April 30, 2026

SUBMITTED VIA CFTC PORTAL
Secretary of the Commission
Office of the Secretariat
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Dear Mr. Kirkpatrick:

Kalshi Inc. (together with its subsidiaries, "Kalshi") respectfully submits this comment in response to the Commodity Futures Trading Commission's ("Commission" or "CFTC") March 12, 2026 Advance Notice of Proposed Rulemaking regarding prediction markets (the "ANPRM").

Kalshi's subsidiaries include KalshiEx LLC, a designated contract market ("DCM"), and Kalshi Klear LLC, a derivatives clearing organization ("DCO"). Since receiving its DCM designation in 2020 and commencing trading operations in 2021, Kalshi has become the leading regulated prediction market in the United States. It lists event contracts across a wide variety of categories—including economic indicators, financial indices, weather events, political events, scientific developments, sports outcomes, and cultural events—and has built a robust compliance infrastructure designed to meet or exceed every applicable DCM and DCO Core Principle. That regulatory focus has been the driving factor behind Kalshi's growth. Today, Kalshi platform has processed tens of billions of dollars in notional trading volume, has submitted more than 85% of all event contracts certified with the Commission, and is more than 90% of the market.

Kalshi sought its DCM and DCO registrations because it believes that federal regulation is essential to the long-term success and legitimacy of prediction markets. The CFTC's oversight gives our participants confidence that our markets are fair, our contracts are enforceable, our surveillance is diligent, and funds are protected. We welcome this ANPRM and the Commission's commitment to a deliberate, evidence-based approach. The withdrawal of the 2024 proposed rule and the decision to issue a comprehensive request for comment reflect the kind of careful regulatory process that produces durable, well-calibrated rules. Kalshi wants to be a constructive partner in this process.

The existing regulatory framework—including the DCM and DCO Core Principles, the self-certification process, and protections against manipulation and fraud—is well-designed and effective. The Commission should build on this strong foundation by providing clear guidance that supports a broad range of event contracts on regulated exchanges, drawing firm lines where appropriate—around terrorism, assassination, war, and casino-style gaming—while ensuring that the universe of event contracts can continue to be listed, traded, and overseen by the Commission.

For the overwhelming majority of contracts, the right response to manipulation risk, integrity risk, and customer protection concerns is not to narrow the universe of permissible contracts, which would push volume offshore (like the origin of the London Eurodollar market), but to ensure that DCMs and DCOs are doing the work the Core Principles already require them to do. Kalshi supports and is prepared to undertake enhanced surveillance, robust cooperation with Commission enforcement, and additional intra-exchange controls calibrated to the specific risks that certain markets could present. We believe DCMs, DCOs, the Commission, and market participants are all better served by a framework that holds exchanges to demanding standards on the work they perform—not a framework that resorts to categorical prohibitions that drive demand to offshore platforms. We elaborate this view in the responses below.

I. Core Principles and Commission Regulations (Questions 1–6)

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?*

The DCM Core Principles are well-designed, and Kalshi's experience confirms that they provide an effective framework for overseeing prediction markets. The principles-based structure establishing clear outcomes (fair access, market integrity, financial soundness, effective surveillance) while allowing DCMs flexibility in achieving those outcomes is ideally suited to a diverse and evolving product landscape like event contracts.

We would welcome Commission guidance that affirms and clarifies how the Core Principles might specifically apply to particular contracts. In particular, Kalshi encourages guidance emphasizing that contracts directly based on war, assassination, and terrorism are generally contrary to the public interest and should typically be prohibited if self-certified. Clear regulatory expectations foster the kind of healthy and fair competition that benefits participants.

Question 2

2(a): Core Principle 2 – Impartial Access and Abusive Trade Practices

> *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 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 have expanded access to derivatives trading relative to traditional markets, where high minimum account sizes and margin requirements can limit participation to

institutions. With respect to abusive trade practices, Kalshi maintains the same types of surveillance and compliance programs that the Commission expects of all DCMs, including automated monitoring for wash trading, spoofing, layering, and other manipulative conduct. Kalshi also has devoted significant resources to detecting and deterring insider trading.

