic exposure; and
- conversely, aggregation may be less appropriate where contracts reference distinct and independent events, even if superficially similar.

A functional approach to aggregation may help prevent the circumvention of limits through the use of multiple, closely related contracts.

**Comparison with other derivatives markets**

Event contracts may differ from traditional futures and swaps in certain respects, including their:

- binary or discontinuous payoff structures;
- event-driven liquidity patterns, particularly as contracts approach resolution; and
- potential sensitivity to concentrated positions in smaller markets.

These characteristics may support a more tailored calibration of limits or accountability thresholds in certain cases. However, the underlying objectives of position management, preventing manipulation, reducing congestion, and supporting orderly markets, remain consistent with those in other derivatives markets.

**Existing frameworks and precedents**

Existing position limit and accountability frameworks used in futures and options markets provide a well-established foundation, including:

- position limits for contracts susceptible to manipulation or congestion;
- position accountability regimes, allowing exchanges to monitor and intervene where positions become large relative to market size;
- large trader reporting, supporting transparency and oversight; and
- exchange powers to require position reductions or impose additional controls.

These tools may be appropriately adapted to prediction markets, with calibration reflecting the specific characteristics of event-driven products.

**Overall**

Taken together, existing position management frameworks appear capable of supporting prediction markets, provided that limits and accountability thresholds are calibrated to reflect market liquidity,

contract design, and the nature of the underlying event. A flexible, risk-based approach may allow DCMs to address potential manipulation and congestion while supporting efficient market functioning.

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? See also question 3.c. regarding the implications of margin trading for DCOs.***

In considering the application of Core Principle 11 to prediction markets, the Commission may find it helpful to adopt a flexible and risk-based approach to margining, reflecting the diversity of contract structures, durations, and participant types.

**Whether margin trading should be permitted**

Fully collateralised models may be appropriate in a number of contexts, particularly for certain retail participants and for shorter-dated or higher-volatility contracts. Such approaches offer simplicity and may limit the risk of losses beyond funded amounts. At the same time, for institutional participants, including market makers and liquidity providers, risk-based margining frameworks, where supported by trading on regulated exchanges and clearing through appropriately regulated clearing houses, may provide a more efficient and risk-sensitive approach. These frameworks can support liquidity provision while maintaining robust risk controls.

**Retail vs institutional considerations**

The Commission may wish to distinguish between retail and institutional participation. In particular:

- retail participants may benefit from simpler margining approaches, including fully collateralised trading or conservative margin requirements;
- institutional participants may be better positioned to operate within risk-based margining frameworks, supported by internal risk management systems and regulatory oversight.

Where margin trading is extended to retail participants, additional safeguards may be appropriate.

**Retail disclosures**

If margin trading is permitted for retail customers, the Commission may wish to consider disclosure requirements that clearly explain:

- the potential for losses exceeding initial investment;
- the operation of margin calls and liquidation processes;
- the impact of rapid price movements, particularly in event-driven markets; and
- the circumstances in which positions may be closed out without prior notice.

Clear, prominent, and standardised disclosures may support informed decision-making.

**Initial margin: factors and methodology**

In determining initial margin requirements, the Commission may consider the following factors:

- volatility and price behaviour, including event-driven price changes;
- time to resolution, including the potential for rapid changes as events approach;
- liquidity and market depth, including the cost of liquidating positions;
- concentration risk, particularly where positions are held by a limited number of participants; and
- contract design, including binary or discontinuous payoff structures.

Margin methodologies may include:

- risk-based statistical models, calibrated to historical and stressed scenarios; and
- in certain cases, simplified approaches (such as flat rates) where appropriate for specific products or participants.

**Time horizons and data considerations**

Given that some event contracts resolve quickly while others may be longer-dated, margin models may need to account for:

- short-term event risk, including sudden price movements near resolution;
- longer-term uncertainty, where probabilities evolve over time; and
- the availability and relevance of historical data, which may be limited for certain types of events.

Adaptive approaches that reflect changes in risk over the life of the contract may be appropriate.

**Variation margin, frequency, and collateral**

The Commission may also wish to consider:

- whether daily variation margin should be required to manage mark-to-market exposures;
- the frequency of margin collection, including the potential for intraday calls in volatile conditions;
- the types of eligible collateral, taking into account liquidity, valuation, and risk characteristics; and
- operational processes to ensure the timely collection and management of margin.

**Cross-margining**

Where appropriate risk offsets can be demonstrated, cross-margining between event contracts and other products may support capital efficiency. This may be most relevant where contracts are:

- economically related; and
- cleared within the same clearing framework with robust risk modelling.

However, careful consideration may be required to ensure that cross-margining does not introduce unintended risk concentrations.

**Overall**

An approach that accommodates both fully collateralised and risk-based margining models, calibrated to the characteristics of the contract and the participant base, may support liquidity, participation, and efficient market functioning, while remaining consistent with the financial integrity objectives of Core Principle 11. Particular care may be appropriate where binary payoff structures could lead to rapid and discontinuous changes in margin requirements.

***g. Core Principle 20 requires a DCM to "establish and maintain a program of risk analysis and oversight to identify and minimize sources of operational risk, through the development of appropriate controls and procedures, and the development of automated systems, that are reliable, secure, and have adequate scalable capacity." What sources of operational risk related to prediction markets should the Commission consider? What operational risk analysis and other measures do prediction markets currently employ? Are there challenges to the reliability, security or scalable capacity of the systems used by prediction markets?***

Prediction markets share many operational risk considerations with other electronic derivatives markets. However, their event-driven nature and, in some cases, shorter-dated maturities may introduce additional factors that are relevant to the application of Core Principle 20.

**Sources of operational risk**

The Commission may find it helpful to consider the following sources of operational risk in prediction markets:

- event-driven surges in trading activity, where volumes and message traffic may increase significantly around key announcements or event resolution;
- compressed trading and settlement cycles, particularly for short-dated contracts, which may place pressure on systems and operational processes;
- dependency on external data sources, including risks associated with delays, revisions, outages, or discrepancies in settlement inputs;
- concentration of activity, where liquidity and trading interest may be focused in a limited number of contracts at specific times; and
- information dissemination risks, including the need to ensure timely and consistent distribution of market-relevant information to participants.

**Operational risk management measures**

Prediction markets, like other derivatives venues, typically employ a range of operational risk controls, including:

- capacity planning and stress testing, to ensure systems can handle peak trading volumes;
- system redundancy and failover arrangements, to maintain continuity of operations;
- real-time system monitoring and alerting, to detect and respond to issues promptly;
- cybersecurity frameworks, including access controls, intrusion detection, and incident response capabilities; and
- governance processes for settlement determination, including predefined data sources, escalation procedures, and fallback mechanisms.

These measures are consistent with established practices across regulated trading venues.

**Reliability, security, and scalability considerations**

While existing systems and controls are generally capable of supporting prediction markets, certain challenges may arise in practice, including:

- the need to manage sharp, event-driven spikes in trading activity, which may test system capacity and latency;
- ensuring resilient integration with external data sources, particularly where settlement depends on third-party inputs; and
- maintaining system performance and data integrity during periods of heightened volatility or concentrated trading.

Addressing these challenges may require careful system design, ongoing testing, and contingency planning tailored to event-driven market dynamics.

**Overall**

Overall, the operational risks associated with prediction markets appear capable of being managed within existing frameworks for electronic trading venues. Targeted consideration of event-driven trading patterns and external data dependencies may further support the reliability, security, and scalability of these systems. Particular attention may be appropriate where multiple contracts depend on the same external data source, creating potential single points of failure.

***h. In general under the DCM Core Principles, what factors should the Commission consider with respect to blockchain-based prediction markets? Are there challenges or advantages in applying existing regulations and guidance to blockchain- based prediction markets? Which areas, if any, would benefit from Commission guidance or rule amendments for blockchain-based prediction markets?***

In considering blockchain-based prediction markets under the DCM Core Principles, the Commission may find it helpful to take into account both the technology-neutral nature of the existing framework and the specific characteristics of distributed ledger-based systems.

**Factors for consideration**

Relevant factors may include:

- governance and control, including how responsibility is assigned for system operation, rule enforcement, and decision-making;
- data integrity and settlement inputs, particularly where outcomes depend on external data

sources;
- transparency and auditability, including the extent to which transaction data and system activity are visible and verifiable;
- operational resilience, including system reliability, scalability, and the ability to respond to disruptions; and
- participant identification and access controls, including compliance with applicable regulatory and financial crime requirements.

These factors may arise in different ways depending on whether blockchain is used as part of a regulated exchange infrastructure or in more decentralised configurations.

**Advantages of blockchain-based systems**

Blockchain-based approaches may offer certain potential benefits, including:

- enhanced transparency, through the availability of transaction data on a shared ledger;
- improved auditability, supporting monitoring, compliance, and post-trade analysis; and
- automation of post-trade processes, including settlement and record-keeping, through the use of smart contracts.

These features may support aspects of market integrity and operational efficiency where appropriately implemented within regulated frameworks.

**Challenges in applying existing regulations**

At the same time, certain challenges may arise in applying existing regulatory expectations, including:

- governance complexity, particularly in systems where control is distributed or less clearly defined;
- reliance on external data inputs, which may introduce risks relating to data accuracy, timeliness, and manipulation;
- accountability and oversight, including identifying responsible parties for compliance with Core Principles;
- cybersecurity and system integrity, particularly in relation to smart contract vulnerabilities; and
- scalability and performance, especially during periods of increased trading activity.

While these challenges are not unique to blockchain-based systems, they may manifest differently depending on system design.

**Areas where guidance may be helpful**

In this context, the Commission may find it helpful to provide additional guidance on:

- how Core Principles apply in a technology-neutral manner to blockchain-based implementations;
- expectations regarding governance and accountability, particularly where multiple parties are involved in system operation;
- standards for data integrity and oracle design, including fallback mechanisms;
- the application of surveillance and compliance requirements in environments with distributed data structures; and
- operational resilience and cybersecurity expectations, including testing, monitoring, and incident response.

Such guidance may support consistent regulatory outcomes while allowing for innovation in the use of new technologies.

**Overall**

Overall, the existing Core Principles appear capable of accommodating blockchain-based prediction markets where implemented within regulated frameworks. Targeted guidance, rather than fundamental rule changes, may be sufficient to address technology-specific considerations while preserving flexibility and supporting responsible innovation. Particular clarity may be helpful where blockchain-based systems involve multiple entities performing functions traditionally carried out by a single regulated exchange.

***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?***

In applying the DCO Core Principles to event contracts, the Commission may find it helpful to start from the premise that central counterparties already manage a broad range of cash-settled and non-linear products through established frameworks for margining, default management, settlement, and operational resilience. The existing Part 39 framework, together with the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI), provides a risk-based and technology-neutral foundation that appears capable of accommodating event contracts without the need for a distinct clearing regime.

Event contracts do, however, exhibit certain characteristics that may warrant consideration in how these existing frameworks are applied in practice. Their payoffs may be binary or otherwise event-driven, prices may adjust discontinuously as probabilities evolve, and liquidity may concentrate around discrete information events or as contracts approach resolution. In addition, contract durations may vary significantly, and settlement may depend on external determinations rather than continuous market pricing. These features may give rise to particular considerations in areas such as margin calibration, liquidity risk management, and the design and governance of settlement processes.

In this context, the Commission may find it helpful to provide additional clarity on how existing DCO Core Principles should be applied to these characteristics. For example, guidance may be useful in relation to the calibration of margin models for contracts with discontinuous payoffs, the management of liquidity and concentration risk in event-driven markets, and the governance of settlement where outcomes depend on external data sources or determinations. Particular attention may also be appropriate where multiple contracts reference the same event, potentially creating concentrated exposures at the point of settlement. Clarification in these areas could support consistent practices across clearing houses while ensuring that risks are appropriately captured.

Overall, these considerations suggest that the existing clearing framework is broadly sufficient, but that targeted supervisory guidance may assist in ensuring consistent and effective application to event contracts. Such an approach would allow the Commission to address product-specific considerations while preserving the flexibility and robustness of the current regime.

a. ***The following DCO Core Principles may be relevant in this regard: (C) participant and product eligibility, (D) risk management, (H) rule enforcement, and (I) system safeguards. What factors should the Commission consider in applying these Core Principles?***

In applying the relevant DCO Core Principles, particularly those relating to participant and product eligibility, risk management, rule enforcement, and system safeguards, the Commission may find it helpful to focus on whether a clearing house can effectively identify, measure, and manage the risks associated with a product, rather than on whether the product is novel in form. A functional and risk-based approach may therefore be more informative than one based on product categorisation alone.

In relation to product eligibility, a key consideration is whether the contract can be supported within a robust and predictable clearing framework. This may include whether settlement terms are clearly defined and objective, whether outcomes are based on reliable and verifiable data sources, and whether the contract can be processed through established clearing and settlement systems without introducing undue operational complexity. For participant eligibility, the Commission may wish to consider whether clearing members have the financial and operational capacity to manage event-driven exposures, including the ability to meet margin requirements and manage positions in potentially fast-moving or concentrated market conditions.

With respect to risk management**,** the relevant question is whether existing frameworks can be appropriately calibrated to reflect the characteristics of event contracts. These may include binary or discontinuous payoffs, event-driven volatility, and the potential for liquidity to concentrate around specific points in time, particularly as contracts approach resolution. In this context, margin models, stress testing, and default management procedures may need to account for the speed and magnitude of potential price movements, as well as the practical ability to liquidate positions under stressed conditions. Consistent with international standards, these considerations may be addressed through adjustments to existing models rather than the introduction of entirely new approaches.

