ROTHERA

April 30, 2026

SUBMITTED VIA WEBSITE

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

Re: Advance Notice of Proposed Rulemaking – Prediction Markets

Dear Secretary Kirkpatrick,

This letter is a response to the Commodity Futures Trading Commission ("CFTC" or the "Commission") Advance Notice of Proposed Rulemaking seeking public comment regarding event contract derivatives traded on "prediction markets." Steptoe LLP was engaged to assist with the preparation of this letter. We appreciate this opportunity to provide our comments in response to the CFTC's request for comment.

I. Introduction

Rothera Exchange and Clearing LLC ("Rothera") is a futures exchange and clearinghouse operator focused on intermediaries and institutions. It was created as a joint venture by Robinhood and Susquehanna in 2025, and acquired MIAXdx (formerly known as LedgerX), a CFTC-regulated Designated Contract Market ("DCM") and Derivatives Clearing Organization ("DCO"), in early 2026. Rothera plans to launch its core platform in May 2026. Our products will include sports, financial and economic indicators, commodities, and digital asset event contracts, among others.

Rothera's executives have deep expertise in DCM/DCO operations and regulatory compliance and include former CFTC and National Futures Association professionals. Our leadership has established relationships with major institutional trading firms, futures commission merchants ("FCMs"), and introducing brokers ("IBs"). As a DCM/DCO, Rothera fully adheres to the DCM Core Principles under the Commodity Exchange Act ("CEA"). Rothera's experience with DCM/DCO regulations, and our role as an operator of an event contract derivatives exchange platform, puts us in a unique position to answer many of the CFTC's questions related to event contract derivatives traded on event-contract markets.

While we have responded to the vast majority of the CFTC's questions below, our Summary highlights out specific points that are critical in the ANPRM process.

II. Summary

Event-contract market venues like Rothera are DCMs, not unique entities. As a result, they should—like any other DCM—be held accountable for: (i) properly and thoroughly self-certifying their contracts; (ii) ensuring such contracts have clear, objective, closing criteria based on reliable data sources confirmed through pre-listing testing; (iii) monitoring trading of

the contracts they list for general and particularized manipulation risks; and (iv) maintaining strict separation between any related proprietary trading or market making function and the market operations themselves. Furthermore, such venues should be equally responsible for following the Core Principles—principles that we feel are adequate (albeit perhaps with some fine-tuning needed) to address the needs of this market. We discuss these issues in response to Questions 2a through 2d, in particular.

With respect to market manipulation, the CFTC should adopt a principles-based framework for regulating event-contract markets to address market disruption risks, allowing flexibility and innovation while avoiding outdated rules. Key principles include ensuring separation of market participation from outcome influence through accurate prohibited participant lists, encouraging collaborative standard-setting without market control, requiring independent and transparent data sources to prevent manipulation, implementing risk-based monitoring systems to detect trading patterns, and a focus on measurable outcomes like low manipulation incidence and effective insider exclusion. This approach emphasizes flexibility, collaboration, and accountability to maintain market integrity. We discuss this in response to Questions 1, 2c, 2d, and 3.

At Rothera, we advocate for rethinking public interest factors in event-contract markets through a principles-based approach that enhances transparency and innovation. We propose defining "gaming" as operator-banked wagering, distinct from exchange-traded contracts driven by competitive and market forces. This definition of “gaming” excludes contracts that serve price discovery and risk transfer, even in sports contexts. We emphasize excluding chance-based contests like lotteries while allowing skill-based events with safeguards. Independent settlement sources and position limits are essential to mitigate risks and maintain market integrity. See our responses to Questions 15–20.

Rothera believes strongly in the value of intermediated markets, in which retail customers interact with DCMs through Futures Commission Merchants (“FCMs”). In this model, FCMs perform extensive customer diligence and have a role in ensuring retail customers understand the markets in which they are trading. FCMs also monitor margin, to the extent event contracts are traded on margin in the future. DCMs that plan to offer directly to retail customers, however, should face the same obligations that are required of FCMs. We discuss this in response to Questions 2a and 2f.

In addition, we believe economic event contracts play a positive role in modern markets, particularly with respect to risk management, the hedging function of derivatives, trader participation across underlying and derivative products, the public interest served by hedging governmental risks, and the value of price discovery around events as a channel for public expression. We discuss this at length in response to Question 10.

III. Rothera’s Responses to Specific Questions

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?*

As a practical matter, Rothera notes that all markets are, fundamentally, "prediction markets," to the extent they aid traders in price discovery by integrating expectations about the future into asset prices, and that event contracts are swaps and should be treated as such under the CEA. We feel strongly that the Core Principles should be applied consistently across derivatives markets—including Event-Contract Markets.[1]

All markets would benefit from greater objectivity in the application of Core Principles. As we discuss further, below, a more objective "Contrary to the Public Interest" test and a clear definition of "Gaming," under CEA section 5c(c)(5)(C), will allow market participants to cost-effectively self-certify contracts and align with a long-term strategy towards Event-Contract Markets. In addition, we believe that there should be safe-harbors for contracts that meet predefined criteria (e.g., widely observable contingencies, non-manipulable events, and independent settlement sources).

Question 2. *With respect to the following DCM Core Principles, what factors are relevant to prediction markets?* ***(a) Core Principle 2 – Access and Abusive Practices.*** *Core Principle 2 states that a DCM shall establish, monitor, and enforce compliance with the rules of the DCM, including access requirements and 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 access 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?*

As these markets evolve, it is essential that access standards remain objective, consistently applied, and enforceable, particularly given the heightened retail participation.

1. **Uniform and Impartial Access Standards.** Access methods should be applied on a strictly equal basis across all participant categories. DCMs should not provide preferential access—whether technical, informational, or economic, to any subset of participants, including to the DCM itself (and its affiliated entities). This includes:

    a. No differentiated latency, data feeds, or order handling advantages.

    b. No preferential onboarding, credit arrangements, or API access tiers that create functional asymmetries.

    If a DCM operates alongside or is affiliated with market making or principal trading entities, the Commission should require **clear structural separation and surveillance controls** to prevent preferential treatment. We recommend that the DCM and DCO should attest, annually, that they do not provide any preferential access.

2. **Equal Application of Fee Programs (1:1 Treatment).** All fee schedules, rebates, and incentive programs should be applied on a **transparent and nondiscriminatory basis.**

[1] DCMs that focus on—but do not necessarily need to offer only—event contracts are referred to herein as Event-Contract Markets.

While volume-based fee tiers are common in derivatives markets, any such programs must:

a. Be objectively defined and publicly disclosed;

b. Be equally available to all participants meeting the same criteria; and

c. Avoid indirectly privileging affiliated or designated liquidity providers.

The Commission should consider requiring DCMs to certify that similarly situated participants receive economically equivalent pricing, absent clearly justified and disclosed differences. Hidden or opaque trading programs tied to equity grants, rebates, or undisclosed fee tiers create incentives for manipulative or non-bona fide trading.