2(b): Core Principle 2 – Contract Terms and Conditions; Resolution Criteria

> *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? Are dispute resolution procedures for other types of swaps, such as credit default swaps, helpful precedents? What considerations under Core Principle 14 are relevant?*

Contract resolution is an area where Kalshi has significant direct operational experience to share with the Commission. Over the past five years, we have certified nearly 2,500 event contracts spanning economic indicators, political events, weather, regulatory actions, scientific developments, sport events, cultural events, and more. That experience has taught us that robust resolution requires four major disciplines:

- Clear, detailed ex ante rules that participants can review before trading. Resolution rules should be specific enough that a reasonable trader knows, before committing capital, exactly what outcome triggers payout, what data will be used, and when the market will close and expire.
- A detailed and thoughtful approach to source agencies, including primary sources, secondary sources, and fallback procedures, so that participants understand how outcomes will be determined. This may include specifying hierarchical fallbacks rather than relying on a single source, addressing source agency failure, determining how to handle revisions, and more.
- Appropriate exchange discretion to handle the genuinely unforeseen edge cases that inevitably arise when contracts reference the full complexity of real-world events. This discretion is bounded; it operates within the published Market Outcome Review Process, our rulebook's clarification process, and the contract-specific resolution rules themselves. Discretion is the residual category for what ex ante rules cannot anticipate, not a substitute for clear rules in the first instance.
- Operational learning that feeds incidents back into contract templates and the rulebook. Each resolution decision should inform how the next generation of contracts is drafted: tightening definitions, expanding source hierarchies, and closing gaps revealed by real-world events. This is what makes a record of nearly 2,500 certifications a compounding integrity asset rather than a series of isolated submissions, and it is also the discipline that allows markets to resolve as soon as outcomes are reasonably known to participants, rather than holding capital hostage to procedural delay.

A foundational element of robust resolution is structural separation between the exchange's resolution function and any economic interest in resolution outcomes. The DCM itself does not take proprietary positions in the contracts it lists, does not act as a market maker in its own contracts, and does not earn revenue that varies with resolution outcomes. The exchange's economic interest is limited to fees on transaction volume, which are agnostic to which side of a

contract prevails. To the extent any exchange affiliates engage in trading activity in listed contracts, the Commission should expect robust information barriers, governance separation, and access controls ensuring that trading personnel have no involvement in, and no advance information about, resolution determinations or the exercise of exchange discretion in resolution. Resolution determinations are made by reference to pre-published Source Agencies, and where exchange discretion is required, by an Outcome Review Committee composed of at least two Public Directors who sit independently of the exchange's commercial and trading functions. The Commission should expect this kind of structural separation between resolution decision-making and any commercial or proprietary interest in resolution outcomes of any DCM operating in this space.

The ISDA Determinations Committee model for credit default swaps is an instructive precedent in certain respects.[1] ISDA's framework demonstrates that the derivatives industry has long accepted resolution processes that require judgment (a Determinations Committee must decide whether a "credit event" has occurred, a determination that can involve genuine interpretive difficulty) provided those processes are transparent, consistently applied, and subject to challenge. Event contract resolution operates on the same principle. The Commission should expect DCMs to maintain detailed published resolution rules, designated source hierarchies, and internal dispute procedures consistent with Core Principle 14, and should evaluate the adequacy of those systems based on their track record of producing accurate, consistent, and timely outcomes.

Kalshi has taken these concepts to heart, and we encourage others to follow. Our rulebook establishes a layered resolution architecture: Rule 6.3 sets forth settlement mechanics for binary and scalar contracts with structured fallback procedures (including last-traded-price and Outcome Review Committee determinations) when the Expiration Value cannot be cleanly determined; Rule 7.2 gives the exchange authority to designate new Source Agencies and adjust Expiration Dates when real-world complications arise; and Rule 7.1 provides for formal escalation to the Outcome Review Committee, a standing body of three members, at least two of whom must be Public Directors, with full discretion and a 24-hour determination window.

Kalshi's per-contract specifications are substantially more granular than those typical of traditional derivatives. A standard commodity futures contract identifies the underlying, delivery months, contract size, and settlement method; each Kalshi event contract specifies the precise event, the exact Source Agency and data point determining the outcome, the Payout Criterion mapping the Expiration Value to settlement, fallback sources, and any contract-specific settlement rules, a level of specificity necessitated by the diversity of underlyings and reflecting the seriousness with which Kalshi approaches resolution.

2(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*

[1] Indeed, Kalshi's position – as a market operator, not a market participant -- and our involvement of independent Public Director in the process provides additional safeguards relative to ISDA's model, which involves representatives of buy-side and sell-side participants whose potential conflicts of interest that ISDA has expended significant effort to mitigate.

be considered? Are there particular aspects of event contracts that make this determination different from the determination with respect to other listed contracts?