In the context of rule enforcement, clarity and predictability of the rulebook are particularly important. The Commission may wish to consider whether rules governing settlement determination, dispute resolution, position management, and default handling are sufficiently clear, transparent, and capable of being applied consistently, including during periods of market stress. This may help ensure confidence in the clearing process and reduce the risk of uncertainty at critical points, such as contract resolution.

Finally, in relation to system safeguards, the Commission may find it helpful to consider whether clearing systems are capable of maintaining reliability, security, and scalable capacity under event-driven conditions. Event contracts may generate concentrated operational demand around known event windows, including increases in trading activity, margin flows, and settlement processing. As a result, system design, stress testing, and contingency planning may need to take into account not only average conditions but also peak demand scenarios. Existing system safeguard requirements provide a strong foundation in this regard, and additional clarity on their application in event-driven contexts may support consistent implementation.

Overall, these considerations suggest that the existing DCO framework is broadly capable of accommodating event contracts, provided that its application remains flexible and responsive to the specific characteristics of these products. In particular, careful consideration may be applied where multiple contracts reference the same underlying event, potentially creating concentrated exposures at the point of settlement.

**b. *Are there relevant differences in how the Core Principles and underlying regulations for DCMs and DCOs apply to prediction markets? If so, how should the differences factor into the Commission's consideration of these issues?***

There are relevant differences in how the Core Principles for DCMs and DCOs apply to prediction markets, and these distinctions may be helpful in informing the Commission's consideration of these issues. In broad terms, the DCM framework is primarily concerned with market design and integrity, including contract specifications, trading conduct, price formation, and susceptibility to manipulation. By contrast, the DCO framework is focused on prudential and operational risk, including the ability of the clearing house to manage exposures arising from the product through margining, default management, settlement processes, and system safeguards. These frameworks therefore address complementary but distinct aspects of the market lifecycle.

In the context of prediction markets, this distinction may be particularly relevant. Questions relating to the definition of the underlying event, the objectivity of settlement criteria, and the potential for manipulation are more naturally addressed at the trading venue level. By contrast, the role of the clearing house is to assess whether the risks arising from the product, once listed, can be effectively managed within its risk framework. In this regard, it may be helpful for the Commission to maintain a clear allocation of responsibilities, so that exchange-level assessments are not unnecessarily replicated within the clearing framework.

At the same time, there are areas where the two frameworks intersect, most notably in relation to settlement governance. Clearing houses rely on the determination of contract outcomes by trading venues, and any uncertainty or ambiguity at the venue level may have direct implications for clearing, margining, and default management. In this context, the Commission may wish to consider the importance of clear, coordinated governance arrangements between trading venues and clearing houses, including defined data sources, transparent determination methodologies, and robust escalation procedures.

These distinctions may support a regulatory approach in which the Commission focuses DCM requirements on market integrity and contract design, while ensuring that DCO requirements remain centred on financial and operational resilience, with appropriate coordination in areas of overlap. Such an approach may help avoid duplication, promote clarity of responsibility, and support efficient and robust market functioning. Moreover, this may be particularly relevant in avoiding duplicative requirements that could increase complexity without enhancing risk management.

These considerations appear broadly consistent with international standards, including the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI), particularly in relation to governance, risk management, and settlement finality, and may support predictability and resilience within the cleared ecosystem.

**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? See also question 2.f. regarding margin considerations for DCMs.***

If event contracts are traded on margin, a key implication for DCOs is the need to ensure that margin frameworks remain demonstrably risk-based and sufficiently responsive to the characteristics of event-driven products. In this respect, the existing requirements under Core Principle D, that margin must cover potential exposures in normal market conditions and that models be risk-based and subject to regular review, provide an appropriate foundation. The relevant consideration is therefore how these requirements are applied in practice to contracts with event-driven price dynamics.

Event contracts may exhibit features such as discontinuous or binary payoffs, rapid repricing as probabilities evolve, and liquidity that concentrates around particular points in time, especially as contracts approach resolution. In this context, margin models may need to account for the speed and magnitude of potential price movements, as well as the practical ability to liquidate positions under both normal and stressed conditions. This may include consideration of factors such as volatility, time to resolution, liquidity and market depth, concentration risk, and potential liquidation costs. In addition, the requirement for regular model review may be particularly relevant where the statistical properties of prices evolve over the life of the contract, or where historical data is limited.

These considerations suggest that the existing Core Principle D requirements are capable of accommodating event contracts, provided that models are appropriately calibrated and subject to ongoing validation. In some cases, shorter-dated contracts may warrant more frequent monitoring or intraday margining, while longer-dated contracts may require periodic recalibration as market expectations change. Consideration of concentration and potential wrong-way risk may also be relevant, particularly where positions are large relative to market size or where exposures are correlated with the underlying event.

With respect to clearing structure, the Commission may find it helpful to retain flexibility in how event contracts are incorporated within clearing frameworks. In some cases, such contracts may be integrated within existing risk models where their risk characteristics are sufficiently aligned with other products. In other cases, it may be appropriate to treat them as a distinct risk class or within a separate clearing silo, particularly where their payoff structure, liquidity profile, or settlement characteristics differ materially. The appropriate approach may depend on whether it supports effective risk segregation, transparent governance, and prudent margin calibration.

A similar principles-based approach may be appropriate in relation to cross-margining. Cross-margining may be appropriate where there is a demonstrable, stable, and well-understood relationship between exposures, supported by robust modelling and conservative assumptions. However, care may be required where correlations are event-dependent, unstable, or difficult to model, or where liquidation dynamics differ across products. These considerations may be particularly relevant where cross-margining is proposed across different product classes or across clearing or regulatory regimes. Moreover, particular caution may also be appropriate where margin models rely on limited or non-stationary data, which may affect the robustness of risk estimates.

Overall, these considerations suggest that the existing DCO framework is broadly capable of accommodating margin trading in event contracts, provided that its application remains risk-based and responsive to product characteristics. In this context, targeted Commission guidance on the application of margin requirements, model validation, clearing structure, and cross-margining in an

event-driven context may support consistent implementation, without the need for fundamental rule changes.

***Question 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?***

In applying the SEF Core Principles under CEA section 5h(f) to prediction markets, the Commission may find it helpful to take into account the event-driven, information-sensitive, and at times episodic nature of these markets, while recognising that the existing SEF framework provides a well-established basis for oversight.

**Relevant aspects under SEF Core Principles**

Prediction market contracts are linked to discrete future events, with prices reflecting market-implied probabilities. Trading activity may concentrate around information releases or event resolution, and contract durations may vary significantly. These characteristics may be relevant to Core Principles relating to the monitoring of trading activity, the maintenance of orderly trading conditions, and the robustness of settlement processes, particularly where outcomes depend on external data sources. In this context, tools such as real-time surveillance, concentration monitoring, and clear settlement governance may be particularly important in ensuring market integrity.

The Commission may also find it helpful to consider the economic structure of the contract when assessing how the SEF framework should apply. Certain event contracts, particularly those that are highly standardised, centrally cleared, and exhibit characteristics similar to futures or options, may align more closely with exchange-style trading environments. Other contracts, particularly those that are more bespoke or transaction-driven, may be more naturally suited to SEF-style execution. Recognising these differences may support a more consistent and functional application of the regulatory framework.

**Institutional versus retail trading**

Institutional and retail participation may differ in both behaviour and market impact. Institutional participants typically operate within established risk management, compliance, and governance frameworks, and may use event contracts for hedging, portfolio construction, or information-based trading strategies. Retail participation may be more directional, shorter-term, and less systematically risk-managed.

At the same time, both groups rely on the same underlying price formation process, and both may contribute to price discovery. The key distinction may therefore lie less in the mechanics of trading and more in the scale, consistency, and informational basis of participation. This may be relevant in assessing the potential for information asymmetries and the design of surveillance and risk controls.

**Impact on liquidity across DCMs and SEFs**

Prediction market trading on DCMs and SEFs may affect liquidity depending on market structure, participant composition, and contract design. Institutional participation on SEFs may contribute to greater market depth, tighter spreads, and more continuous pricing. However, where similar or economically comparable contracts are available across different venues, liquidity may be distributed rather than concentrated, which may affect depth in individual markets. In this context, the Commission may wish to consider how the economic characteristics of contracts and their resulting market structure influence liquidity formation and the resilience of trading conditions across venues.

**Public disclosure and adverse selection**

Public disclosure may support transparency and confidence in market integrity, particularly through the dissemination of price and aggregate trading information. However, the impact of disclosure may depend on its form and timing. More granular or real-time disclosure of positions or trading intentions may, in some cases, increase the risk of adverse selection by revealing the strategies of informed or liquidity-providing participants. By contrast, appropriately calibrated approaches, such as aggregated or delayed disclosure, may support transparency while mitigating these risks.

The Commission may therefore find it helpful to consider how disclosure requirements can be calibrated to balance transparency, market efficiency, and the incentives for liquidity provision.

**Areas where guidance may be helpful**

Targeted guidance may be helpful in supporting consistent application of the SEF Core Principles, including in relation to:

- the application of surveillance expectations to event-driven and information-sensitive trading patterns;
- the monitoring of concentrated positions in contracts linked to discrete outcomes;
- settlement governance where outcomes depend on external or time-sensitive determinations; and
- the calibration of public disclosure requirements to balance transparency and adverse selection risks.

Additional clarity on how the regulatory framework applies across different types of event contracts, taking into account their economic structure and trading characteristics, may further support consistent implementation.

**Overall**

Overall, the existing SEF framework appears capable of accommodating prediction markets, provided that its application reflects the specific characteristics of event-driven products. A

principles-based approach, supported by targeted clarification where appropriate, may support market integrity, transparency, and efficient participation across different types of market structures.

***Question 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?***

In determining whether to provide guidance or amend existing regulations with respect to the listing, trading, and clearing of event contracts, the Commission may find it helpful to adopt a functional and risk-based approach, grounded in how these products operate within established derivatives market structures.

Event contracts share a number of core characteristics with other derivatives, including standardisation, centralised trading, and, in many cases, central clearing. As a result, the existing regulatory framework applicable to DCMs, SEFs, and DCOs provides a well-established foundation for their oversight. In this context, a key consideration may be whether existing rules can be applied effectively through interpretation and supervisory guidance, rather than requiring new rulemaking.

At the same time, certain features of event contracts may warrant targeted clarification. These may include event-driven price formation, trading activity concentrated around discrete information events, and settlement mechanisms that rely on external determinations. While these characteristics do not fundamentally alter the nature of the products, they may influence how existing requirements, particularly those relating to market surveillance, contract design, settlement governance, and clearing risk management, are applied in practice.

In assessing whether guidance or rule amendments are appropriate, the Commission may wish to consider whether:

- an issue reflects a gap in the existing regulatory framework, or instead arises from uncertainty in the interpretation or application of existing principles;
- the matter relates to product-specific characteristics that can be addressed through supervisory expectations, rather than structural regulatory change;
- inconsistent interpretation is contributing to divergent practices across venues, potentially affecting market integrity or operational efficiency; and
- differences in regulatory treatment across product types or jurisdictions may have implications for liquidity, participation, or the ability to manage risk effectively within clearing and trading frameworks.

From a cost–benefit perspective, guidance-based approaches may provide clarity at relatively low cost, particularly where market participants already operate within established governance, surveillance, and risk management frameworks. By contrast, rule amendments may be more appropriate where the Commission identifies structural limitations that cannot be addressed through interpretation alone. This may be particularly relevant where consistent application supports the use of established trading and clearing frameworks across different product types.

On balance, the Commission may find it appropriate to prioritise targeted, principles-based guidance to support consistent application of the existing framework, while reserving broader rulemaking for clearly identified regulatory gaps.

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?***

In applying the reporting and transparency requirements under CEA section 2(a)(13) to event contracts structured as swaps, the Commission may find it helpful to focus on data consistency, cross-market visibility, and the role of transparency in supporting price discovery and market integrity.

Event contracts generally appear compatible with existing reporting frameworks. They typically have clearly defined contract terms, settlement conditions, and expiration parameters, which may facilitate consistent reporting to swap data repositories (SDRs). The discrete and well-specified nature of event outcomes may, in some cases, support standardisation of key data fields and improve the clarity of reported information.

At the same time, certain characteristics of event contracts may present practical considerations. These may include the use of event-specific definitions, reliance on external data sources for settlement, and the potential for multiple economically similar contracts referencing related outcomes. These features may create challenges in ensuring consistent classification, mapping, and aggregation of data across products and venues, particularly where similar exposures are expressed through different contract structures.

In this context, the Commission may wish to consider the extent to which standardisation and interoperability across reporting frameworks could support supervisory objectives. Greater alignment in areas such as contract descriptors, event definitions, and settlement references may enhance the Commission's ability to aggregate data, monitor exposures, and detect potential cross-market activity. This may be particularly relevant where economically comparable contracts are traded across swaps, futures, and options markets.

The use of identifiers may also play an important role. Legal Entity Identifiers (LEIs) for counterparties are already well established and support aggregation at the participant level. In addition, standardised product identifiers may be helpful in linking related or economically equivalent contracts across product classes. While traditional identifiers such as CUSIPs or ISINs may not always map directly to event-based products, the development or adaptation of identifiers that capture the economic characteristics of event contracts may support both reporting and supervisory analysis.