3. **Retail Access: FCM Intermediation vs. Direct Access.** The Commission should further evaluate whether retail participants access event-contract markets more effectively through Futures Commission Merchants ("FCMs") or by direct access to DCMs. The Commission should assess whether one model results in **systematically higher costs or weaker protections** and consider guidance to ensure **fair, competitive** access pathways across both models. This analysis should be grounded in:

   a. **Cost efficiency.** As FCMs and DCMs serve different functions in the market it follows that each charges a fee for the services they provide. As multiple DCMs are now allowing retail customers to become participants directly, without intermediation, a structural pricing difference has been exposed. DCMs that directly onboard retail customers should not be put at a structural pricing advantage to FCMs when a retail customer trading via an FCM may pay an FCM fee in addition to the DCM fee (which may be passed through), whereas the DCM direct retail customer may pay only the DCM fee. Most retail customers may not be aware of the various differences in obligations when trading through a DCM directly versus an FCM. The structural price difference noted may be interpreted as the market encouraging retail customers to focus on outright cost without a full understanding of the protections they may forgo in a direct DCM relationship versus an FCM relationship.

   b. **Customer protection.** FCMs are required to perform pre-trade and intraday risk checks at the customer level—position limits, credit limits, margin sufficiency, and concentration risk. DCMs and DCOs, on the other hand, are primarily focused on market-wide integrity and clearinghouse risk, respectively. In addition, FCMs provide risk disclosures and apply appropriateness or suitability screens for higher-risk products. Without the redundancy in oversight and capital requirements of an FCM, retail customers may face heightened risk, particularly with the introduction of margin and higher risk, more esoteric, event-contingent products;

   c. **Operational transparency.** Clarity around order handling and execution quality.

4. **Prohibition on Geographic Discrimination (Domestic).** Access to federally regulated derivatives markets should not vary by U.S. state. State-level geofencing undermines uniform market access and fragments liquidity. The Commission should clarify that DCMs must provide consistent access to all eligible U.S. participants, regardless of state of residence.

Question 2. *With respect to the following DCM Core Principles, what factors are relevant to prediction markets?* ***(b) Core Principle 2 – Contract Terms and Dispute Resolution.*** *Core Principle 2 also requires a DCM to establish, monitor, and enforce compliance with the terms and conditions of contracts traded on the DCM. What factors should the Commission consider regarding a DCM's rules related to resolution criteria for event contracts? . . . 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?*

For event contracts, the integrity of the contract specification—especially settlement criteria—is the primary investor protection tool. The Commission should:

1. **Require Objective Settlement Criteria.** Contracts should employ pre-specified criteria that yield a single reproducible outcome. At a minimum, the Commission should expect:

    a. Clear, binary or discretely enumerable outcomes with no reliance on subjective judgment;

    b. Authoritative primary data sources identified in advance by the DCM (including publication timing), with hierarchical fallbacks if the primary source fails;

    c. Time-stamped cutoff rules (e.g., what counts as "official" or "final" and when, such as using "as of" language); and

    d. Explicit edge-case handling (recounts, revisions, cancellations, force majeure, conflicting data sources).

2. **Treat Deficient Specifications as a Compliance Issue, Not a User Dispute.** When disputes arise from defective or ambiguous contract terms, the appropriate response is regulatory oversight and enforcement, not ad hoc adjudication. The Commission should:

    a. **View recurring ambiguity as a failure under Core Principle 2,** such that contracts with ambiguous terms should not apply**;**

    b. **Require prompt corrective action** (including contract redesign or delisting);

    c. **Consider meaningful penalties** where poor specifications lead to customer harm or market disruption (particularly if a DCM has a repeat pattern in this regard).

3. **Encourage Pre-Listing Validation.** Before listing, DCMs should conduct and document validation testing of settlement logic, including edge cases and data-source failures. The

Commission could provide a safe-harbor (designed in consultation with event-contract market operators) for contracts that meet defined validation and specification standards.

Question 2. *With respect to the following DCM Core Principles, what factors are relevant to prediction markets?* ***(c) Core Principle 3 – Susceptibility to Manipulation.*** *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?*

Event contracts raise distinct considerations relative to traditional futures and options because the underlying outcome may be influenced by participants or closely connected actors, rather than determined purely by exogenous market forces.

1. **Endogeneity as a Core Risk Factor.** A defining feature of many event-contingent contracts is endogeneity—the possibility that market participants (or those economically aligned with them) can influence the outcome being settled upon. This differs from most traditional derivatives, where the underlying (e.g., commodities, interest rates, broad indices) is largely exogenous to any single actor. As a result, the Commission should explicitly evaluate:

    a. **Outcome controllability:** Can a single individual or small group materially affect the outcome?

    b. **Proximity of traders to the event:** Are likely market participants also participants in, or able to influence, the underlying event?

    c. **Feedback effects:** Could trading activity itself influence the outcome (e.g., through signaling, incentives, or momentum effects)?

    Contracts with high endogeneity should be presumed more susceptible to manipulation and require heightened scrutiny or limitation.

2. **Differentiating Among Event Types.** Not all event contracts present equal manipulation risk. The Commission should distinguish between:

    a. **Low-controllability events:** Large-scale, multi-actor outcomes with diffused influence (e.g., macroeconomic indicators, widely observed public outcomes). These are generally less susceptible.

    b. **Moderate-controllability events:** Outcomes governed by structured systems with rules and oversight (e.g., regulated competitions, institutional decision-making processes). These may be appropriate if sufficient safeguards exist.

c. **High-controllability events:** Outcomes that can be materially influenced by a single actor or small group, particularly where incentives for manipulation are direct and observable.

Consistent with this framework, we believe:

a. Contracts tied to individual athletic performance may be acceptable where robust governance, monitoring, and penalties are in place.

b. However, standalone single-player propositions within team sports contexts may present elevated risk if an individual's actions can disproportionately determine the outcome in ways that are difficult to monitor or enforce.

3. **Role of Event Governance and Integrity Frameworks.** A critical mitigating factor is whether the underlying event is subject to independent governance, conduct rules, and enforcement mechanisms. Event contracts are more appropriate for listing where:

   a. There are clear rules prohibiting manipulation or misconduct (MLB, NCAA, etc.);

   b. Monitoring and enforcement bodies exist with credible investigative and sanctioning authority; and

   c. Violations carry meaningful penalties that deter outcome manipulation.

   Where such frameworks are weak or absent, the risk of manipulation is materially higher.

4. **Contract Design as a Mitigation Tool.** DCMs should be expected to design contracts that reduce susceptibility to manipulation, including:

   a. Using aggregation or composite measures rather than single-point outcomes where feasible;

   b. Avoiding thinly observed or easily influenced metrics;

   c. Specifying robust, independent settlement sources; and

   d. Implementing position limits or participation constraints where appropriate.

   These tools are consistent with Core Principle 3 and should be explicitly encouraged for event-contingent products.

5. **Surveillance and Participant Restriction.** In addition to contract design, DCMs should:

   a. Coordinate enhanced end-to-end surveillance targeting participants with potential influence over outcomes;

   b. Require disclosure for participants with material connections to the underlying event; and

Where necessary, implement restrictions or prohibitions for insiders or directly involved individuals. Such measures help address the unique overlap between market participation and outcome determination in these products.

6. **Differences from Traditional Contracts.** Compared to traditional derivatives, the Core Principle 3 analysis for event contracts should place greater weight on human agency and incentive structures, rather than solely on market structure and deliverable supply. The relevant question is not only whether the market can be cornered or squeezed, but whether the underlying reality being measured can itself be distorted or controlled or subject to outcome-aberrating influences unilaterally.

