Comment on Advance Notice of Proposed Rulemaking on Prediction Markets

RIN 3038-AF65

Submitted by: Aakaash Reddy Sreereddy
Submitted in individual capacity

The views expressed in this comment are my own and do not reflect those of any employer or other organization.

I am submitting this comment as an individual. My background is in community banking and fintech operations. I have led operations and information security at community banks, started a banking-as-a-service division at one of them, and I now lead operations at a fintech payments company that works with banks and credit unions. I am writing in support of recognizing nonprofit research prediction markets as a distinct category, and to address Question 11 on fair competition under Section 3(b). I want to be clear at the outset that I am not arguing against the existence or regulation of commercial prediction markets, which serve their own legitimate purposes. My concern is narrower and structural.

Most of my career has involved working inside regulatory frameworks that were not really designed for the kind of institution I was working at. The post-2008 rulemaking cycle is the example I keep coming back to. Those rules targeted risks at the largest banks, but the compliance expectations got applied across the industry. Big banks could absorb the fixed costs because they had the legal and compliance staff to do it. Community banks could not. The Comptroller of the Currency has said publicly that one-size-fits-all supervision is part of why the number of community banks in this country has dropped by about half over the past twenty years. The rules themselves were a reasonable response to the risks they were targeting. The harder question, in hindsight, was how uniformly to apply them across institutions of very different size and complexity.

The Durbin Amendment is a more pointed version of the same lesson, and I want to be careful about what I think it actually shows. Congress sought to protect smaller issuers by exempting anyone under $10 billion from the interchange cap, and the market repriced around the cap in ways that affected smaller issuers anyway. The lesson I take from that is not that the policy was wrong. It is that exemptions carved out of a uniform regime tend to be fragile. The more durable approach is to acknowledge, at the level of the framework itself, that you are dealing with categorically different participants. The nonprofit-research pathway the Commission has been administering since 1993 through staff no-action letters is a category. It is not an exemption. Putting it in the rules is what would give it durability.

This is what I would ask the Commission to weigh under Section 3(b). Fair competition is not served when a single compliance framework, calibrated to the operational profile of the largest commercial platforms, is the only available pathway to participation. The Commission already cites the right precedents in footnote 6 of the ANPRM, IEM in 1993 and PredictIt in 2014. Codifying that pathway is a more durable answer than continuing to administer it case by case. One way to satisfy Section 3(b)

here would be to recognize what the market itself already shows, which is that commercial event-contract platforms and nonprofit research markets are different things, and to regulate them accordingly.

Respectfully submitted,
Aakaash Reddy Sreereddy