With respect to public dissemination, transparency may support price discovery by making trading activity and price formation more visible to market participants. In prediction markets, where prices reflect probabilistic assessments of future outcomes, access to reliable transaction and pricing data may enhance informational efficiency and market confidence.

At the same time, the Commission may wish to consider how disclosure requirements are calibrated. Highly granular or real-time dissemination of transaction-level data may, in some cases, increase the risk of adverse selection or reduce incentives for liquidity provision, particularly in less liquid or information-sensitive markets. Approaches such as aggregated or delayed disclosure may help balance transparency with market efficiency. This may be particularly relevant where the same underlying event is referenced across multiple contracts, creating a need for consistent data mapping across reporting regimes.

Overall, additional clarity on how existing reporting and dissemination requirements apply to event contract swaps, particularly in relation to standardisation, data aggregation, and cross-market visibility, may support effective oversight and enhanced price discovery while maintaining the flexibility of the current framework.

***b. CEA section 4c(a)(1) and (2)(A) provide that it is unlawful to enter into a transaction involving a futures contract, option thereon, or swap, if the transaction is a pre-arranged or noncompetitive trade, or a wash sale. What factors should the Commission consider in applying these provisions to prediction markets? Are there aspects of prediction markets that make them more or less susceptible to pre-arranged or noncompetitive trades, or wash sales?***

In applying the prohibitions on pre-arranged or noncompetitive trading and wash sales under CEA section 4c(a), the Commission may find it helpful to consider how the structure, liquidity profile, and information dynamics of prediction markets influence both the potential for such conduct and the ability to detect it.

Prediction markets may, at times, exhibit episodic liquidity conditions, with trading activity concentrated around information releases or event resolution. In markets with limited participation or where positions are relatively concentrated, pre-arranged or noncompetitive trades may, in some circumstances, have a more pronounced impact on price formation. This may be particularly relevant where counterparties could coordinate trading to influence prices or create artificial market signals.

Similarly, wash trading (transactions involving no genuine change in beneficial ownership) may be more feasible in thinner or less active markets, where repeated offsetting transactions may be less immediately diluted by broader trading activity. These characteristics may increase the importance of effective surveillance in identifying patterns such as repeated self-trading, circular trading, or coordinated activity between related accounts.

At the same time, certain features of prediction markets may reduce the incentives for such conduct. Prices in event contracts are typically driven by probabilistic assessments of external outcomes, and transactions that do not involve genuine risk transfer may offer limited economic benefit unless undertaken for manipulative purposes. As a result, such activity may be more readily identifiable through established surveillance techniques, particularly where it is not supported by changes in underlying information or broader market participation.

In this context, the Commission may wish to consider the role of surveillance and compliance tools, including real-time monitoring, pattern recognition, and the identification of related accounts or counterparties. Cross-market surveillance may also be relevant where economically similar event contracts are listed across multiple venues or product types, as coordinated strategies may span related instruments.

Overall, the existing statutory prohibitions and surveillance frameworks appear well suited to addressing the risks of pre-arranged trading and wash sales in prediction markets. Targeted clarification on how these frameworks should be applied in event-driven and potentially less liquid market conditions may support consistent and effective implementation.

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?***

In applying the prohibition on disruptive trading practices under CEA section 4c(a)(5), the Commission may find it helpful to consider how the event-driven and information-sensitive nature of prediction markets influences both trading behaviour and market dynamics.

A key consideration is the distinction between legitimate trading in response to new information and conduct that may create misleading price signals or disorderly market conditions. In prediction markets, prices often adjust rapidly as new information becomes available, particularly as events approach resolution. As a result, trading activity that may appear abrupt or directional may, in some cases, reflect genuine changes in market expectations rather than disruptive intent.

At the same time, certain characteristics of prediction markets may increase susceptibility to disruptive practices. In particular, markets that exhibit episodic or relatively limited liquidity may be more sensitive to order book activity. In such conditions, strategies such as placing and rapidly cancelling large orders, layering, or other forms of non-bona fide order entry may have a more pronounced effect on prices and market perception. These dynamics may increase the importance of surveillance tools capable of identifying patterns of behaviour that are inconsistent with genuine trading intent, taking into account the timing, scale, and context of orders.

Conversely, there are aspects of prediction markets that may reduce susceptibility to certain forms of disruptive conduct. Prices are often anchored to external events or publicly available information, which may limit the persistence of price distortions created by short-term trading activity. Where market participants base trading decisions on underlying event fundamentals, attempts to influence prices through purely technical or order-driven strategies may have more limited or short-lived effects.

In this context, the Commission may wish to consider factors including the level of market liquidity, the concentration of trading activity, the sensitivity of prices to order book dynamics, and the role of external information in price formation. It may also be helpful to consider how existing surveillance and enforcement frameworks are applied in event-driven markets, including the interpretation of disruptive practices in light of rapid information flows and concentrated trading periods.

Overall, the existing regulatory framework appears capable of addressing disruptive trading practices in prediction markets. Targeted clarification on how these provisions apply in event-driven and potentially less liquid market conditions may support consistent enforcement while preserving the ability of markets to respond efficiently to new information.

***Question 6: With respect to any rule changes that the Commission may propose for the foregoing reasons, what are the relevant considerations of costs and benefits? What less costly alternatives should the Commission consider? Please provide***

***any relevant specific information, data, or studies regarding the costs and benefits of such regulations that you may have.***

In assessing potential rule changes, the Commission may find it helpful to consider whether additional requirements would materially enhance market integrity, transparency, or risk management, or whether similar outcomes could be achieved through clarification of existing standards.

Potential benefits of regulatory action may include:

- greater clarity and consistency in the application of Core Principles across trading venues and products;
- improved transparency and cross-market visibility, supporting supervisory oversight and the detection of potential manipulation or abusive conduct; and
- enhanced confidence among market participants, which may support participation and the development of regulated markets.

In addition, appropriately calibrated transparency and reporting requirements may contribute to price discovery, particularly in markets where prices reflect probabilistic assessments of future events.

Potential costs may include:

- increased compliance and operational burdens for exchanges, SEFs, clearing houses, and market participants, including system changes, reporting adjustments, and governance requirements;
- reduced flexibility in product design, which may limit innovation or the ability to tailor contracts to specific use cases;
- potential impacts on liquidity and participation, particularly where requirements differ across economically similar products or across trading venues; and
- the risk of fragmentation, where activity may shift across venues or product types in response to differences in regulatory treatment.

The Commission may also wish to consider that prediction markets are still evolving, and the availability of empirical data on trading patterns, liquidity, and risk characteristics may be limited relative to more established derivatives markets. In this context, less costly alternatives may include:

- interpretive guidance clarifying how existing requirements apply to event contracts, particularly in relation to surveillance, contract design, settlement, and risk management;
- greater alignment of reporting and product classification approaches across economically similar instruments, to support consistency and reduce regulatory arbitrage; and
- continued supervisory engagement with exchanges and clearing houses to address emerging issues in a flexible and iterative manner.

Such approaches may achieve many of the intended benefits, particularly improved clarity and consistency, at lower cost than formal rulemaking, while preserving the flexibility of the existing framework.

On balance, the Commission may find it appropriate to prioritise targeted, principles-based guidance and supervisory engagement, reserving more prescriptive rule changes for cases where

clear and material gaps in the regulatory framework are identified. This may be particularly relevant where consistent treatment supports the use of established trading and clearing frameworks.

## B. Public Interest

***Question 7: As described above, CEA section 5c(c)(5)(C) provides for the Commission to make a determination that event contracts are "contrary to the public interest" if the event contracts involve any of five listed activities or "other similar activity determined by the Commission, by rule or regulation, to be contrary to the public interest." In general, what factors should the Commission consider in making a public interest determination under this section? (Public interest factors specific to the five listed activities are discussed in part II.C., below, in connection with those activities.)***

In making a public interest determination under CEA section 5c(c)(5)(C), the Commission may find it helpful to adopt a structured, principles-based approach grounded in the core objectives of the CEA, including market integrity, the protection of market participants, and the maintenance of fair, orderly, and transparent markets. At a general level, the assessment may focus on whether an event contract gives rise to risks that are not adequately addressed through existing regulatory safeguards, and whether those risks are sufficiently material to warrant restriction or prohibition.

A central consideration is the integrity and robustness of the underlying event and settlement mechanism. Contracts based on outcomes that are objective, independently verifiable, and derived from transparent sources may be less susceptible to dispute or manipulation. By contrast, contracts that rely on subjective determinations, ambiguous definitions, or non-transparent data sources may present additional considerations, particularly where settlement outcomes could be contested or influenced.

Closely related is the susceptibility of the underlying event to manipulation or undue influence. The Commission may wish to consider whether the outcome of the event could be influenced by a limited number of participants, or whether the structure of the contract creates incentives to affect the outcome itself. Contracts referencing events that are largely independent of trading activity may be less likely to raise such concerns.

The nature of the underlying event may also be relevant. Contracts linked to financial or economic indicators, such as interest rates, inflation measures, or other macroeconomic outcomes, may align more closely with established derivatives markets, where outcomes are determined by broad and observable processes. Other types of events, including political or sporting outcomes, may raise additional considerations depending on their specific characteristics. In this context, a case-by-case assessment may be more appropriate than a uniform approach across all event types.

The Commission may also wish to consider broader public policy and market confidence considerations, particularly where the nature of the contract could affect perceptions of regulated markets. At the same time, the application of such considerations in a clear and predictable manner may help reduce uncertainty and support responsible innovation.

Another relevant factor is the informational and economic utility of the contract. Prediction markets may contribute to price discovery by aggregating dispersed information and producing probabilistic signals that can inform decision-making. To the extent that event contracts provide such benefits,

these considerations may weigh in favour of permitting their listing, provided that associated risks are appropriately managed.

Importantly, the Commission may also consider whether identified risks can be effectively mitigated through existing regulatory tools, including exchange rules, market surveillance, position management frameworks, and anti-manipulation provisions. Where such safeguards are capable of addressing potential risks, a finding that a contract is contrary to the public interest may be less likely to be necessary. This may be particularly relevant where contracts can be structured within established futures or options frameworks with robust risk controls.

Taken together, these considerations may support a targeted and proportionate approach, under which public interest determinations focus on contracts that present material risks to market integrity, settlement reliability, or public confidence that cannot be adequately mitigated through existing regulatory frameworks. Such an approach may preserve the flexibility of the current regime while allowing the Commission to address specific areas of concern.

***Question 8: The public interests underlying the CEA are described in CEA section 3(a), which states that "[t]he transactions subject to [the CEA] … are affected with a national public interest by providing a means for managing and assuming price risks, discovering prices, or disseminating pricing information through trading in liquid, fair and financially secure trading facilities." Further, CEA section 3(b) provides that in order to foster the public interests described in subsection (a), the purposes of the CEA include "to deter and prevent price manipulation or any other disruptions to market integrity; to ensure the financial integrity of all transactions subject to [the CEA] and the avoidance of systemic risk; to protect all market participants from fraudulent or other abusive sales practices and misuses of customer assets; and to promote responsible innovation and fair competition among [DCMs], other markets and market participants." How should the public interests set out in CEA section 3 inform the Commission's public interest determination under CEA section 5c(c)(5)(C)?***

The public interest objectives set out in CEA section 3 provide an important interpretive framework for the Commission's exercise of its authority under section 5c(c)(5)(C). In this context, the "public interest" standard may be understood as requiring a balanced assessment that reflects the broader statutory purposes of the CEA, rather than a standalone or open-ended test.

Section 3(a) identifies the national public interest in derivatives markets as arising from their role in price discovery, information dissemination, and the provision of liquid, fair, and financially secure trading facilities. In the context of event contracts, this may support consideration of the extent to which such contracts contribute to informational efficiency by aggregating dispersed views about future events into observable price signals. While event contracts may not always serve traditional hedging functions, they may generate probabilistic information about future outcomes that is relevant to market participants, policymakers, and the public. Where such markets operate within transparent and well-regulated environments, they may therefore support the informational objectives reflected in section 3(a).

Section 3(b) further emphasises that the purposes of the CEA include deterring manipulation, ensuring financial integrity, protecting market participants, and promoting responsible innovation and fair competition. These objectives may inform the assessment of potential risks associated

with event contracts, including whether a contract is susceptible to manipulation or undue influence, whether its settlement mechanism is robust and reliable, and whether trading activity can be effectively monitored and enforced under existing regulatory tools.

At the same time, section 3(b) reflects that the CEA is not solely concerned with risk mitigation, but also with supporting innovation and competition within regulated markets. This may be particularly relevant in the context of prediction markets as an evolving product category. In this regard, a public interest standard that is applied in an overly broad or unpredictable manner may discourage activity within regulated venues and potentially shift participation toward less transparent or less well-supervised environments.

Taken together, these considerations suggest that the Commission's public interest determination under section 5c(c)(5)(C) may be best understood as a balancing exercise. This would involve weighing potential risks to market integrity, financial stability, and participant protection against the contribution of a contract to transparency, price discovery, and responsible innovation. This may be particularly relevant where contracts can be structured and risk-managed within established derivatives market frameworks.