Question 2. *With respect to the following DCM Core Principles, what factors are relevant to prediction markets?* ***(d) Core Principle 4 – Prevention of Manipulation.*** *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?*

Building on the considerations discussed under Core Principle 3, we believe the CFTC should address market disruption risks in event contracts through a principles-based framework rather than a prescriptive rules-based regime. Given the pace of innovation and the diversity of potential event contracts, rigid rules risk becoming quickly outdated or inadvertently excluding beneficial market structures. By contrast, a principles-based approach can provide clear regulatory objectives while allowing DCMs flexibility in implementation, subject to robust oversight.

1. **Principles-Based Guardrails for Participation and Access.** A core principle should be the separation of outcome influence from market participation. Rather than mandating a single mechanism, the Commission should require DCMs to demonstrate how they prevent individuals with material influence over an event from trading on it when transacting directly with retail customers. In practice, this could include:

    a. The use of the most accurate available prohibited participant lists (e.g., athletes, officials, insiders); and

    b. Integration of those lists into DCM and FCM onboarding and surveillance systems, analogous in function to screening against the Office of Foreign Assets Control framework.

    Importantly, the Commission should not prescribe a single list format or process, but should require demonstrable effectiveness in identifying and restricting conflicted participants.

2. **Collaborative Standard-Setting with Appropriate Boundaries.** We support the formation of working groups that include DCMs, industry professionals, and relevant interested parties (such as sports leagues) to help identify risks, suggest non-binding

contract design principles, and share integrity best practices. Under a principles-based approach, the Commission can encourage such collaboration without dictating its precise structure. However, an equally important principle is the avoidance of conflicted control. Collaboration should inform markets—not control them.

3. **Independence and Integrity of Settlement Data.** A key principle should be that no single economically interested entity should control contract settlement outcomes. While leagues and event organizers are natural sources of data, granting such organizations control raises:

    a. Competition concerns, including potential antitrust risks; and

    b. Market integrity risks, as concentrated control over outcome determination can itself become a vector for manipulation.

    c. DCMs should therefore be required to demonstrate that their chosen data sources are independent, transparent, and verifiable, with appropriate redundancy. The Commission can set this expectation at a high level but should not mandate specific vendors or sources.

4. **Adaptive Surveillance and Disruption Controls.** Rather than prescribing specific surveillance techniques, the Commission should require DCMs to maintain risk-based monitoring systems capable of detecting:

    a. Trading patterns linked to potential outcome influence;

    b. Abnormal correlations between market activity and event developments; and

    c. Attempts to circumvent participation restrictions.

    DCMs should also retain clearly defined intervention tools (e.g., trading pauses, position limits), with governance processes that are transparent and consistently applied.

5. **Accountability Through Outcomes, Not Checklists.** A principles-based regime should emphasize measurable outcomes—such as low incidence of manipulation, effective exclusion of insiders, and orderly market function—rather than mere compliance with prescriptive rules. Where disruptions occur, the Commission should evaluate whether the DCM's controls were reasonably designed and effectively implemented, and take enforcement action where they were not.

Question 2. *With respect to the following DCM Core Principles, what factors are relevant to prediction markets?* ***(e) Core Principle 5 – Position Limitations.*** *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?*

In this context, position limits should be designed to mitigate manipulation and concentration risk without impairing liquidity or fragmenting markets. Accordingly, the following issues must be considered in determining how Event-Contract Markets implement position limits in accordance with Core Principle 5:

1. **Equivalence Challenges from Divergent Contract Design.** A threshold issue for event-contingent markets is that contracts referencing the same underlying event may not be economically equivalent across platforms if they rely on different:

    a. Settlement criteria or definitions of the outcome;

    b. Data sources or timing conventions; or

    c. Fallback rules and scenarios.

    This lack of standardization can fragment liquidity and complicate the application of uniform position limits to a given DCM or DCO. While Rothera is not an advocate for fungibility of such contracts (different exchanges should have the right to offer contracts with different outcomes on the same events, for example), the Commission should be cautious about frameworks that assume interchangeability of contracts that are, in practice, distinct instruments.

2. **Trader-Type-Based Position Limits.** Given these structural differences, we believe position limits are more effective when calibrated to participant function rather than solely contract identity. Specifically, the Commission should consider a framework that differentiates among:

    a. Speculators, whose positions should be constrained to prevent excessive concentration or influence;

    b. Hedgers, who may require larger positions where there is a demonstrable risk transfer need; and

    c. Market makers/liquidity providers, whose role in maintaining orderly markets may justify tailored limits or conditional exemptions.

    This approach aligns limits with economic realities and risk profile, rather than imposing a one-size-fits-all cap that may be either too restrictive or insufficiently protective.

3. **Principles-Based Calibration of Limits.** Consistent with a principles-based approach, the Commission could require DCMs to demonstrate that their position limit frameworks:

    a. Are reasonably designed to prevent manipulation, including risks arising from endogeneity in event outcomes;

    b. Account for liquidity conditions and market depth; and

c. Include monitoring and escalation mechanisms for concentrated positions, particularly where participants may have proximity to the underlying event.

Rather than prescribing fixed numerical thresholds, the Commission can set expectations around risk-based calibration and ongoing review.

4. **Transparency and Consistency Within Platforms.** It is critical that position limit rules be:

   a. Clearly disclosed and consistently applied within each DCM;

   b. Enforced through real-time surveillance and reporting.

Question 2. *With respect to the following DCM Core Principles, what factors are relevant to prediction markets?* ***(f) Core Principle 11 – Financial Integrity and Margin.*** *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 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?*

As noted in our earlier response regarding market access, intermediation through an FCM provides meaningful advantages for retail customer protection in the context of margining.

FCMs apply uniform disclosure standards, customer-specific risk analysis, and continuous monitoring of margin adequacy, including intraday margin calls and liquidation protocols. These controls are tailored to individual accounts and are backed by established supervisory frameworks, which helps ensure that retail participants understand and can meet their obligations. By contrast, a direct DCM/DCO model relies more heavily on standardized, platform-level controls that may not provide the same granularity of oversight or consistency of customer protection.

Accordingly, to the extent the Commission considers introducing or refining margin requirements for event contracts, it should recognize that FCM-intermediated access provides a more robust and proven framework for managing retail margin risk, particularly in markets characterized by binary outcomes and rapid resolution.

Question 2. *With respect to the following DCM Core Principles, what factors are relevant to prediction markets?* ***(g) Core Principle 20 – Operational Risk.*** *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?*

These markets present a distinct operational risk profile because they depend not only on exchange infrastructure, but also on external event systems, governance structures, and rapidly evolving information environments. We identify the following key sources of operational risk relevant to Core Principle 20:

1. **Settlement Criteria and Specification Risk.** The most fundamental operational risk arises from unclear or non-deterministic contract specifications. Where settlement criteria are ambiguous or incomplete, disputes, delays, or inconsistent resolutions may occur. Key risks include:

    a. Ambiguous event definitions or outcome boundaries;

    b. Insufficient treatment of edge cases (e.g., cancellations, revisions, or tied outcomes); and

    c. Inadequate specification of authoritative settlement logic.

    This underscores the importance of fully deterministic, pre-defined settlement rules, as discussed in our Core Principle 2 response.

2. **External Governance and Data Integrity Risk.** Operational risk also arises from dependence on external governance bodies and official data sources that may change, fail, or become inaccessible. This includes:

    a. Changes in rules, formats, or eligibility criteria by governing bodies (e.g., sports leagues or statistical agencies);

    b. Mid-cycle modifications to event structure or interpretation of outcomes;

    c. Loss of access to, or degradation of, official data feeds used for settlement; and

    d. Conflicting or revised official determinations.