Susceptibility to manipulation is highly contract-specific; there is no single test that applies uniformly across the diverse universe of event contracts, any more than there is a single test that applies uniformly across physically-delivered agricultural futures and cash-settled financial indices. But the Commission can identify factors that DCMs should evaluate, such as:

- whether the underlying event is determined by reference to objective, publicly verifiable criteria;
- whether there are extant external markets that reference the same underlying event or data point (since deep external markets reduce the marginal manipulation incentive, supply reference pricing for surveillance comparators, and expand cross-market surveillance opportunities); and
- whether the persons with the greatest ability to influence the outcome can be identified ex ante.

Where such persons can be identified, the analysis does not end with identification; a further set of factors bears on the realistic likelihood that those persons would in fact attempt or succeed in manipulation. These include:

- whether the persons are already subject to legal restrictions on trading on, or on engaging in conduct that would affect, the outcome—including federal and state insider trading and securities laws, ethics statutes, professional conduct rules, and analogous frameworks;
- whether the persons are subject to fiduciary duties, oaths of office, or analogous obligations whose violation carries serious professional, legal, or reputational consequences;
- whether they are subject to transparency mechanisms—financial disclosure requirements, periodic audits, recordkeeping obligations, or reporting requirements—that would surface manipulative trading or positions; and
- whether the stakes available in the contract are calibrated such that manipulation would be economically irrational in light of the legal, professional, and reputational costs that the persons capable of effecting it would face.

Many event contracts score well on these factors by their nature. A contract on a presidential election references a constitutionally governed process observed by hundreds of millions of people. Others require closer scrutiny; a contract whose outcome turns on the decision of a single person raises different questions, and the DCM's mitigation measures need to be proportionate to the risk.

Surveillance is also critical. Beyond the standard compliance infrastructure that the Commission rightly expects of every DCM—KYC, automated trade surveillance, monitoring for wash trading and spoofing, reporting—there are contract-design tools that materially reduce manipulation risk and that the Commission should encourage DCMs to employ. These include: prohibited trader lists that prophylactically bar persons with direct control over the outcome from trading the contract (for example, prohibiting athletes, coaches, or officials from trading contracts on their own games, or prohibiting employees of a Source Agency from trading contracts that reference

that agency's data); the potential use of multiple independent Source Agencies so that no single data provider is a point of failure or manipulation; structuring resolution around official, audited, or widely-observed data releases rather than proprietary or easily-manipulated sources; and setting calibrated accountability limits.

DCMs should evaluate manipulation susceptibility on a contract-by-contract basis using the factors above, and should demonstrate that they have considered manipulation vectors and have implemented appropriate mitigation. The existing anti-manipulation framework under CEA sections 6(c)(1) and 9(a)(2) and Regulation 180.1 provide a powerful enforcement backstop for any manipulation that does occur, and the Commission's authority to bring enforcement actions applies with appropriate force to prediction markets.

Core Principle 3 contemplates reasonable exchange discretion, exercised within a principled framework and subject to Commission review. Where the Commission has concerns about the manipulation susceptibility of a particular class of contracts, the appropriate response is to review the DCM's CP3 analysis and add enhanced surveillance, not to remove the contract wholesale from the regulated market. Kalshi commits to making its CP3 analyses granular, documented, and readily available to Commission staff as part of the certification process.

2(d): Core Principle 4 – Market Surveillance

> *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?*

Prediction markets do not pose unique challenges to compliance with Core Principle 4. Whether trading is conducted on a central limit order book, through a request-for-quote mechanism, or via block trade reporting, trading on or subject to the rules of a DCM provides a complete audit trail of every order submission, modification, cancellation, and execution. The same surveillance tools and practices that the Commission expects of any DCM—automated monitoring for wash trading, spoofing, layering, unusual price movements, and suspicious trading patterns around resolution events and price-moving events—apply straightforwardly to prediction markets, and Kalshi employs all of them. The Commission should evaluate compliance based on the effectiveness of each DCM's surveillance program.

2(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?*

Position limits and accountability rules are important tools for preventing manipulation, and Kalshi applies them for every contract we list. The appropriate level can vary by contract: the underlying event, market depth, maximum potential payout, and the susceptibility of the event to influence all factor into the calibration. The Commission should expect DCMs to set position

limits thoughtfully and to be able to explain their methodology, but should not mandate uniform limits for all event contracts.