In this context, a finding that a contract is contrary to the public interest may be most appropriate where it presents material risks that cannot be adequately mitigated through existing regulatory safeguards. Conversely, where event contracts are listed and traded on regulated venues, supported by effective surveillance, governance, and risk management controls, and contribute to price discovery or information aggregation, these considerations may weigh in favour of permitting their development within the framework contemplated by the CEA.

***Question 9: Under a past version of the CEA that was repealed in 2000, the Commission applied an "economic purpose" test as part of determining whether a DCM could list a contract for trading. Are there any elements of the former "economic purpose" test that should or should not be applied in the Commission's public interest determination under CEA section 5c(c)(5)(C)?***

In considering whether elements of the former "economic purpose" test should inform the Commission's public interest determination under CEA section 5c(c)(5)(C), it may be helpful to distinguish between the underlying policy considerations reflected in that test and the potential reintroduction of the test as a formal regulatory requirement.

Historically, the economic purpose test was intended to ensure that exchange-traded contracts served a legitimate economic function, particularly by contributing to price discovery or risk management. These objectives continue to be reflected in the statutory framework of the CEA. As noted in section 3(a), derivatives markets serve the public interest through price formation, information dissemination, and the provision of liquid, fair, and financially secure trading facilities. In this context, it may be appropriate for the Commission to consider whether an event contract contributes to informational efficiency or transparent price discovery, including through the aggregation of dispersed views about future events.

At the same time, it may not be appropriate to apply the economic purpose test as a standalone or determinative requirement for listing. The repeal of this test through the Commodity Futures Modernization Act of 2000 reflected a broader shift toward a principles-based framework, centred on exchange self-certification and ongoing regulatory oversight. Reintroducing the test in substance, by requiring exchanges to demonstrate affirmative economic utility as a threshold condition, may

be difficult to reconcile with this framework and could introduce uncertainty or unintended constraints on product development. This may be particularly relevant in the context of event contracts, where the primary function may relate more closely to information aggregation than to traditional hedging. A narrow or prescriptive conception of economic utility could therefore limit the development of products that are otherwise consistent with the broader objectives of the CEA.

That said, elements of the economic purpose test may remain relevant as part of the Commission's broader analytical framework. In particular, the Commission may find it useful to consider whether a contract contributes to transparent price formation, market efficiency, or informational value, and whether it operates within a structure that supports market integrity. These considerations, however, may be more appropriately treated as contextual factors within a principles-based public interest assessment, rather than as a formal threshold test.

The current regulatory framework already incorporates safeguards that address many of these considerations through other mechanisms, including exchange governance, surveillance obligations, and the Commission's oversight authority. In this context, targeted clarification regarding expectations around contract design, settlement robustness, and post-listing surveillance may help address potential concerns without reintroducing a formal economic purpose requirement.

Accordingly, while elements of the former economic purpose test may inform the Commission's analysis, they should not be applied as a binding or standalone condition. A principles-based approach that considers economic utility alongside other relevant factors may better support flexibility, responsible innovation, and the continued integrity of regulated markets, consistent with the structure of the modern CEA. This may be particularly relevant where contracts can be structured and risk-managed within established futures or options frameworks.

***Question 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)?***

In assessing the role of event contracts under CEA section 3(a), the Commission may find it helpful to consider how these instruments contribute to price discovery, information dissemination, and risk management, while recognising that these functions may operate differently for event-based products than for traditional derivatives.

From a price discovery and information perspective, event contracts may serve as mechanisms for aggregating dispersed views about the likelihood of discrete future outcomes into observable market prices. Unlike traditional derivatives, which often reflect continuous price dynamics of an underlying asset, event contracts produce probabilistic price signals that evolve as new information becomes available. Academic research suggests that prediction markets can incorporate diverse information sets and generate informative forecasts. Where such markets operate on transparent and regulated trading venues, they may therefore contribute to price discovery and the dissemination of pricing information, consistent with section 3(a).

With respect to risk management, event contracts may provide a means of managing discrete, event-driven risks that are not easily hedged using conventional instruments. For example, market

participants may face exposure to outcomes such as regulatory decisions, macroeconomic announcements, or other contingent events that can affect asset values or business operations. Event contracts may allow participants to take positions that offset or partially mitigate these exposures, even where the hedge is indirect or imperfect. This may be particularly relevant where event contracts provide risk management tools that are not otherwise available through traditional derivatives. In this sense, they may complement, rather than replace, traditional hedging tools.

At the same time, a significant portion of trading activity in event contracts may be information-based or directional, rather than hedging in a narrow sense. This does not necessarily diminish their relevance under section 3(a), which encompasses markets that support price discovery and the dissemination of information through trading activity more broadly.

In incorporating these considerations into the public interest determination under section 5c(c)(5)(C), the Commission may find it helpful to adopt a functional approach that considers whether a contract contributes, in its market context, to the statutory objectives of price discovery, information dissemination, and orderly market operation. This may include assessing whether the contract generates transparent and reliable price signals, supports the aggregation of dispersed information, and provides economically meaningful tools for managing event-related risks. At the same time, it may be relevant to consider whether these benefits are limited in practice, for example where liquidity is insufficient to support reliable price formation, settlement mechanisms reduce confidence in outcomes, or participation is concentrated in a way that affects informational efficiency.

Importantly, the Commission's analysis may not need to depend on whether a contract satisfies a narrow or traditional conception of hedging utility. Rather, the relevant consideration may be whether the contract, viewed holistically, contributes to the broader statutory functions identified in section 3(a), and whether any associated risks can be addressed through existing regulatory safeguards. This may be particularly relevant where contracts can be structured and risk-managed within established derivatives market frameworks.

From a cost–benefit perspective, allowing event contracts to develop within existing regulated frameworks may support informational and market efficiency benefits with relatively limited incremental cost. Exchanges and clearing houses already maintain infrastructure for trading, surveillance, and risk management, suggesting that targeted guidance and supervisory oversight may be sufficient to support these functions without the need for additional structural requirements.

Overall, event contracts may play a role consistent with the objectives of CEA section 3(a), particularly in facilitating probabilistic price discovery and information dissemination, and, in certain contexts, supporting the management of discrete event risks. In this context, the Commission's public interest determination may reflect a balanced assessment of these contributions alongside any risks to market integrity or financial stability.

***Question 11: CEA section 3(b) lists several purposes of the CEA, including to prevent price manipulation, to protect all market participants from fraudulent or other abusive sales practices, and to promote responsible innovation and fair competition. What factors should the Commission consider in its effort to fulfill these purposes with respect to prediction markets? Is there any potential conflict between these purposes, and if so, how should they be balanced?***

In seeking to fulfil the purposes set out in CEA section 3(b) with respect to prediction markets, the Commission may find it helpful to adopt a balanced, principles-based approach that recognises the interaction between market integrity, participant protection, and responsible innovation, while also taking into account potential tensions between these objectives.

A primary consideration is market integrity and susceptibility to manipulation. Because prediction markets are linked to discrete events, it may be relevant to consider whether underlying events are objective, independently verifiable, and not readily subject to influence, and whether trading venues maintain effective surveillance systems capable of identifying manipulative or deceptive conduct. These factors may support the statutory objective of preventing price manipulation and maintaining fair and orderly markets.

A second consideration is participant protection. This may include ensuring that contract terms, settlement methodologies, and risk characteristics are clearly defined and transparently disclosed, and that appropriate safeguards exist to address fraud, abusive practices, and misuse of customer assets. Given the event-driven nature of these products, clarity around settlement processes and dispute resolution may be particularly important in supporting confidence in market outcomes.

A third consideration is the promotion of responsible innovation and fair competition. Event contracts represent an evolving product class that may contribute to price discovery and information dissemination, and their development within regulated markets may enhance competition among trading venues and support market efficiency. At the same time, overly restrictive regulatory approaches may discourage innovation or shift activity toward less transparent or less well-regulated environments.

These objectives may not always be fully aligned and may give rise to trade-offs. Measures designed to reduce manipulation risk, such as restrictive product criteria or participation constraints, may in some cases affect liquidity, participation, or innovation. Conversely, an approach that prioritises product development without sufficient safeguards could affect market integrity or participant confidence.

In balancing these considerations, the Commission may find it helpful to adopt a proportionate and outcomes-based framework. This may involve focusing on whether contracts operate within structures that support market integrity, transparency, and effective risk management, rather than relying on prescriptive or product-specific constraints. Relevant considerations may include the clarity and objectivity of event definitions, the reliability of settlement mechanisms, and the effectiveness of surveillance and governance frameworks.

More broadly, the Commission may wish to consider whether identified risks are material and whether they can be addressed through existing regulatory tools. Where exchange rules, surveillance systems, and statutory anti-manipulation provisions are effective, additional restrictions may not be necessary. This may be particularly relevant where contracts can be structured and risk-managed within established derivatives market frameworks.

From a cost–benefit perspective, leveraging existing regulatory frameworks may provide meaningful safeguards with relatively limited incremental cost. By contrast, more prescriptive measures may increase compliance burdens, affect liquidity, and influence participation. Research on prediction markets suggests that broader participation and market depth may support informational efficiency, while more constrained markets may be more susceptible to inefficiencies, highlighting the importance of market design and governance.

Overall, the Commission may be best placed to fulfil the purposes of section 3(b) by adopting a balanced approach that supports market integrity and participant protection while preserving space for responsible innovation and competition. A framework that emphasises clear rules, effective surveillance, and transparency, while avoiding unnecessary structural constraints, may support these objectives and align with the broader public interest embodied in the CEA.

***Question 12: How do event contracts compare to, or substitute for, insurance contracts? Should the liquidity and availability of insurance with respect to a particular event be a factor in the Commission's public interest determination?***

In considering how event contracts compare to, or substitute for, insurance contracts, the Commission may find it helpful to distinguish between areas of functional overlap and the underlying legal and economic differences between these products.

Event contracts and insurance may, in some circumstances, both provide mechanisms for managing exposure to uncertain future events. Institutional participants, in particular, may use event contracts to manage discrete risks, such as regulatory outcomes, macroeconomic developments, or operational contingencies, that may affect asset values, revenues, or business performance. In this limited sense, event contracts may offer a form of market-based risk transfer that is economically analogous to certain insurance outcomes, particularly where traditional hedging instruments are unavailable or incomplete.

However, the differences between these products are significant. Insurance typically involves indemnification for actual loss, requires an insurable interest, and is subject to underwriting, reserving, capital, and consumer protection requirements specific to the insurance sector. Event contracts, by contrast, are standardised, tradable financial instruments whose payoff depends on the occurrence or non-occurrence of a defined event, rather than proof of loss. They are designed to facilitate price discovery, information aggregation, and the transfer of risk among market participants, including those seeking to assume risk.

In this context, event contracts may be more appropriately viewed as distinct from, rather than substitutes for, insurance products. While they may complement insurance in certain cases, particularly where coverage is unavailable, incomplete, or costly, they do not perform the same legal or regulatory function. This may be particularly relevant where event contracts are centrally cleared and subject to robust risk management frameworks, distinguishing them further from insurance products.

Against this background, the Commission may wish to consider whether the availability or liquidity of insurance for a particular event should play a role in its public interest determination. The existence of insurance markets may provide useful context regarding the nature of the underlying risk, but it may not be necessary to treat it as a determinative factor. The CEA is primarily concerned with whether derivatives markets operate in a manner consistent with market integrity, transparency, and fair trading, rather than whether similar exposures may also be addressed through insurance.

Placing significant weight on the availability of insurance could introduce complexity by importing concepts from a distinct legal and regulatory framework. It may also affect the development of regulated event contract markets without necessarily enhancing participant protection or market integrity, and in some cases could contribute to activity shifting toward less transparent or less well-supervised environments.

At the same time, allowing event contracts to coexist with insurance markets may offer complementary benefits. Event contracts can provide continuous pricing, transparency, and tradability, supporting information aggregation and real-time signals regarding the likelihood of future events, while insurance remains more appropriate where tailored indemnification against realised loss is required.

The Commission may nevertheless wish to remain attentive to cases where an event contract exhibits characteristics that more closely resemble insurance-like outcomes, particularly in retail-facing contexts or where the underlying event raises heightened sensitivities. In such cases, it may be appropriate to ensure that product design, disclosures, surveillance, and governance arrangements are calibrated to address potential risks.

On balance, event contracts and insurance may be understood as serving related but distinct functions. In this context, the Commission's public interest determination may be guided primarily by considerations of market integrity, transparency, participant protection, and the effective functioning of regulated derivatives markets, with the availability of insurance treated as contextual rather than determinative.

***Question 13: Why, or why not, would it be appropriate for the Commission to propose any changes to its regulations related to its public interest determination?***

In considering whether it would be appropriate to propose changes to its regulations related to public interest determinations under CEA section 5c(c)(5)(C), the Commission may find it helpful to assess both the adequacy of the existing framework and the extent to which any identified issues can be addressed through interpretation and supervisory practice.

The current statutory and regulatory framework appears to provide the Commission with a broad and flexible set of tools to address contracts that may be contrary to the public interest. These include section 5c(c)(5)(C) itself, the Core Principles applicable to regulated venues, the Commission's anti-manipulation and anti-fraud authorities, and the system of exchange self-certification coupled with ongoing regulatory oversight. Together, these mechanisms enable both ex post intervention and ongoing supervision of product design, trading activity, and market integrity.

In this context, there may be limited need for extensive new substantive rulemaking at this stage. Many of the issues raised by event contracts, such as settlement robustness, susceptibility to manipulation, and the role of price discovery, appear capable of being addressed within the existing framework through clearer articulation of expectations.