    Even where hierarchical or fallback data sources are defined, this remains a core structural risk because external institutions ultimately shape or define the observable outcome. DCMs should therefore demonstrate resilient, pre-specified, and independently verifiable settlement frameworks that reduce reliance on any single external dependency.

3. **Volume Concentration and Time-Clustered Trading.** Event markets frequently exhibit highly concentrated trading activity, including:

a. Sudden spikes near event resolution;

b. Liquidity clustering in narrow time windows; and

c. Rapid shifts in order book depth.

These dynamics can stress matching engines, risk systems, and margin infrastructure, requiring robust scalability and stress-tested operational design.

4. **Funding and Settlement Liquidity Risk.** Operational risk can also arise from:

   a. Delays in customer funding or withdrawals;

   b. Mismatches between margin requirements and available liquidity; and

   c. Settlement-time liquidity constraints.

   These risks are particularly acute in short-duration or binary outcome markets where exposures can change rapidly.

5. **24/7 Operations and Global Participation Risk.** Event contracts often operate on a near-continuous basis, particularly where underlying events are global. This introduces:

   a. Cross-time-zone monitoring and staffing challenges;

   b. Elevated automation requirements; and

   c. Exposure to non-U.S. operational and demand cycles.

   These factors require robust automation, clearly defined escalation protocols, and global operational readiness.

Question 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?*

(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?*

(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?*

(c) *What implications for DCOs should the Commission consider if event contracts were traded on prediction markets on margin?*

A central theme across our responses is that Core Principles are best implemented as outcome-based standards rather than prescriptive rules, particularly when considered alongside

the clearing framework embodied in CEA section 5b(c)(2). To ensure financial integrity of cleared event-contingent transactions and manage risk appropriately, the Commission should take these three considerations into account:

1. **Principles-Based Regulation Better Supports the Statutory Objective of Clearing Integrity.** CEA section 5b(c)(2) does not prescribe rigid operational mechanics; instead, it establishes a performance standard: the clearinghouse must remain safe, sound, and able to clear obligations under all conditions. This aligns naturally with a principles-based approach to Core Principles:

    a. Event contracts differ significantly in structure, endogeneity, and liquidity;

    b. Settlement timelines can be compressed and binary;

    c. External dependencies (governance bodies, data sources, legal regimes) vary widely; and

    d. Trading activity may be highly episodic and volume-concentrated.

    A prescriptive rules-based approach risks undermining registered entities by imposing uniform mechanisms that are poorly matched to heterogeneous risk profiles. By contrast, a principles-based regime allows DCMs and clearinghouses to design systems that actually achieve the statutory objective: resilient, accurate, and timely clearing under real-world conditions.

2. **Core Principles Must Be Tuned to Product Structure and Volume Dynamics to Support Clearinghouse Function.** As reflected in our prior responses, each Core Principle interacts with clearing integrity under CEA section 5b(c)(2) in a product-specific way:

    a. Core Principle 3 (manipulation resistance): Must account for endogeneity risk, where participants may influence outcomes, directly affecting settlement certainty at the clearing level.

    b. Core Principle 4 (market disruption): Must address external shocks from governance changes, legal actions, and data failures that directly impact clearing finality.

    c. Core Principle 5 (position limits): Should be calibrated by participant type and liquidity structure to prevent concentrated exposures that could stress clearing resources.

    d. Core Principle 11 (margin): Benefits from FCM intermediation for retail participants, strengthening pre-clearing risk controls and reducing systemic strain.

    e. Core Principle 20 (operational risk): Must account for settlement dependencies, volume clustering, and 24/7 operations that directly affect clearinghouse performance.

In each case, system design must be tuned to the specific product's risk profile and expected volume behavior, because those factors ultimately determine whether clearing obligations can be satisfied consistently under the CEA.

3. **Outcome-Based Compliance Should Be the Regulatory Focus.** Rather than mandating uniform technical implementations across Core Principles, the Commission should focus on whether the combined DCM and clearinghouse framework achieves the statutory outcome required by CEA section 5b(c)(2):

    a. Contracts are accurately and deterministically settled;

    b. Risk is appropriately margined and contained prior to default transmission;

    c. Operational systems are resilient under peak and stress conditions; and

    d. The clearinghouse can continue functioning without disruption even under correlated or extreme event outcomes.

    This approach ensures that regulatory oversight is aligned with the actual systemic objective of clearing integrity, rather than formal compliance with rigid procedural rules.

Question 4. *Institutional traders . . . 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? . . . Are there specific points on which the Commission should provide guidance or adopt rule amendments? If so, why?*

Our view is that no additional Core Principle overlay is necessary for institutional traders accessing these markets through Swap Execution Facilities (SEFs), given the existing statutory and regulatory framework. Nonetheless, some definitional clarity around exchange for related positions (EFRPs) and block trading would likely be helpful, as would general transparency through disclosure of pricing and volume of trading on SEFs.

1. **Institutional Participants Do Not Require Additional Core Principle Treatment.** Participation on SEFs is limited to Eligible Contract Participants ("ECPs"), which are, by definition, sophisticated market participants with sufficient financial resources and trading experience to evaluate derivatives risk. Accordingly:

    a. Institutional traders are already subject to heightened eligibility standards;

    b. They typically function as liquidity providers, market makers, or hedgers, rather than retail participants; and

    c. They operate within an environment already governed by SEF core principles, including fair access, trade execution, and post-trade transparency.

In this context, we do not believe there is a need for additional or differentiated Core Principle requirements specific to institutional participation in Event-Contract Markets, although monitoring may need to focus on the potential for ECPs to manipulate the market.

2. **Focus Should Be on Market Structure Tools, Not Participant-Specific Obligations.** Rather than imposing additional disclosure or conduct requirements on institutional traders, we believe regulatory attention should be focused on market structure mechanisms that affect all participants equally and improve market functioning, particularly:

    a. **Exchange for Related Positions (EFRPs).** We encourage the CFTC to provide clear guidance or rulemaking, on the application of Exchange for Related Position transactions in event-contingent markets. Because these contracts often do not map cleanly onto traditional physical commodities:

        i. The definition of a "related position" may require clarification;

        ii. Hedging relationships may be portfolio-based or synthetic rather than asset-based; and

        iii. Additional interpretive guidance would improve certainty for legitimate hedging activity.

    b. **Block Trades and RFQ Mechanisms.** We also support Commission consideration of tailored guidance for block trades and request-for-quote (RFQ) mechanisms in these markets. Given the characteristics of event contracts—particularly:

        i. episodic liquidity,

        ii. rapid pre-event volume clustering, and

        iii. sharp shifts in order book depth near resolution—

        block trading functionality can be important for:

        i. facilitating efficient execution of larger institutional hedges; and

        ii. minimizing unnecessary market impact in thin or fast-moving conditions.

        Any framework should balance execution efficiency with appropriate surveillance and consistency across participants.

    c. **Transparency Enhancements.** We further believe the Commission may wish to consider whether enhanced dissemination of price and volume information, particularly in connection with block trades or concentrated trading windows, could improve:

i. price discovery,

ii. market integrity, and

iii. overall liquidity formation.

Such transparency enhancements should be calibrated to preserve legitimate trading strategies while ensuring sufficient informational visibility in fast-moving event-driven markets.

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? CEA section 15(a) requires that the Commission, before it promulgates a regulation under the CEA, consider the costs and benefits of its action, evaluated 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. What less costly alternatives should the Commission consider?*

We address the cost-benefit analysis required for Commission action and urge the CFTC to (a) correct methodological shortcomings that have historically understated benefits and overstated costs, (b) incorporate contemporary empirical data and market evidence, and (c) explicitly account for the substantial costs of regulatory inaction. Properly conducted, the cost-benefit analysis supports rules or guidance that enable compliant, well-supervised event-contract markets and event contracts because their public and private benefits exceed the incremental regulatory costs.

1. **The Commission's Historical Cost-Benefit Analyses Have Been Methodologically Incomplete.** The Commission's prior cost-benefit approaches in this domain have tended to: (a) adopt static assumptions about market size, participation, and risk; (b) ignore or materially discount positive externalities such as information generation, improved decision-making, and hedging utility outside traditional commodity exposures; (c) rely on hypothetical compliance burdens without calibrating to actual market operations; and (d) conflate risk typologies (e.g., retail protection concerns) with unquantified harms, rather than quantifying incident frequency, severity, and mitigation efficacy under feasible supervision.

   These shortcomings produce asymmetric error: benefits are treated as speculative while costs are treated as certain. A balanced analysis must (i) quantify benefits using current market data and peer-reviewed methodologies where available, (ii) differentiate one-time implementation costs from recurring compliance costs, and (iii) evaluate realistic supervisory tools that mitigate consumer and market integrity risks at comparatively low cost.

2. **Incorporate New Data and Contemporary Market Evidence.** Any forward-looking analysis should incorporate data from: (a) existing event-contract markets operating with robust KYC/AML, position limits, and resolution transparency; (b) academic and industry studies measuring forecast accuracy relative to benchmarks; (c) enterprise and

public-sector use cases where market-derived probabilities inform risk management and resource allocation; and (d) incident data cataloging manipulation attempts, dispute rates, error resolution times, and customer harm, disaggregated by market design features. The Commission should avoid focusing on narrow slices of the Event-Contract Markets, such as sports-related contracts, and incorporate data across a broad variety of event contracts.

3. **Benefits of Event-Contract Markets and Event Contracts Substantially Exceed Incremental Regulatory Costs.** A sound cost-benefit framework should recognize the following categories of benefit that are measurable and, in many contexts, monetizable:

    a. **Information production and dissemination.** Event-Contract Markets aggregate dispersed information into probabilistic forecasts with demonstrated accuracy. The social value of earlier, better-calibrated signals includes improved capital allocation, operational planning, and risk mitigation across sectors.

    b. **Risk transfer and hedging utility.** Event contracts allow hedging of exposures not addressed by traditional derivatives (e.g., policy outcomes, macro indicators, sector events). For firms and individuals with material outcome-sensitive payoffs, the availability of compliant hedges reduces variance and expected loss.

    c. **Market integrity spillovers.** Public probabilistic signals can reduce rumor-driven volatility and enhance price discovery in related financial markets by clarifying baseline expectations, thereby lowering transaction costs and mispricing.

    Against these benefits, the incremental regulatory costs—registration or exemption pathways, surveillance and reporting, capital and segregation standards, customer asset protection, and governance controls—are readily specifiable and scalable. Many are one-time or fixed costs that diminish on a per-contract or per-user basis with volume and technological efficiencies.

4. **The High Cost of Regulatory Inaction.** Inaction imposes significant, ongoing costs that must be explicitly included in the baseline:

    a. **Migration to opaque or offshore venues.** Without a clear domestic framework, activity shifts to jurisdictions or platforms with lower standards, increasing consumer risk, limiting supervisory visibility, and externalizing enforcement burdens.

    b. **Loss of information externalities.** The absence of compliant markets deprives policymakers, enterprises, and investors of timely probability estimates, leading to inferior decisions and higher error costs in procurement, contingency planning, and investment.

    c. **Entrenchment of inferior substitutes.** Stakeholders rely on polls, ad hoc expert judgment, or social media signals with weaker calibration, resulting in misallocation and volatility that could be mitigated by market-based forecasts.

d. **Enforcement and remediation costs.** Scattered, noncompliant activity increases case-by-case enforcement expenses and post hoc consumer remediation, which are more costly than ex ante supervision of compliant platforms.

e. **Competitive disadvantage.** Lack of regulatory clarity suppresses U.S. innovation and cedes leadership to foreign frameworks, diminishing domestic investment, jobs, and technological advancement in market infrastructure and compliance tooling. These inaction costs accumulate over time and, in net present value terms, can exceed the incremental costs of implementing a proportionate supervisory regime.

5. **Recommendations for an Improved Cost-Benefit Framework.** To correct past deficiencies and produce a reliable decision record, the Commission should: (i) specify a realistic baseline (status quo, including offshore activity) and a counterfactual with calibrated rules or guidance, quantifying migration effects; (ii) work with industry to quantify those benefits; and (iii) incorporate the harm to the U.S. market and its consumers resulting from inaction.

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?*

We support maintaining the five criteria listed in CEA 5c(c)(5)(C) while advocating for clearer definitions (explained further in response to Section C, below) and an objective framework to evaluate the public interest in event contracts and event-contract markets.

1. Objective Framework for Public Interest Evaluation

    a. Sufficient Disclosures

        i. **Transparency and Clarity:** Products should provide clear, comprehensive disclosures that inform participants of key terms, risks, and settlement processes. This transparency ensures that market participants can make informed decisions based on reliable information.

        ii. **Standardized Formats:** Implementing standardized disclosure formats can enhance comparability and understanding, reducing information asymmetry and fostering trust in the market.

    b. Compliant, Regulated Markets

        i. **Market Integrity:** Products should be traded on markets that adhere to robust regulatory standards, including surveillance, reporting, and risk management protocols. This compliance ensures market integrity and protects participants from fraud and manipulation.

ii. **Operational Resilience:** Regulated markets should demonstrate operational resilience, with systems in place to handle disruptions and maintain continuous, fair trading conditions.

c. Access via Compliant, Regulated Intermediaries

i. **Intermediary Oversight:** Access to products should be facilitated through intermediaries that are subject to regulatory oversight, ensuring they meet standards for conduct, capital adequacy, and customer protection.

ii. **KYC/AML Compliance:** Intermediaries should implement rigorous Know Your Customer (KYC) and Anti-Money Laundering (AML) procedures to prevent illicit activities and ensure participant eligibility.

2. Avoiding Subjective Judgments

a. Risks of Moralistic or Political Preferences

i. **Uncertainty and Churn:** Injecting moralistic or political judgments into public interest evaluations creates uncertainty and market instability. Participants face unpredictable regulatory environments, which can deter innovation and investment.

ii. **Subjective Standards:** Relying on individual subjective stances rather than systemic, objective criteria leads to inconsistent regulatory outcomes and undermines confidence in the regulatory process.

b. Benefits of an Objective Approach

i. **Predictability and Stability:** An objective framework provides predictability and stability, encouraging market participation and innovation. Clear criteria allow stakeholders to understand and meet regulatory expectations.

ii. **Fairness and Consistency:** Objective standards ensure fairness and consistency in regulatory evaluations, fostering a level playing field for all market participants.

By maintaining the CEA 5c(c)(5)(C) criteria with clearer definitions and adopting an objective framework for evaluating public interest, the Commission can ensure that event contracts and event-contract markets operate transparently, fairly, and efficiently. This approach minimizes uncertainty and fosters a stable regulatory environment conducive to innovation and growth.