By contrast, introducing new prescriptive rules or formal approval requirements could, in some cases, reduce flexibility and increase compliance burdens without clear corresponding benefits. In particular, changes that move toward an ex-ante approval model, or that effectively reintroduce elements of the former economic purpose test, may be difficult to reconcile with the post–Commodity Futures Modernization Act framework, which emphasises principles-based regulation, exchange responsibility, and Commission oversight.

This does not preclude targeted regulatory action. There may be a case for more limited interventions where they improve clarity, consistency, or supervisory effectiveness. In particular, the Commission may find it helpful to provide additional guidance on:

- the factors that may be relevant when exchanges evaluate contracts that could implicate section 5c(c)(5)(C);
- how public interest considerations interact with existing exchange-level governance and product review processes; and
- expectations relating to settlement governance, surveillance, and post-listing oversight in the context of event contracts.

More broadly, the Commission may wish to consider whether any identified concerns reflect structural gaps in the regulatory framework or, alternatively, uncertainty in the interpretation or application of existing principles. Rule changes may be more appropriate in the former case, whereas interpretive guidance or supervisory engagement may be sufficient in the latter.

On balance, a focus on clarifying existing standards may support effective oversight while maintaining the benefits of the current framework, including flexibility, innovation, and efficient market development. More substantive regulatory changes may be most appropriate where clear and material gaps are identified that cannot be addressed through existing authorities and guidance.

***Question 14: If the Commission were to propose any changes to its regulations related to its public interest determination, what considerations of costs and benefits would be relevant to those changes? What less costly alternatives should the Commission consider? Please provide any relevant specific information, data, or studies that you may have regarding the costs and benefits of such rule changes.***

If the Commission were to propose changes to its regulations related to public interest determinations under CEA section 5c(c)(5)(C), a central consideration would be whether such changes materially improve regulatory clarity, consistency, and market integrity, or whether they duplicate protections already available under the existing framework.

A principal benefit of regulatory change would be greater clarity and predictability in how the public interest standard is applied. More explicit articulation of relevant factors, such as the objectivity of underlying events, the robustness of settlement governance, susceptibility to manipulation, and the contribution of a contract to price discovery, could reduce uncertainty for exchanges and market participants and support more consistent supervisory outcomes.

This benefit may be significant, as uncertainty itself can impose costs. Where participants cannot anticipate how the Commission will apply the public interest standard, they may delay product development, limit participation, or avoid regulated venues. Targeted clarification may therefore enhance both regulatory transparency and market confidence.

At the same time, the Commission may wish to carefully weigh the potential costs of more prescriptive rulemaking. Product-specific restrictions, or frameworks that operate in practice as ex ante approval mechanisms, could increase legal, compliance, and operational burdens for exchanges and intermediaries. These costs may be amplified where economically similar products are treated differently across futures, options, and swaps, or where new requirements duplicate existing governance, surveillance, and risk management obligations.

There may also be broader implications for market structure. The effectiveness of prediction markets is closely linked to participation, liquidity, and market design. Empirical research indicates that prediction markets can function as market-based forecasting tools, with more liquid markets generally producing more accurate and stable price signals. Regulatory approaches that reduce

participation, fragment liquidity, or increase barriers to entry may therefore diminish the informational and price discovery benefits that such markets can provide.

Experience from broader derivatives regulation provides a similar perspective. While increased transparency and oversight have strengthened market resilience, overly complex or fragmented regulatory approaches have, in some cases, increased operational costs and affected market depth. These considerations suggest that regulatory interventions should aim to enhance clarity and integrity without introducing unnecessary friction across products or venues.

In this context, less costly alternatives may be available that achieve many of the same objectives. These may include interpretive guidance or staff advisories, limited technical amendments to clarify how section 5c(c)(5)(C) will be applied, greater standardisation of identifiers and reporting conventions across economically similar event contracts, and continued supervisory engagement with exchanges on settlement governance, product review, and surveillance expectations.

Such approaches may deliver meaningful benefits, improved clarity, more consistent oversight, and enhanced market confidence, at lower cost than broad new substantive rulemaking. On balance, the Commission may wish to prioritise targeted, principles-based measures unless it identifies a specific and material risk that cannot be addressed through the existing statutory framework, the exchange self-certification process, and ongoing supervisory oversight. This approach may help preserve liquidity, innovation, and flexibility while still allowing the Commission to address genuine public interest concerns.

## C. *Activities Listed in CEA Section 5c(c)(5)(C)*

***Questions 15 - 22:***

We acknowledge the consultation on the points in questions 15-22. We have no substantive comments to offer at this time.

## D. *Procedural Aspects of CEA Section 5c(c)(5)(C)*

***Question 23: CEA section 5c(c)(5)(C)(i) provides that the Commission may make a public interest determination "[i]n connection with the listing" of event contracts by prediction markets. What aspects of the prediction market listing process are relevant to deciding at what point in the listing process the public interest determination could occur? What factors should inform the Commission's interpretation of what occurs "[i]n connection with the listing" by a prediction market of an event contract? For example, why would it be appropriate, or not, for the Commission to make a public interest determination when a listing application is reasonably expected, but not yet filed?***

In interpreting the phrase "[i]n connection with the listing" under CEA section 5c(c)(5)(C)(i), the Commission may find it helpful to focus on the stage at which a proposed event contract is sufficiently developed to support a well-informed public interest determination.

An important consideration in this context is whether the contract is concrete and identifiable. This would typically involve the specification of key elements such as the underlying event, contract terms, settlement methodology, and relevant risk characteristics. At that point, the Commission is

better positioned to assess issues such as susceptibility to manipulation, the robustness of settlement, and any connection to activities referenced in the statute.

Against this backdrop, the period at or following formal submission, whether through self-certification or approval, may provide a particularly appropriate basis for a public interest determination. Earlier stages of product development may involve iterative design and evolving features, which could make it more difficult to conduct a stable and reliable assessment. Determinations made on the basis of preliminary concepts may therefore risk being more abstract or subject to revision.

At the same time, the Commission may wish to retain the ability to engage prior to formal submission where appropriate. Pre-filing dialogue, informal staff engagement, and the provision of early, non-binding feedback can be valuable tools in identifying and addressing potential concerns. Such engagement can support exchanges in refining product design, while remaining distinct from the exercise of formal determination authority.

In this light, "[i]n connection with the listing" may reasonably be understood to encompass the period during which a contract is formally proposed for listing, and, where appropriate, a period following listing if material issues arise. This interpretation allows for determinations to be made on the basis of a sufficiently developed record, while avoiding the uncertainty that could arise if anticipated or not-yet-filed products were routinely subject to formal review.

Overall, an approach that focuses formal determinations around the listing stage, complemented by earlier informal engagement, may help support effective oversight while also promoting procedural clarity and predictability for market participants.

***Question 24: What factors should inform the Commission's interpretation of whether CEA section 5c(c)(5)(C) contemplates that elements of a public interest determination could be made with respect to a category of event contracts, rather than a specific event contract? For example, what factors should the Commission consider in determining whether to provide guidance regarding how it expects to make any public interest determination? Would it be useful for the Commission to provide illustrative examples of event contracts that do, or do not, involve the listed activities? Why or why not?***

In considering whether CEA section 5c(c)(5)(C) contemplates that elements of a public interest determination may be made with respect to a category of event contracts, the Commission may find it helpful to consider the extent to which certain types of contracts share sufficiently common features to support a more generalised assessment.

Category-level considerations may be particularly relevant where event contracts exhibit common characteristics, such as similar underlying activities, comparable settlement methodologies, or broadly analogous incentive structures and manipulation risks. In these circumstances, more general guidance may assist in promoting consistency in the application of the statutory standard and may provide exchanges with a clearer basis for product development and self-certification.

At the same time, contracts within any given category may differ in ways that are relevant to the public interest analysis, including differences in market structure, liquidity, settlement design, or governance arrangements. As a result, category-level guidance may be most effective when

complemented by the ability to consider contract-specific features where these are material to the assessment.

In determining whether to provide guidance of this kind, the Commission may wish to take into account factors such as whether interpretive questions arise on a recurring basis, whether particular categories give rise to identifiable and consistent risk considerations, and whether guidance would enhance predictability without effectively introducing new substantive requirements. Illustrative examples may also be helpful in this context. Non-exhaustive examples of event contracts that do, or do not, implicate the activities identified in the statute may assist in demonstrating how the Commission expects to apply the public interest standard in practice. This may support more consistent exchange-level decision-making while reducing the need for formal determinations in each instance. At the same time, it may be helpful for such examples to remain illustrative rather than binding. This may allow the Commission to provide greater transparency while preserving flexibility to consider the specific facts of individual contracts and to respond to evolving market developments.

Overall, an approach that combines targeted category-level guidance with case-specific assessment may support clarity and consistency, while maintaining the flexibility needed to address the range of event contracts that may be presented.

***Question 25: CEA section 5c(c)(5)(C)(i) provides that the Commission may make a public interest determination for event contracts that "involve" the listed activities. What elements are relevant to determining what event contracts "involve"? What factors should inform the Commission's interpretation of when event contracts are sufficiently tied to a listed activity in order to say that the event contracts "involve" that activity?***

In interpreting when an event contract "involves" a listed activity under CEA section 5c(c)(5)(C)(i), the Commission may find it helpful to focus on the nature, proximity, and materiality of the connection between the contract and the relevant activity.

A central consideration may be whether the occurrence of the listed activity is determinative of the contract's outcome. Where the payoff, settlement, or defining event depends directly on that activity, this may indicate that the contract involves the activity in a meaningful sense. By contrast, where the relationship is indirect or contingent on a broader set of circumstances, the connection may be more attenuated.

The Commission may also wish to consider whether the listed activity forms a core component of the contract, or whether it is incidental to a wider event or framework referenced by the contract. Where the activity is central to the contract's design, this may support a finding that the contract involves that activity. Where it is peripheral or one of multiple contributing elements, this may point in the opposite direction.

Another relevant factor may be the closeness of the linkage between the contract and the activity. Contracts that reference the occurrence or non-occurrence of the activity itself may be more readily characterised as involving that activity than contracts that reference secondary or derivative effects.

The extent to which the contract creates a meaningful nexus to the listed activity may also be informative. For example, where participation in the contract could reasonably be expected to influence, relate closely to, or be perceived as connected to the occurrence of the activity, this may

reinforce the conclusion that the contract involves that activity. Where no such nexus is present, the connection may be less substantial.

Taken together, these considerations may suggest that "involves" is best understood as requiring a sufficiently direct and material connection between the contract and the listed activity, rather than a purely incidental, contextual, or remote association. An approach grounded in dependency, centrality, and proximity may support a consistent and workable interpretation while allowing for appropriate flexibility across different contract types.

***Question 26: CEA section 5c(c)(5)(C)(iv) provides that the Commission must take final action regarding its public interest determination "not later than 90 days from the commencement of [the Commission's] review unless the party seeking to offer the contract or swap agrees to an extension." How should this time limit inform the Commission's procedure for making public interest determinations? Considering this limitation, what steps would be appropriate, or not, for the Commission to take prior to making its determination?***

In implementing the 90-day time limit in CEA section 5c(c)(5)(C)(iv), the Commission may find it helpful to adopt procedures that are structured around the statutory constraint, while still allowing for a meaningful assessment of public interest considerations.

A central implication of the 90-day period is the importance of a clearly defined starting point for review. In this context, the Commission may wish to consider treating the commencement of the review period as beginning once it has received a submission that is sufficiently complete to support a reasoned determination. This may include key contract terms, settlement methodology, and information relevant to assessing any connection to listed activities. A defined threshold for completeness may help ensure that the statutory period functions as an effective review window rather than being consumed by preliminary information gathering.

Prior to making its determination, the time constraint may favour a focused and proportionate set of procedural steps. These may include targeted requests for clarification, engagement with the listing exchange on specific aspects of product design or risk mitigation, and, where relevant, coordination with other regulators on discrete issues. Any such steps may be most effective where they are clearly scoped and time-bound, so as to support completion of the review within the statutory timeframe.

The statutory deadline may also inform which procedural approaches are less well suited to the determination process. For example, open-ended information requests, broad or iterative consultation processes, or the review of proposals that are not yet sufficiently developed may make it more difficult to complete the assessment within 90 days and may introduce avoidable uncertainty. In this respect, the time limit may reinforce the value of a well-defined record at the outset of the review.

The ability to extend the 90-day period by agreement provides additional flexibility, particularly in cases involving novel or complex contracts. Where extensions are used, it may be helpful for them to remain consistent with the overall objective of providing timely and predictable outcomes, rather than becoming a routine substitute for a structured review process.

Overall, the statutory timeframe may be understood as encouraging a disciplined and clearly sequenced procedure: one that begins with a sufficiently complete submission, proceeds through

targeted and time-bound engagement, and culminates in a determination within a predictable period. Such an approach may help support both effective oversight and procedural certainty for market participants.

***Question 27: Why, or why not, would it be appropriate for the Commission to propose any changes to its regulations related to procedures under CEA section 5c(c)(5)(C)?***

In considering whether it would be appropriate to propose changes to procedures under CEA section 5c(c)(5)(C), the Commission may find it helpful to assess both the extent to which the current framework is operating effectively and whether targeted refinements could enhance clarity, efficiency, or consistency.

On the one hand, the existing framework provides a degree of procedural flexibility. It allows the Commission to request information, engage with exchanges, and conduct its review within a defined statutory timeframe, while preserving the broader model of exchange-led product development subject to Commission oversight. In this context, there may be value in considering whether incremental improvements, rather than more extensive procedural rulemaking, would be sufficient to address any areas of uncertainty. For example, additional clarity around submission requirements, the point at which review formally begins, the scope of the Commission's inquiry, and the operation of the 90-day period may support greater predictability and consistency for market participants. Targeted guidance or technical refinements in these areas may enhance the functioning of the process without altering its underlying structure.

On the other hand, it may also be helpful to consider the potential implications of more prescriptive procedural changes. Greater formalisation or more front-loaded requirements could, in some cases, increase compliance costs, extend timelines, or reduce the flexibility associated with self-certification. These effects may be particularly relevant where contracts are novel or continue to evolve during development.

In this light, approaches that maintain procedural flexibility while improving transparency may offer a balanced way forward. Targeted refinements and clarifications may provide meaningful benefits at relatively low cost, whereas broader procedural changes could introduce additional complexity without commensurate gains.

Overall, a measured approach that focuses on enhancing clarity and consistency within the existing framework may support an effective and proportionate evolution of the Commission's procedures under section 5c(c)(5)(C).

***Question 28: If the Commission were to propose any changes to its regulations related to procedures under CEA section 5c(c)(5)(C), what considerations of costs and benefits would be relevant to those changes? What less costly alternatives should the Commission consider? Please provide any relevant specific information, data, or studies that you may have regarding the costs and benefits of such regulations or rule changes.***

If the Commission were to propose changes to procedures under CEA section 5c(c)(5)(C), it may be helpful to consider whether those changes would enhance clarity, timeliness, and consistency, while preserving the flexibility that characterises the existing framework.

A principal potential benefit of procedural changes is increased predictability. Clearer expectations regarding submission requirements, the commencement of review, the scope of information to be provided, and the operation of the 90-day period may help reduce uncertainty for exchanges and market participants. Greater procedural clarity may, in turn, support more efficient product development and review processes, particularly where uncertainty around timing or requirements might otherwise delay engagement or discourage participation in regulated markets.

At the same time, it may be important to consider the potential costs associated with more prescriptive procedures. More formalised or front-loaded requirements may increase legal and operational burdens, extend timelines, or reduce the flexibility associated with the self-certification model. These effects may be more pronounced for newer or smaller market participants, and could have implications for innovation and market accessibility.

A further consideration is the potential for procedural complexity to introduce regulatory friction. In derivatives markets, more complex or fragmented processes can increase operational costs and reduce efficiency, even where underlying substantive standards remain unchanged. In this respect, the design of procedural requirements may be most effective where it supports a streamlined and coherent review process.

In light of these considerations, the Commission may wish to consider lower-cost alternatives to more extensive rulemaking. These may include interpretive guidance, staff advisories, model submission templates, or limited technical amendments that clarify key procedural elements. Such measures may provide many of the benefits associated with procedural reform, particularly improved clarity and consistency, while avoiding some of the costs and rigidity that more prescriptive changes could introduce.

While we are not aware of specific empirical studies directly addressing the costs and benefits of procedural changes under section 5c(c)(5)(C), experience in related regulatory contexts suggests that incremental clarifications and guidance can often deliver meaningful improvements in predictability at relatively low cost, whereas more extensive procedural reforms may involve higher implementation and compliance burdens.

Overall, an approach that emphasises targeted clarification and practical guidance, while preserving the flexibility of the current framework, may support an appropriate balance between regulatory certainty and efficient market functioning.

## E. Inside Information

***Question 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?***

The role of participants with an informational advantage in prediction markets may present both potential public interest benefits and associated risks. In this context, the Commission may find it helpful to distinguish between advantages derived from lawful analysis, such as the interpretation of public information, domain expertise, or forecasting methodologies, and those based on confidential, privileged, or material non-public information.

There may be public interest utility in allowing participants with lawful informational advantages to trade. Prediction markets can, in some cases, aggregate dispersed information into prices that reflect collective expectations about future events. Where participants contribute informed views based on analysis or expertise, market prices may provide useful probabilistic signals. In this respect, informed participation may support price discovery and information dissemination.

At the same time, the nature and extent of this utility may depend on the type of underlying event. In markets tied to broad, observable, and information-rich events, such as macroeconomic indicators or widely followed sporting events, informational advantages are more likely to reflect lawful analysis and may contribute positively to market efficiency. By contrast, in markets linked to sensitive, discretionary, or non-public outcomes, informational asymmetries may more readily stem from access to privileged information or proximity to decision-making processes. In such cases, the risks to fairness, market integrity, and public confidence may be more pronounced. In evaluating and balancing these considerations, the Commission may wish to take into account factors such as:

- the source of the informational advantage, including whether it is based on public analysis or non-public information;
- the extent to which trading contributes to price discovery and informational efficiency;
- the potential for misuse of confidential or privileged information;
- the susceptibility of the market to manipulation or strategic trading, particularly in less liquid environments; and
- the potential impact on public confidence in regulated markets.

In this context, it may be helpful to focus on conduct that undermines market integrity, such as misuse of non-public information, deceptive practices, or manipulation, rather than on the existence of informational differences among participants as such.

On balance, permitting trading based on lawful informational advantages within a framework that deters misuse of non-public information may support both market efficiency and participant protection, while recognising that the appropriate balance may vary depending on the nature of the underlying event.

***Question 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?***

Where an event underlying a contract is controlled by a single individual or a small group of individuals, that characteristic may be a relevant consideration in assessing manipulation risk and overall market integrity. In such cases, participants with the ability to influence the outcome may have both informational and practical advantages, and trading positions may create incentives to affect the event itself.

As with informational asymmetries, the significance of this factor may depend on the nature of the underlying event. In markets tied to broad, decentralised, or highly observable events, the ability of any single participant to influence the outcome is likely to be limited. By contrast, where outcomes are determined by a small number of decision-makers, there may be a closer connection between trading incentives and the capacity to influence the event. In these cases, both informational advantages and outcome influence may be more concentrated.

This issue may also give rise to cross-market considerations. A participant could seek to influence pricing in a prediction market to affect perceptions or valuations in another market, or seek to influence the underlying event while holding positions in the prediction market. These risks may be more relevant where markets are less liquid, where there is a credible channel for influencing the underlying event, or where pricing relationships exist between prediction markets and other financial products.

In considering whether prediction markets are more susceptible to manipulation than other DCMs or SEFs, it may be helpful to distinguish between different forms of manipulation. Prediction markets may, in some cases, be more exposed to outcome-linked or informational forms of manipulation, particularly where settlement depends on events that are discretionary, subjective, or susceptible to influence. At the same time, they may be less exposed to certain traditional forms of commodity market manipulation, such as squeezes or corners, where no deliverable supply is involved. The relevant consideration may therefore be the nature of the potential manipulation channel, rather than a categorical difference in susceptibility.

In this context, the Commission may find it helpful to treat concentration of control over the underlying event as a relevant, but not determinative, factor within a broader risk-based framework. Measures such as enhanced surveillance, robust settlement governance, and, where appropriate, position limits or accountability mechanisms may assist in addressing these risks, while preserving the informational value of prediction markets.

***Question 31: CEA section 6(c)(1) provides that "[i]t shall be unlawful for any person, directly or indirectly, to use or employ, or attempt to use or employ, in connection with any swap, or a contract of sale of any commodity in interstate commerce, or for future delivery on or subject to the rules of any registered entity, any manipulative or deceptive device or contrivance, in contravention of such rules and regulations as the Commission shall promulgate by [July 21, 2011], provided no rule or regulation promulgated by the Commission shall require any person to disclose to another person nonpublic information that may be material to the market price, rate, or level of the commodity transaction, except as necessary to make any statement made to the other person in or in connection with the transaction not misleading in any material respect." What aspects of prediction markets are relevant to the application of this statute? Are prediction markets more or less likely than other derivative markets to be susceptible to "any manipulative or deceptive device or contrivance"? How should the potential for***

***application of this statute inform the Commission's regulation of prediction markets?***

In considering the application of CEA section 6(c)(1) to prediction markets, the Commission may find it helpful to take into account both the breadth of the statutory prohibition on "any manipulative or deceptive device or contrivance" and the specific ways in which informational and outcome-based risks may manifest in these markets.

As discussed above, prediction markets are often characterised by price formation that is closely linked to information flows and expectations, and, in some cases, by the potential for concentrated influence over the underlying event. These features may give rise to forms of misconduct that extend beyond trading activity alone, including conduct designed to influence information, expectations, or perceived probabilities.

In this respect, the concepts of "device" and "contrivance" may be particularly relevant. Prediction markets may, in some cases, be more exposed than certain traditional derivatives markets to forms of conduct such as the dissemination of misleading or selectively framed information, coordinated trading intended to create artificial probability signals, or attempts to influence related markets or public perception. These behaviours may fall within the scope of section 6(c)(1), even where they differ from more traditional forms of manipulation.

At the same time, prediction markets may be less exposed to certain classical manipulation mechanisms associated with deliverable commodity markets. As a result, the relevant question may not be whether these markets are more or less susceptible in general, but rather how the nature of potential manipulation differs, with relatively greater emphasis on informational, behavioural, and outcome-linked conduct.

The breadth of section 6(c)(1) may provide a flexible and principles-based framework for addressing these risks. In this context, the Commission's approach may benefit from focusing on how the existing anti-manipulation standard applies to the specific features of prediction markets, rather than developing a separate product-specific regime. This may be supported by exchange-level safeguards, including effective surveillance of trading patterns and related conduct, controls to identify coordinated or manipulative strategies, and clear rules addressing deceptive communications in connection with trading.

On balance, an approach that leverages the flexibility of the existing anti-manipulation framework, combined with robust market oversight, may support effective regulation of prediction markets while preserving their informational and economic value.

***Question 32: CEA section 4c(a)(3) provides that "[i]t shall be unlawful for any employee or agent of any department or agency of the Federal Government or any Member of Congress or employee of Congress … or any judicial officer or judicial employee … who, by virtue of the employment or position of the Member, officer, employee or agent, acquires information that may affect or tend to affect the price of any commodity in interstate commerce, or for future delivery, or any swap, and which information has not been disseminated [or disclosed] … in a manner which makes it generally available to the trading public, … to use the information in his personal capacity and for personal gain to enter into, or offer to enter into [a futures contract, option on a futures contract, commodity option, or swap]." Similarly, CEA***

***section 4c(a)(4) provides that it is unlawful for any such Federal Government employee or official to impart such information in his personal capacity and for personal gain with intent to assist another person in entering into a futures contract, option on a futures contract, commodity option, or swap, and it is unlawful for the other person who receives such information from any such Federal Government employee or official to knowingly use the information in such transactions. How are prediction markets likely to be affected by nonpublic information that is available to Federal Government employees or officials? How should the potential for application of this statute inform the Commission's regulation of prediction markets?***

Prediction markets may, in certain cases, be particularly sensitive to material non-public information held by Federal Government employees or officials. This may be especially relevant where event contracts are linked to government actions, policy decisions, regulatory outcomes, or official determinations, as advance knowledge of such events may have a direct effect on contract prices. This sensitivity may be more pronounced in event-driven markets, where prices reflect the probability of discrete outcomes and where even limited non-public information may materially affect expected probabilities. In less liquid markets, trading based on such information may also have a more visible impact on price formation.

The extent of this sensitivity may depend on the nature of the underlying event. Contracts linked to central bank decisions, regulatory actions, legislative developments, or judicial outcomes may present a closer connection to information held within government institutions. By contrast, contracts tied to broadly observable or non-governmental events may be less directly affected by this category of non-public information. In this context, the prohibitions in CEA sections 4c(a)(3) and (4) may be particularly relevant. These provisions address both the use of material non-public government information for personal gain and the improper communication of such information to others in connection with trading. As such, they may provide an important safeguard in prediction markets where pricing is closely linked to government-related events.

The potential application of these provisions may inform the Commission's regulatory approach in several ways. First, it may be helpful to ensure that the existing statutory prohibitions are clearly understood as applying to event contracts in the same manner as to other covered instruments. Second, reinforcing awareness of these obligations among market participants and operators may support deterrence, particularly in markets linked to government-sensitive outcomes. Third, exchanges listing such contracts may play an important role in maintaining effective surveillance designed to identify unusual trading patterns or activity around key announcements or decisions.

In this context, targeted guidance or reminders may be a useful tool, particularly in relation to contracts that are closely linked to government actions. Such measures may enhance clarity and promote consistent compliance without the need for more prescriptive, product-specific rules.

Overall, reliance on the existing statutory framework, supported by clear communication of expectations and robust exchange-level controls, may provide an effective and proportionate approach to addressing the risks associated with non-public government information in prediction markets, while preserving the flexibility of the current regulatory structure.

## F. Types of Event Contracts and Other Issues

***Question 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)(i) 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?***

In considering whether event contracts fall within the statutory definition of a swap, the Commission may find adopting a functional, substance-based approach that focuses on how such products operate in practice, including their design, market structure, and risk characteristics helpful.

**Relevance of prediction market characteristics to swap classification**

Certain event contracts may fall within the statutory definition of a swap. Under section 1a(47)(A)(ii), contracts whose value depends on the occurrence or non-occurrence of an event associated with a financial, economic, or commercial consequence may fall within scope. Similarly, under section 1a(47)(A)(i), contracts structured as contingent payouts may, in some cases, resemble options based on the value of financial or economic interests. At the same time, the statutory definition is intentionally broad and encompasses instruments with differing economic functions and risk profiles. As a result, classification questions may benefit from considering how event contracts operate in practice.