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)?

We believe economic event contracts play a positive role in modern markets, particularly with respect to risk management, the hedging function of derivatives, trader participation across underlying and derivative products, the public interest served by hedging governmental risks, and the value of price discovery around events as a channel for public expression.

1. **Risk Management in Post-AI Markets Requires Real-Time Hedging.** The rapid acceleration of information processing and market microstructure—driven by AI-enabled data ingestion, model-driven trading, and 24/7 news and policy cycles—has compressed risk horizons from days to minutes or seconds. In this environment, effective risk management requires tools that (a) allow dynamic, intraday adjustments; (b) provide clear, event-linked payoff structures; and (c) can be executed and unwound in near real time. Event-linked derivatives meet these needs by permitting market participants to quickly calibrate exposures as new information arrives, aligning hedging cadence with the velocity of risk formation rather than legacy settlement cycles.

2. **Derivatives as Effective Hedging Tools.** Derivatives have long served as the principal instruments for transferring and hedging risk through standardized contracts, transparent pricing, margining, and centralized clearing. Economic event contracts continue this tradition by mapping discrete, measurable outcomes to hedgeable payoffs. Liquid event-based order books efficiently synthesize information, enabling risk transfer at competitive spreads and with price transparency that facilitates bona fide hedging.

3. **Diverse Participation: Trading in Underlying and Derivative Products.** Market participants interact with event risk heterogeneously. Some engage both the underlying exposure and the derivative hedge. For example, an enterprise with revenue sensitivity to a specific policy decision, macroeconomic event, or budget outcome may maintain its operational or asset exposure while using an event contract to offset the discrete risk around the decision date. Others may focus solely on derivatives, either because the underlying exposure is operationally indivisible, not directly tradable, or because the participant's portfolio objective is to neutralize specific event risk without altering core holdings. Both modes are consistent with established hedging practice: the former integrates basis management between underlying and derivative, while the latter provides targeted, capital-efficient protection for non-tradable or illiquid underlyings.

4. **Economic Event Contracts Serve the Public Interest.** Event contracts tied to governmental decisions and measurable public metrics allow households, businesses, and institutions to hedge consequential risks that are otherwise difficult or impossible to transfer. Examples include risks related to policy rates, regulatory approvals, appropriations, tax thresholds, inflation releases, and employment data. Properly designed contracts with clear, objective settlement criteria reduce residual uncertainty, support planning and budgeting, and lower the cost of capital by enabling risk offload. By channeling these exposures into transparent, supervised markets with risk controls—such as position limits, margining, surveillance, and settlement integrity—such contracts

convert unmanageable policy variance into hedgeable, auditable financial terms, advancing market resilience and economic stability.

5. **Price Discovery on Events as Public Sentiment and Policy Input.** Prices in event markets distill heterogeneous views, adjusting continuously as new information arrives. This aggregation function yields real-time, quantifiable measures of public expectations about policy choices, political outcomes, and budgetary paths. The resulting probability-implied prices can inform policymakers, market participants, and the public by revealing consensus and dispersion around likely outcomes. In doing so, event markets provide a lawful, transparent channel for public expression that complements surveys and traditional commentary with a commitment device—participants back their views with capital, enhancing informational quality. When conducted within a robust regulatory framework, this price discovery supports informed decision-making and fosters trust by illuminating how the public evaluates policy scenarios.

In fast-paced, post-AI markets, real-time hedging is indispensable. Economic event contracts extend the established hedging role of derivatives to discrete, high-impact risks tied to governmental decisions and public metrics. Participation patterns—spanning users active in both underlying and derivatives and those hedging solely through derivatives—are consistent with prudent risk management. The contracts serve the public interest by enabling risk transfer, enhancing planning certainty, and producing transparent price discovery that reflects public sentiment on policy, politics, and budgets.

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?*

As discussed extensively above, we believe the more this determination can be made in accordance with objective factors, it will be exceptionally helpful to the industry in analyzing and self-certifying contracts.

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?*

Again, our fundamental belief is that more objective criteria around determining whether a contract comports with public policy will, in and of itself, reap significant benefits for the market with limited downside risk.

Question 15. *CEA section 5c(c)(5)(C) lists five activities, and provides that if an event contract involves any such activity, the Commission may determine that the event contract is contrary to the public interest. What factors should the Commission consider in determining the scope of these five listed activities? What aspects of these activities would be relevant to the Commission's public interest determination?*

This comment addresses: (a) recommended enhancements to the self-certification form for DCMs as it relates to the five statutory/regulatory criteria; (b) a proposed definition of "gaming" that expressly excludes sports-related contracts meeting specified criteria; and (c)

elimination of the inappropriate prohibitions in CFTC Regulation section 40.11(a) in favor of the federal framework identified in the CEA.

1. **Self-Certification Form: Criterion-Specific Attestations and Explanations.** The Commission should require DCMs, as part of the § 40.2 self-certification, to indicate whether a listed contract implicates any of the five criteria and to provide a detailed explanation for each. The form should include, for each criterion:

    a. Checkbox attestation as to whether the contract implicates the criterion.

    b. A narrative explanation describing: (a) the contract's purpose and design, including whether price formation is driven by open, competitive market forces; (b) whether the contract is centrally cleared and exchange-traded; (c) whether the platform or counterparty assumes a house position, sets odds, or otherwise structures payouts; (d) how positions are matched and whether the platform acts solely as an intermediary; (e) the contract's primary intended use (e.g., price discovery, risk management, information aggregation); and (f) any risk controls and compliance measures relevant to the criterion.

    c. DCMs should also append supporting materials sufficient to substantiate their explanations, including rulebook excerpts, clearing arrangements, product specifications, market surveillance protocols, and any economic analysis used to assess the criteria. This approach strengthens transparency, creates a consistent evidentiary record, and enhances Commission oversight without impeding innovation.

2. **Definition of "Gaming" with Express Carve-Out for Sports-Related Contracts.** The Commission should adopt a clear, activity-based definition of "gaming" that delineates wagering activities from exchange-traded contracts serving legitimate market functions. We propose the following definition:

    a. "Gaming" means participation in a scheme or activity in which:

        i. participants stake or risk something of value on an outcome predominantly determined by chance or by the outcome of a contest, game, or similar activity;

        ii. the counterparty or operator assumes a house position, sets odds, or otherwise structures payouts to generate profit from participant losses.

    b. **Carve-Out for Talent-Related Contracts.** "Gaming" shall not include:

        i. exchange-traded or centrally cleared contracts where prices are determined by open, competitive market forces;

        ii. contracts listed on a registered or regulated platform that are not banked by the operator and do not involve the operator taking directional exposure;

iii. contracts whose primary purpose is price discovery, risk transfer, or information aggregation, even if based on the outcome of sporting events; and

iv. contracts in which all positions are matched between participants and the platform acts solely as an intermediary.

This definition draws a principled line between operator-banked wagering and market-based contracts that facilitate risk transfer and information aggregation. It preserves the Commission's ability to police products with wagering characteristics while allowing sports-related contracts that function within the CEA's core purposes to proceed subject to robust market safeguards.

3. **Elimination of the "Unlawful Under Any … State Law" Provision.** Under the CEA, the CFTC may consider prohibition under state law as a factor in its public interest determination. However, CFTC Regulation section 40.11(a) goes too far in prohibiting any contracts that are against state law from being listed. This is a regulatory overreach. The Commission should repeal Regulation section 40.11(a), and the text of the CEA should control the CFTC's consideration of state law prohibitions without making state law a determining factor. This would serve the CEA's goals of fostering fair, efficient, and competitive markets by:

   a. Preventing state-by-state prohibitions from undermining the Commission's jurisdiction, fragmenting markets, and creating inconsistent treatment of identical products.

   b. Enhancing market integrity through uniform federal standards for listing, clearing, surveillance, and enforcement.

   c. Promoting innovation by providing a predictable, nationally consistent regime for exchange-traded contracts, including contracts referencing talent-related outcomes.

   d. To maintain appropriate respect for state interests, the Commission can continue to consult with state authorities and require DCMs to implement disclosures and compliance controls tailored to product-specific risks.

We recommend that the Commission: (a) amend the self-certification process to require criterion-by-criterion attestations and detailed explanations with supporting documentation; (b) adopt the proposed definition of "gaming," including the sports-related carve-outs; and (c) repeal Regulation 40.11(a) to allow the text of the CEA to control the CFTC's consideration of state law prohibitions. These steps will improve transparency, protect market participants, and advance the CEA's objectives while allowing beneficial innovation in exchange-traded contracts.

Question 16. *The first listed activity is an "activity that is unlawful under any Federal or State law." What steps should the Commission appropriately take in order to determine which State laws may be involved in a particular event contract? If an event contract involves an activity that is unlawful under some State laws, but not others, how should this conflict be resolved?*

We incorporate our response to Question 15 here.

Question 17. *The second and third listed activities are terrorism and assassination. Are the meanings of these terms self-evident, or are there any ambiguities that the Commission should consider? Are specific definitions in other contexts, such as insurance, helpful? Would event contracts involving cyberterrorism be covered by the terrorism provision, and if so, what factors distinguish cyberterrorism from other cyber attacks?*

In response to Question 17, we believe the Commission should consider separately defining "death from violence" as a distinct category that is presumptively ineligible only where contract structure or market design might reasonably create incentives for third-party harm. This preserves the ability to prohibit listings that could encourage criminal acts. Risk from cyberattacks and the like should be addressed through insurance, rather than through Event-Contract Markets.

Question 19. *The fifth activity is gaming. What factors should the Commission consider in determining the scope and public interest implications of this activity?*

We incorporate our response to Question 15 here, particularly as it includes a definition of "gaming" and a carve-out for sports-related event contracts.

> **(a)** *What sources should inform the Commission's determination of the scope of the term "gaming"?*
>
> ***(b)*** *In this regard, how should the Commission distinguish between various types of contests?*

This comment addresses Questions 19(a) & (b) of the ANPRM, focusing on the distinction between mechanical contests of pure chance and contests involving skill or human judgment.

1. **Distinction Between Mechanical and Skill-Based Contests**

    a. **Mechanical Contests of Pure Chance**

        i. Definition: Mechanical contests such as lotteries and sweepstakes are characterized by outcomes predominantly determined by chance, with no meaningful influence from participant skill or judgment.

        ii. Exclusion from Listable Contracts: These contests should be excluded from listable contracts due to their inherent lack of skill and potential for manipulation.

    b. **Skill-Based Contests**

        i. Inclusion Criteria: Contests involving skill or human judgment, such as team sports and individual sports overseen by significant governing bodies (e.g., PGA), should be considered for listing.

ii. Caveat: Contracts should not be based on outcomes determined solely by a single individual's skill or judgment, independent of other factors, to avoid manipulation risks.

c. **Judgment-Based Contests**

i. Definition: Contests involving the judgment of contestants' merits by a decision-making committee (e.g., the Oscars).

ii. Caveat: While an increased number of judges decreases the chance of manipulation, there is still some risk where judges collude on a contest decision to manipulate the market.

2. **Contract Design, Surveillance and Participant Restrictions as Mitigation Tools.** DCMs should design contracts to reduce manipulation risks by using aggregation measures, avoiding easily influenced metrics, specifying independent settlement sources, and implementing position limits. DCMs must surveil participants with potential influence over outcomes and require disclosures for those with material connections to the event. In addition, DCMs should implement restrictions for insiders or directly involved individuals to address the overlap between market participation and outcome determination.

(c) *What aspects of event contracts involving gaming should the Commission consider in a public interest determination? For these event contracts, are there any challenges to the deterrence of manipulation and protection from abusive sales practices contemplated by CEA section 3(b)? If so, how could these challenges be mitigated? How are the responsible innovation and fair competition goals in CEA section 3(b) served by event contracts involving gaming?*

Our response to Core Principle 3 addresses the concerns raised by Question 19(c).

Question 20. *CEA section 5c(c)(5)(C)(i)(VI) provides that the Commission may determine that an event contract is contrary to the public interest if it involves another "similar activity determined by the Commission, by rule or regulation, to be contrary to the public interest." What factors should the Commission consider in determining whether an activity is similar to the activities listed in CEA section 5c(c)(5)(C)?*

When assessing whether a contract involves "similar activity" that may be against the public interest, the Commission should consider a range of factors beyond economic equivalence. Key elements such as settlement criteria, tenor, and other product features are crucial in evaluating the contract's overall impact.

Key Factors for Consideration

1. Settlement Criteria: The method and timing of settlement can influence market behavior and participant strategies. Contracts with different settlement mechanisms may have varying implications for market stability and transparency. Some settlement mechanisms

may be inappropriate due to length, such as, contracts that cannot be settled within the lifetime of an existing individual.

2. Tenor: The duration of a contract affects its risk exposure and suitability for different market participants. Contracts with varying tenors can serve distinct purposes and risk profiles, impacting their alignment with public interest.

3. Product Features: Additional characteristics, such as margin requirements and delivery terms, play a significant role in determining a contract's market impact and potential risks.

Comprehensive Evaluation

A holistic approach that considers these factors will enable the Commission to make informed decisions about whether a contract's activity aligns with the public interest. By looking beyond economic equivalence, the Commission can ensure that regulatory oversight effectively addresses the unique risks and benefits associated with each contract type.

Question 23. CEA section 5c(c)(5)(C)(i) provides that the Commission may make a public interest determination "in 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 "in connection with the listing" by a prediction market of an event contract?

Timing of Determination

The public interest determination should align with the existing process for other contracts, occurring at the time of or prior to self-certification. This approach allows the Commission to maintain authority while placing responsibility on DCMs. For DCMs seeking to mitigate risk, applying for approval in advance is advisable.

Resource Management

Given the potential increase in contract volume, the Commission may face challenges in reviewing all self-certifications within the standard timeline. To address this, DCMs exceeding a certain threshold could be charged proportionally to ensure adequate staffing and thorough evaluations. Utilizing framework filings can also streamline the process, enhancing efficiency.

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?*

The Commission should adopt an objective, nexus-based interpretation of "involve" that requires a direct and material connection between the contract's specified underlying event and

one of the listed activities, as defined ex ante in the contract's terms and settlement logic. Under this approach:

1. A contract "involves" a listed activity only if the contract's enumerated outcome(s), authoritative data source(s), and settlement criteria expressly require the occurrence, non-occurrence, or adjudication of the listed activity as a condition of final settlement.

2. Mere contextual association (e.g., an event occurring contemporaneously with, or adjacent to, a listed activity) is insufficient; the listed activity must be integral to the contract's determinative trigger.