**Distinguishing event contracts from traditional swaps**

Event contracts may differ from traditional swaps in several respects. First, event contracts are typically standardised, exchange-traded, and centrally cleared, and generally do not involve bilateral negotiation or counterparty credit exposure or other non-economic terms in the same manner as over-the counter (OTC) swaps. Second, the payoffs of event contracts are often binary or event-driven, rather than linear or path-dependent, and they may be used to express views on discrete outcomes or to aggregate information, rather than to manage ongoing financial, economic, or commercial exposures. Additionally, to date, most event contracts have been designed to attract retail interests and have therefore been fully margined.

The above features of event contracts suggest that the primary risks associated with such contracts may differ from those typically addressed in the swaps framework. And, as discussed more fully below, event contracts may have more similarities to exchange-traded futures than to swaps.

**Financial, economic, or commercial consequences**

Event contracts may reference outcomes that have financial, economic, or commercial consequences, including macroeconomic indicators, financial market thresholds, or policy and regulatory decisions. The economic relevance of such contracts may arise from their connection to variables that influence asset values, market conditions, or commercial activity, even where the contract itself reflects a probabilistic outcome.

**Relationship to financial or economic interests or property**

Event contracts may also be linked, directly or indirectly, to the value of financial or economic interests or property. For example, contracts referencing interest rate decisions, index levels, or regulatory outcomes may relate to factors that affect the valuation of financial instruments or business operations. In this sense, certain event contracts may function as contingent instruments referencing underlying economic variables, even where they are not tied to a single identifiable asset.

**Idiosyncratic risks of event contracts**

Event contracts may exhibit characteristics that distinguish them from other commodity derivatives. Event contract characteristics may include binary or discontinuous payoffs, potentially giving rise to "cliff effects" at resolution; event-driven volatility, with price movements concentrated around information releases; liquidity concentration as contracts approach resolution; and reliance on external determinations for settlement. Unlike traditional commodity derivatives which can require physical settlement of the underlying commodity, giving rise to physical delivery and settlement risk, event contracts lack a tangible asset for physical delivery.

The risks inherent in event contracts outlined above relate primarily to pricing dynamics, liquidity, and settlement governance, rather than to bilateral counterparty exposure and the delivery and settlement risks associated with non-event driven commodity derivatives.

**Regulatory implications**

In considering how to regulate event contracts, the Commission may find focusing on where the principal risks arise helpful. Where contracts are standardised, exchange-traded, and centrally cleared, the relevant considerations are more closely aligned with market integrity, margining, and settlement processes associated with futures contracts than with the counterparty credit and bilateral risk considerations underpinning much of the swaps framework. A functional, risk-based approach may therefore support alignment between regulatory treatment and the way these products operate in practice.

A functional, substance-based-approach may also be relevant in considering how comparable products are treated across different regulatory frameworks. For example, contracts offered on trading venues that may be accessible to non-retail market participants under the cross-jurisdictional participation regime, or products structured within existing futures or options

frameworks, may present similar economic characteristics.1 In this context, a focus on economic substance and functional equivalence may support consistency across comparable products, while helping to avoid regulatory fragmentation.

Functional, substance-based considerations may be particularly relevant for venues assessing whether event contracts could be structured within established futures or options frameworks in a manner consistent with existing regulatory regimes. An approach that takes into account product design, market structure, and the nature of the underlying risks may help ensure that regulatory treatment remains proportionate and coherent across markets.

**Comparison with commodity options**

Event contracts may share certain features with commodity options, particularly where they involve contingent payouts based on defined conditions. However, they may differ in important respects. Event contracts typically reference discrete outcomes rather than continuous price movements; their pricing reflects probabilistic expectations rather than conventional volatility and time value; and their settlement depends on the occurrence of a specified event rather than the level of an underlying asset at expiry. Such distinctions suggest that existing options frameworks may not provide an appropriate regulatory fit for event contracts.

**Overall approach**

Taken together, the above considerations suggest that, while certain event contracts may fall within the statutory definition of a swap, classification for regulatory purposes their classification may be more consistent with that of a futures contract. Classification for regulatory purposes may therefore benefit from a functional assessment that takes into account product design, market structure, and the nature of the risks involved. Such an approach may support consistency across economically similar products and help ensure that regulatory treatment is proportionate to the risks presented.

***Question 34: Event contracts are also traded on DCMs as futures contracts. What aspects of prediction markets are relevant to whether event contracts should, or should not, appropriately be classified as futures contracts? What aspects, if any, distinguish event contracts from other types of futures contracts?***

As noted above, a functional, substance-based approach that takes into account product design, market structure, and the nature of the underlying risks may assist in assessing whether event contracts align with established regulatory frameworks for futures.

**Relevance of prediction market characteristics to futures classification**

Event contracts traded on prediction markets often exhibit features commonly associated with futures contracts. They are typically standardised, exchange-traded, and centrally cleared, with transparent pricing and participation through a regulated venue. These characteristics of event contracts support comparability with futures contracts from a market structure and risk management perspective.

[1] In some jurisdictions, including the UK and EU, event contracts are subject to retail investor bans.

Such event contract features may be particularly relevant where event contracts are designed to operate as liquid, centrally risk-managed instruments with margining, price limits, and surveillance consistent with designated contract market frameworks.

**Distinguishing event contracts from traditional futures**

Event contracts may differ from traditional futures in several respects:

- they reference discrete, binary outcomes rather than continuous price movements;
- they do not typically involve deliverable supply or cash settlement based on a reference price;
- their pricing reflects probabilistic expectations rather than forward curves or cost-of-carry relationships;
- their economic function may relate to discrete risk expression or information aggregation rather than ongoing exposure to price movements in an underlying asset;
- those offered to retail are fully collateralized rather than traded on margin, in contrast to traditional futures which are leveraged instruments requiring sophisticated risk management.

The above distinctions between event contracts and futures contracts may be relevant in assessing how existing futures frameworks apply, but do not preclude classification as futures where other core characteristics are present.

**Types of event contracts and suitability for futures classification**

The suitability of futures classification may depend on the nature of the underlying event. Event contracts linked to financial, economic, or commercial outcomes, such as macroeconomic indicators, interest rate decisions, or financial market thresholds, may align more naturally with futures frameworks. In these cases, the underlying event is closely connected to variables that influence asset prices, market conditions, or commercial activity, and the contracts may serve functions analogous to hedging or price discovery in traditional derivatives markets.

By contrast, event contracts linked to highly idiosyncratic, discretionary, or non-economic outcomes may present a less direct connection to the types of risks typically addressed in futures markets. In such cases, considerations around settlement, susceptibility to manipulation, or market integrity may warrant closer assessment in determining the appropriate regulatory treatment.

**Alignment with futures market risk framework**

Where event contracts are standardised, exchange-traded, and centrally cleared, many of the principal risks, such as market integrity, price formation, margining, and settlement, are addressed within the existing futures regulatory framework. In particular, designated contract markets are designed to manage risks arising from trading activity, including volatility, liquidity concentration, and orderly settlement.

Certain event contracts may therefore be well suited to futures classification where their primary risks are consistent with those addressed through existing exchange-level controls, rather than the counterparty credit and bilateral risks associated with swap markets.

**Regulatory implications**

As with swap classification, the Commission may find considering how comparable products are treated across different regulatory contexts helpful. Products offered on trading venues under the cross-jurisdictional participation regime to non-retail market participants, or contracts structured within existing futures or options frameworks, may exhibit similar economic characteristics[2]. A focus on economic substance and functional equivalence may therefore support consistency across markets and reduce the risk of fragmentation. A functional, substance-based approach may be particularly relevant for venues assessing whether event contracts can be listed within established futures frameworks in a manner consistent with existing regulatory requirements. A functional approach that takes into account product design, market structure, and the nature of the underlying risks may help ensure that regulatory treatment remains proportionate and coherent.

**Overall approach**

The considerations discussed above suggest that, while event contracts differ in certain respects from traditional futures, many event contracts may be appropriately classified as futures where they are standardised, exchange-traded, centrally cleared, and linked to financial, economic, or commercial outcomes. A functional assessment that focuses on economic substance and risk characteristics may help ensure consistency across comparable products and support a coherent and proportionate regulatory framework and supports the classification of event contracts as futures where those characteristics are present.

***Question 35: The event underlying an event contract is typically within the definition of the term "excluded commodity" in CEA section 1a(19). Are there any event contracts that are based on events that are not within this statutory definition? If so, how are those event contracts similar to, or different from, event contracts based on events that are within the statutory definition of "excluded commodity"? How are such differences, if any, relevant to the Commission's regulation of event contracts and prediction markets?***

Most event contracts are likely to reference outcomes that fall within the definition of "excluded commodity" in CEA section 1a(19), particularly where they relate to financial or economic indicators such as interest rates, price levels, indices, or similar measurable variables. However, certain types of event contracts may reference outcomes that fall outside, or at the margins of, this statutory definition.

**Event contracts within the scope of excluded commodities**

Where event contracts reference financial or economic variables, they may align closely with traditional derivatives on excluded commodities, as the underlying reference may be comparable to established benchmarks or indices commonly used in futures and options markets. From a functional perspective, such event contracts may share core characteristics with other derivatives on excluded commodities, including standardisation, exchange trading, central clearing, and settlement based on objective and verifiable data sources - features that may support comparability with existing derivatives frameworks and facilitate alignment with established regulatory approaches for futures.

**Event contracts outside or at the margins of excluded commodities**

[2] In some jurisdictions, including the UK and EU, event contracts are subject to retail investor bans.

Certain event contracts may reference outcomes that are less clearly within the statutory definition of excluded commodities, such as political events, awards, or other discrete non-financial outcomes. While such events may have indirect financial or economic implications, they may not correspond to traditional categories of commodities or financial benchmarks.

Notwithstanding these differences, such event contracts may still exhibit structural characteristics similar to those of futures contracts, including centralised trading, probabilistic pricing, defined settlement mechanisms, and participation through regulated venues. As a result, the distinction between an event contract and a futures contract may lie more in the nature of the underlying reference than in the way the product functions as a traded instrument.

**Relevance of these distinctions for regulation**

The distinction between event contracts based on excluded commodities and those based on other types of events may be relevant in certain contexts, particularly in assessing:

- the objectivity and verifiability of settlement;
- susceptibility to manipulation or influence, especially where outcomes are discretionary or less observable; and
- the extent to which the contract aligns with traditional derivatives market functions such as hedging or price discovery.

At the same time, the category of the underlying event does not, in itself, determine the overall risk profile of the contract. Many of the key risks, such as those relating to market integrity, liquidity, and settlement, arise from product design, trading structure, and market dynamics rather than from the classification of the underlying reference alone.

**Overall approach**

As outlined above, the Commission may find adopting a functional and substance-based approach that focuses on product design, market structure, and the nature of the risks involved. Where event contracts are standardised, exchange-traded, and centrally cleared, and where settlement is based on objective and verifiable criteria, existing derivatives frameworks, including those applicable to futures and options on excluded commodities, may in many cases provide an appropriate regulatory fit.

Consistent with the functional and substance-based approach, the classification of event contracts may benefit from a focus on economic substance and functional equivalence, including consistency across comparable products and regulatory frameworks. Such an approach may support coherent and proportionate regulatory outcomes while allowing for appropriate consideration of differences in underlying references where these are material.

***Question 36: Are there any agreements, contracts or transactions that are significantly similar to event contracts, but are not listed on a DCM or SEF? If so, how are those agreements, contracts or transactions similar to, or different from, event contracts listed on DCMs and SEFs?***

There are a number of agreements, contracts, and transactions that are functionally similar to event contracts but are not listed on a DCM or SEF. These may include certain OTC derivatives, structured

products, platform-based prediction or wagering products, and other contingent risk-transfer arrangements.

**Similarities**

These products may share key characteristics with listed event contracts, including:

- dependence on the occurrence or non-occurrence of a specified event;
- binary or contingent payoff structures;
- pricing that reflects probabilistic expectations; and
- use as tools for expressing views or transferring event-based risk.

From a functional perspective, such products may be economically similar to listed event contracts, notwithstanding differences in form or venue.

**Differences in market structure**

The principal differences may arise from market structure rather than product design. In particular, event contracts listed on DCMs or SEFs benefit from:

- centralised trading and price transparency;
- standardised contract terms;
- central clearing and margin-based risk management; and
- established surveillance and conduct controls.

By contrast, off-venue or OTC arrangements may involve bilateral counterparty exposure, bespoke terms, reduced transparency, and more limited oversight.

**Regulatory relevance**

These distinctions may be relevant in assessing regulatory treatment. They suggest that key considerations may arise less from the existence of an event-based payoff and more from the framework within which the product is offered and traded. Where economically similar products exist outside regulated venues, differences in regulatory treatment based solely on form or venue may give rise to inconsistency or fragmentation.

At the same time, the use of regulated trading venues may mitigate certain risks, including counterparty risk, opacity, and the potential for undetected misconduct. In this respect, the availability of DCM or SEF trading may support market integrity and transparency relative to off-venue arrangements.