3. The Commission should favor determinism and clarity: where a listed activity is neither explicitly part of the specified outcome set nor necessary to apply the contract's resolution criteria, the contract does not "involve" that activity.

4. Contracts with ambiguous or discretionary settlement logic that could sweep in a listed activity on an ad hoc basis should be deemed deficient at listing; conversely, contracts that cabin outcomes to objectively verifiable events unrelated to listed activities should not be treated as within scope.

5. When categories are used, the inquiry remains contract-specific: whether the concrete product specification embeds a listed activity as an outcome determinant.

This clarity reduces subjectivity, enhances self-certification discipline, and aligns with a principles-based framework that emphasizes ex ante specification and reproducible settlement.

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?*

Any procedural amendments should prioritize objectivity, predictability, and administrability:

1. Benefits: clearer standards reduce litigation risk, review bottlenecks, and chilling effects on compliant listings; they facilitate faster, higher-confidence self-certifications and improve surveillance alignment.

2. Costs: upfront effort to define objective criteria, update forms, and implement staff training; these are largely fixed and amortized over time.

3. Less costly alternatives: (a) enhanced § 40.2 self-certification templates requiring criterion-by-criterion attestations and supporting documentation; (b) non-binding guidance with illustrative examples at the category and product level; (c) optional pre-filing framework submissions permitting expedited review for subsequent, conforming products; and (d) workload-based fee adjustments to resource timely reviews.

4. Removing ambiguity and subjectivity should be the organizing design principle, as subjective tests generate recurring interpretive and enforcement costs that are difficult to predict and quantify while deterring compliant innovation.

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? . . . What factors should the Commission consider in evaluating and balancing the public interest in this scenario?*

An objective framework should distinguish lawful informed risk transfer from fraud and manipulation:

1. Public interest utility exists where informed participants hedge bona fide exposures or contribute to price discovery without engaging in misconduct; prohibiting such trading would degrade informational efficiency and impair hedging.

2. The analysis should remain event- and role-sensitive: where participants have outcome-influencing control or are subject to specific statutory prohibitions, targeted participation restrictions and surveillance are appropriate; otherwise, lawful informed trading should not be disfavored.

3. The Commission's focus should remain on preventing fraud, manipulation, and violations of applicable information-use prohibitions, rather than broadly restricting lawful trading by informed but non-controlling participants.

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?*

Contracts referencing outcomes that can be materially influenced by a single individual should generally not be listed unless there is credible, independent governance with enforceable integrity rules, monitoring, and penalties, and the contract design demonstrably mitigates control risk. In sports like tennis or golf, where oversight bodies exist to adjudicate compliance with fairness and integrity rules, these contracts may be considered. However, without such governance, they should not be listed.

Where a small group controls the outcome, a governance apparatus with confidentiality obligations and real consequences for violations should be a prerequisite. The Oscars, for

example, have such mechanisms in place. In the absence of legally binding obligations and accountability, these listings should be excluded.

As discussed in response to Core Principles 3 and 4, cross-market manipulation risks should be addressed through enhanced surveillance for correlated trading patterns and robust participation restrictions for outcome-influencers, rather than categorical limits on event-contingent products. This approach ensures that markets remain transparent and trustworthy.

DCMs listing event contracts are not inherently more susceptible to manipulation than other DCMs if they apply comparable surveillance, integrity controls, and product-specification discipline. The term "prediction market" should not diminish the regulatory obligations of a DCM. A DCM can list any contract that meets the requirements under the CEA and complies with its own designation order. This framing avoids unnecessary limitations and recognizes the full scope of a DCM's capabilities.

By focusing on these areas, the integrity of event-contract markets can be maintained, ensuring a fair and transparent trading environment.

Question 32. *CEA section 4c(a)(3) provides that it 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, 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 such transactions, and it is unlawful for the other person who receives such information to knowingly use it. . . . How should the potential for application of this statute inform the Commission's regulation of prediction markets?*

The statutory prohibitions on the misuse of nonpublic government information apply to event contracts in the same manner as to other commodity interests; compliance expectations and enforcement should be consistent across products and venues.

The Commission should emphasize DCM compliance programs, surveillance, and training that detect and deter trading based on prohibited governmental nonpublic information, while maintaining a level regulatory playing field across contract types.

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?

The regulation of prediction markets by the CFTC requires careful consideration of several key factors to ensure the protection of market participants and the public, as well as the efficiency and integrity of futures markets. Current ambiguities in regulation lead to significant costs, including legal disputes and commercial risks. By investing in objective standards and tests, the Commission can mitigate these costs and enhance market stability. Clear, ex ante criteria for permissible event contracts would protect participants from sudden disruptions and enable standardized disclosures, thereby reducing the risk of manipulation and enhancing transparency.

Furthermore, adopting objective standards would promote efficiency and competitiveness by lowering barriers to entry and encouraging innovation. This approach would also support sound risk management practices by enabling standardized stress scenarios and margin frameworks tailored to event risks. By focusing on objective eligibility criteria and transparent resolution protocols, the Commission can ensure that Event-Contract Markets operate with integrity and contribute positively to price discovery and public interest. Ultimately, this shift towards clarity and predictability in regulation will foster a more robust and inclusive market environment, benefiting all stakeholders involved.

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?*

In regulating Event-Contract Markets, the CFTC must consider the antitrust implications of exclusive data licensing practices by leagues and governing organizations. These practices can restrict access to essential data, creating barriers to entry and limiting competition. By concentrating market power, exclusive licenses can increase costs for new entrants and reduce consumer choice. To address these concerns, the Commission should promote the use of diverse and reliable data sources, ensuring that no single entity can monopolize the data necessary for market operations.

The importance of having reliable data to objectively close-out contracts cannot be overstated. Event contracts markets rely on accurate and timely information to settle contracts fairly and transparently. While leagues may offer specific data, markets should not be dependent on these exclusive sources if other reliable data is available. By encouraging competition in data sourcing and verification, the CFTC can enhance market integrity and innovation, ensuring that these markets operate efficiently and contribute positively to the broader financial ecosystem.

Ultimately, the CFTC should adopt the least anticompetitive means of regulation by setting performance-based integrity outcomes rather than mandating exclusive data sources. This approach aligns with the objectives of the Commodity Exchange Act, supporting a robust market structure that benefits all participants and fosters a competitive environment where multiple data providers can thrive.

Exempting DCM-Traded Swaps from Swap Dealer De Minimis Threshold

It is unnecessary to apply the swap dealer registration regime to a fully transparent market in which market makers trade on DCMs. DCM-traded centrally-cleared swaps are executed anonymously on regulated facilities, cleared through registered derivatives clearing organizations, and subject to continuous oversight by the DCMs, clearinghouses, and the Commission–these transactions are already governed by a comprehensive regulatory framework. As a result, Rothera supports permitting market makers to exclude cleared swap transactions executed on DCMs from the swap dealer de minimis threshold provided by the CEA. See Section 1a(49)(D) and Rule 1.3. 7 U.S.C. §§ 1a(49)(D); 17 C.F.R. § 1.3.

In conclusion, Rothera appreciates the Commission's efforts on this ANPRM and consideration of our comments, and we remain available to further discuss our views.

Sincerely,

/s/ *Thomas Chippas*

Thomas Chippas, CEO
Rothera Exchange and Clearing LLC

cc: The Honorable Michael Selig, Chairman, CFTC
Trace Schmeltz, Partner, Steptoe LLP
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