**Overall approach**

In this context, the Commission may find it helpful to consider both economic equivalence and market structure in determining the appropriate regulatory approach. An approach that recognises functional similarities across products, while also taking into account the benefits of trading within transparent and well-supervised markets, may support proportionate and effective oversight.

Taken together, a functional and substance-based approach may help support consistent and proportionate regulatory outcomes across event contracts, including alignment with existing

futures or options frameworks where appropriate, while avoiding unnecessary fragmentation across regulatory regimes.

***Question 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 to subject these agreements, contracts, or transactions to the regulatory scheme for swaps and 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?***

The 2012 joint interpretation excluding certain consumer and commercial agreements from the swap definition reflects the principle that not all arrangements involving future contingencies should be treated as derivatives, particularly where they are not designed for trading, financial risk transfer, or participation in organised markets.

**Comparison with event contracts**

Event contracts traded on prediction markets are generally distinguishable from the types of agreements contemplated in that interpretation. In particular, event contracts are typically:

- standardised and fungible;
- capable of being traded in secondary markets;
- priced on a continuous or near-continuous basis; and
- designed to facilitate price discovery, information aggregation, or risk transfer.

By contrast, consumer and commercial agreements covered by the exclusion, such as ordinary commercial contracts or personal arrangements, are generally non-standardised, not intended for trading, and entered into primarily for operational, personal, or commercial purposes rather than financial market participation.

**Potential areas of similarity or overlap**

There may be certain edge cases, particularly outside regulated markets, where event-based arrangements more closely resemble consumer-oriented, recreational, or entertainment-driven products. In such cases, factors such as the absence of standardisation, limited transferability, and the lack of market-based pricing may align more closely with the types of agreements contemplated in the 2012 interpretation.

However, where such arrangements are standardised, transferable, and priced in a manner that reflects market expectations, they may begin to exhibit characteristics more consistent with financial instruments, even if they are presented in a non-traditional format.

**Regulatory relevance**

The distinction reflected in the 2012 interpretation is grounded in the nature and purpose of the activity. Where arrangements are not designed for trading or financial risk transfer, the rationale for excluding them from the swap definition is more directly applicable. By contrast, where event contracts function as tradable financial instruments within organised or platform-based markets, the considerations underlying the exclusion may be less relevant.

In this respect, the key factors may include standardisation, tradability, price formation through market mechanisms, and the presence of a financial or risk-transfer function. These features may indicate that the product operates within a financial market context, even where the underlying event differs from traditional financial variables.

**Overall approach**

In this context, the Commission may find it helpful to apply a functional and substance-based approach that distinguishes between:

- non-tradable, consumer or commercial arrangements entered into for personal or operational purposes; and
- standardised, tradable instruments operating within financial market structures.

Consistent with this approach, the classification of event contracts may benefit from a focus on economic substance and functional equivalence, including consistency across comparable products and regulatory frameworks. Such an approach may support proportionate treatment while maintaining alignment with the broader objectives of the derivatives regulatory regime.

***Question 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.***

CEA section 15(a) provides a useful framework for assessing the costs and benefits of regulating prediction markets, and each of the statutory considerations may be relevant in light of the particular features of event-driven products.

**Protection of market participants and the public**

Relevant considerations may include market integrity, transparency, and the potential for abusive conduct in markets that are often information-sensitive and episodic in nature. Prediction markets

may, in some circumstances, be more sensitive to information asymmetries, concentrated trading, or attempts to influence settlement outcomes or perceived probabilities. At the same time, these risks may often be addressed through the application of existing surveillance, conduct, and settlement controls where those tools are appropriately calibrated to the characteristics of event contracts.

**Efficiency, competitiveness, and financial integrity of futures markets**

Prediction markets that operate within standardised, exchange-traded, and centrally cleared frameworks may support efficient market functioning and financial integrity through transparent trading, central risk management, and established market controls. In this context, regulatory approaches that are proportionate and consistent across economically similar products may help support competition and reduce the risk of fragmentation across venues or product types. By contrast, more prescriptive or divergent approaches may increase operational complexity, reduce flexibility, and discourage participation in regulated markets.

**Price discovery**

Prediction markets may contribute to price discovery by aggregating dispersed information into probabilistic price signals. This function may be particularly relevant where contracts reference financial, economic, or commercial events that are of broader interest to market participants. The strength of this contribution will often depend on liquidity, participation, and confidence in settlement integrity. Regulatory approaches that support transparent and orderly trading may therefore enhance the usefulness of prediction markets as information-generating mechanisms.

**Sound risk management practices**

Event contracts may present specific risk characteristics, including binary or discontinuous payoffs, event-driven volatility, concentrated liquidity near resolution, and reliance on external data sources or determinations for settlement. These features may call for appropriate margining, robust settlement governance, effective surveillance, and clear controls around contract design and resolution. In many cases, these considerations may be addressed within existing exchange-traded and centrally cleared risk management frameworks, without requiring a wholly separate regulatory regime.

**Other public interest considerations**

Other relevant public interest considerations may include regulatory clarity, consistency across comparable products, innovation within regulated markets, and the extent to which a well-calibrated framework encourages activity to occur on transparent and supervised venues rather than through offshore or less regulated alternatives. Uncertainty in regulatory treatment may itself create costs by discouraging participation, delaying product development, or fragmenting liquidity across markets.

**Other costs and benefits the Commission may wish to consider**

In addition to the statutory factors, the Commission may wish to consider the benefits of greater classification clarity, more consistent treatment of economically similar products, and improved confidence in the regulatory perimeter. Potential costs may include increased compliance burdens, reduced flexibility for exchanges and market participants, diminished liquidity, and the possibility

that activity migrates to less transparent or less well-supervised venues if the regulated framework becomes comparatively unattractive.

It may also be helpful to consider whether regulatory divergence across futures, options, swaps, and comparable offshore products could create distortions that are not justified by differences in underlying risk. In this respect, consistency grounded in economic substance and functional equivalence may offer meaningful benefits.

**Less costly alternatives**

The Commission may also wish to consider whether some of the benefits of regulatory action could be achieved through less costly alternatives, including targeted interpretive guidance, staff advisories, model submission templates, clarifications regarding classification and settlement expectations, and continued supervisory engagement. These measures may provide additional clarity and consistency while preserving flexibility and avoiding some of the costs associated with broader rulemaking.

**Information, data, and studies**

While we are not aware of specific empirical studies that directly quantify the costs and benefits of alternative regulatory approaches to prediction markets under section 15(a), the Commission may nevertheless find it useful to consider available evidence and experience relating to: the information-aggregation function of prediction markets; the relationship between liquidity and price informativeness; the operation of exchange surveillance and settlement controls in event-driven products; and the comparative effects of regulated versus offshore or off-venue trading environments. Evidence of this kind may assist the Commission in assessing both market utility and the likely effects of alternative regulatory approaches.

**Overall approach**

On balance, a proportionate, principles-based approach that builds on the existing regulatory framework may be well suited to the section 15(a) analysis. Such an approach may help protect market participants and the public, support efficiency and price discovery, and promote sound risk management, while minimising unnecessary costs and preserving flexibility for regulated markets to develop in a coherent and well-supervised manner.

***Question 39: CEA section 15(b) requires that the Commission "take into consideration the public interest to be protected by the antitrust laws and endeavor to take the least anticompetitive means of achieving the objectives of [the CEA], as well as the policies and purposes of [the CEA], in issuing any order or adopting any Commission rule or regulation." What aspects of prediction markets are relevant to the Commission's consideration of the public interest to be protected by the antitrust laws as it determines whether to adopt or amend any regulations with respect to prediction markets? It may be appropriate to consider the scope of the relevant market in this regard; in that case, what factors should the Commission take into account? Also, it may be appropriate for the Commission to "endeavor to take the least anticompetitive means," as contemplated by CEA***

***section 15(b), with respect to prediction markets; in that case, what factors should the Commission take into account?***

CEA section 15(b) requires the Commission to consider the competitive effects of its actions and to endeavour to adopt the least anticompetitive means of achieving the objectives of the CEA. In the context of prediction markets, this may involve consideration of market structure, substitutability, and the role of liquidity in supporting both competition and market quality.

Prediction markets may exhibit features, such as network effects and a reliance on liquidity, that are relevant to competition analysis. Participation and market depth may be important not only for price discovery, but also for effective competition among trading venues. In this context, regulatory measures that fragment liquidity, restrict participation, or impose uneven burdens across venues may have implications for both competition and overall market functioning.

**Scope of the relevant market**

In assessing the relevant market, the Commission may find it helpful to consider whether competition extends beyond a single category of listed event contracts. Relevant factors may include:

- the extent to which event contracts compete with OTC event-based derivatives, structured products, forecasting tools, or offshore platforms;
- the degree of substitutability across products in terms of payoff structure, use case, and underlying event;
- whether competition occurs primarily among regulated venues or across a broader ecosystem of regulated and unregulated providers; and
- the geographic scope of competition, including the availability of comparable products in non-U.S. markets.

These factors may assist in determining whether the relevant competitive constraints arise within a narrow product market or across a wider set of economically similar instruments and platforms.

**Competitive dynamics and liquidity considerations**

Liquidity may play a central role in competitive dynamics. In markets characterised by network effects, concentration of trading activity may support price discovery and execution quality, while fragmentation may reduce liquidity and impair market functioning. In this context, regulatory measures that unintentionally disperse trading across venues or create barriers to participation may have anticompetitive effects, even where they are designed to address other policy objectives.

Cross-border considerations may also be relevant. Where comparable products are available on offshore or less regulated platforms, more restrictive domestic regulation could lead to migration of activity, with implications for both competition and the effectiveness of regulatory oversight.

**Least anticompetitive means**

In seeking to adopt the least anticompetitive means, the Commission may wish to consider whether its objectives can be achieved through targeted and proportionate measures rather than broad or prescriptive restrictions. Relevant considerations may include whether a proposed measure would:

- raise barriers to entry for new or smaller venues or participants;

- create asymmetries between economically similar products or trading structures;
- fragment liquidity across venues in a way that reduces market quality; or
- incentivise migration of activity to less regulated or offshore markets.

In this context, reliance on existing regulatory tools, such as anti-manipulation authority, exchange-level surveillance, and targeted guidance, may, in some cases, achieve regulatory objectives with fewer competitive distortions than more expansive interventions.

**Overall approach**

From a policy perspective, approaches that preserve open access, support comparability across economically similar products, and allow for effective competition among regulated venues may be consistent with the objectives of section 15(b), while still addressing material risks in a targeted manner. On balance, a functional and risk-based approach, combined with the use of proportionate and well-calibrated regulatory tools, may assist the Commission in minimising unnecessary anticompetitive effects while maintaining market integrity and participant protection.

***Question 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 change? What less costly alternatives or flexibilities should the Commission consider? In general, how do small entities use prediction markets?***

In considering the impact of potential rule changes on "small entities" under the Regulatory Flexibility Act, the Commission may find it helpful to focus on how fixed compliance costs, operational complexity, and barriers to market access may affect smaller market participants and emerging firms. Although registered entities themselves are not treated as small entities for RFA purposes, a range of smaller firms may nonetheless be materially affected, including proprietary trading firms, liquidity providers, vendors, service providers, and emerging platforms or applicants seeking to develop prediction-market businesses.

**Potential cost impacts**

Potential rule changes, particularly if prescriptive, product-specific, or divergent from existing frameworks, may impose disproportionate costs on such firms. These may include:

- legal and compliance costs associated with interpreting and implementing new requirements;
- technology and systems costs related to reporting, surveillance, or connectivity;
- clearing and margin-related costs, including higher capital demands or reduced capital efficiency; and
- additional staffing costs or increased reliance on external service providers.

These costs are often front-loaded and largely fixed, and may therefore have a greater relative impact on smaller firms than on larger institutions with established infrastructure. As a result, even incremental increases in procedural complexity may create barriers to entry, limit participation, or discourage innovation.

**How small entities use prediction markets**

Small entities may engage with prediction markets in a variety of ways. Some may act as liquidity providers or market makers, contributing to market depth and price discovery. Others may use event contracts for targeted hedging, portfolio positioning, or informational purposes, particularly where contracts relate to financial or economic events. In addition, emerging firms may seek to develop new prediction-market venues, analytics tools, or supporting infrastructure, including data and technology services. In each of these contexts, access to clear, predictable, and proportionate regulatory frameworks may be particularly important.

**Less costly alternatives and flexibilities**

In light of these considerations, the Commission may wish to consider less costly alternatives and flexibilities, including:

- principles-based guidance in place of highly prescriptive rules;
- reliance on exchange-level and clearinghouse-level controls, rather than duplicative participant-level requirements;
- phased implementation or transitional arrangements; and
- compliance approaches that scale with the size, activity level, or risk profile of market participants, where feasible.

Such approaches may help achieve regulatory objectives while reducing unnecessary burdens on smaller firms.

**Broader cost–benefit considerations**

From a broader perspective, smaller firms may contribute to liquidity, competition, innovation, and market diversity. Regulatory approaches that impose high fixed costs or create disproportionate compliance burdens may therefore affect not only the viability of those firms, but also the competitiveness and resilience of the market as a whole.

**Overall approach**

Overall, the Commission may find it helpful to ensure that any future rule changes are proportionate, scalable, and aligned with existing market structures. An approach of this kind may support the objectives of the RFA by enabling smaller entities to access and contribute to regulated prediction markets without incurring unnecessary or disproportionate burdens, while still maintaining appropriate safeguards for market integrity and participant protection.