Regarding aggregation, the Commission should not require position limits to be aggregated across event contracts at different strike prices on the same underlying—for example, across "Will GDP growth exceed 2%?", "Will GDP growth exceed 2.5%?", and "Will GDP growth exceed 3%?" in the same quarter. These contracts serve distinct informational and practical functions: a participant who takes the full position limit on all three is expressing a view about the shape of the probability distribution. Aggregating limits across strikes would make it impossible to construct these positions in some situations, degrading both the utility and the informational richness of the market. The purpose of listing contracts at multiple strikes is to allow the market to produce a granular probability distribution—aggregation would force participants to choose which slice of the distribution to trade, collapsing the informational signal that multiple strikes are designed to produce.

This is also structurally different from the rationale for aggregation in traditional commodity futures, where limits are aggregated across contract months because a single participant can accumulate a position large enough to exercise market power over a finite deliverable supply. That dynamic does not exist in cash-settled event contracts. A participant who holds the maximum position on GDP > 2%, GDP > 2.5%, and GDP > 3% cannot squeeze a deliverable supply or corner a market. The contracts settle based on a BEA data release that market participants can influence just by trading.

2(f): Core Principle 11 – Financial Integrity; Margin

> *Core Principle 11 requires that a DCM have rules and procedures for ensuring the financial integrity of transactions. 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?*

The Commission should consider permitting margin trading because it would unlock meaningful benefits for customers. Institutional participants, for whom full collateralization is capital-inefficient, would be more likely to participate if margin were available. Their participation would deepen order books, tighten spreads, and improve price accuracy, benefiting all market participants including retail traders.

If margin is permitted, robust safeguards and risk models are essential, and we would support strong requirements to mitigate counterparty and credit risks. These should include: (i) risk-based initial margin calibrated to the contracts in question's unique characteristics (ii) daily variation margin settlement; (iii) clear disclosure to retail participants about margin risk. The Commission should also allow DCMs flexibility in developing margin models (supplementing standard VaR or SPAN with scenario-based stress tests), given the limited historical data for regulated event contracts. Event contracts should be eligible for portfolio margining with other contracts at the same DCO where correlated positions reduce risk.

2(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. What*

sources of operational risk related to prediction markets should the Commission consider?

Prediction markets face operational risks broadly similar to any electronic exchange—technology failures, cybersecurity threats, capacity constraints—plus the additional complexity of managing a large number of distinct contract listings, each with its own resolution criteria, resolution date, and data sources. Kalshi has purpose-built infrastructure for contract lifecycle management, resolution source monitoring, and settlement processing, and we maintain comprehensive business continuity, disaster recovery, and cybersecurity programs.

The Commission should evaluate operational risk based on the effectiveness of each DCM's controls, consistent with Core Principle 20's outcomes-based approach. We would welcome guidance that sets clear expectations while preserving flexibility in implementation.

2(h): Blockchain-Based Prediction Markets

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?

The Commission should apply the DCM Core Principles to blockchain-based prediction markets with the same rigor it applies to any other applicant and should evaluate them on outcomes rather than architecture. Blockchain-based platforms must be capable of meeting the operational, surveillance, and customer-protection requirements that DCM registration entails. The Commission should make clear that any DCM (blockchain-based or otherwise) must implement KYC and AML compliance, monitor and surveil its market for manipulation and abuse, segregate customer funds, maintain auditable records, satisfy the financial integrity requirements of Core Principle 11, and meet the operational reliability and capacity requirements of Core Principle 20.

Question 3

3(a): Relevant DCO Core Principles

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)?

The Commission should hold prediction market DCOs to the same high standards it applies to all DCOs, and should calibrate its requirements to the risk profile of the cleared products.

3(b): Differences Between DCM and DCO Core Principles

Are there relevant differences in how the Core Principles and underlying regulations for DCMs and DCOs apply to prediction markets?

Both sets of principles apply to prediction markets in the same manner as to any other derivatives market. The Commission should apply both sets of Core Principles uniformly and evaluate prediction market DCMs and DCOs on the same basis as all other registered entities.

3(c): Implications of Margin Trading for DCOs

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

If the Commission permits margin trading for event contracts, the DCO implications are significant and should be approached carefully. Margined event contracts would require DCOs to develop risk-based margin models that account for the distinctive characteristics of the contracts in question. The Commission should expect DCOs to demonstrate that their margin models are designed appropriately, and should require regular model validation as the Commission's and the industry's experience with margined event contracts develops.

The Commission should not require a separate guarantee fund or risk pool for event contracts in that case. A silo requirement would implicitly treat event contracts as categorically riskier than other cleared products. In fact, the risk characteristics of event contracts arguably support common default resources: because event contracts reference a diverse universe of independent underlying events, a portfolio of event contracts is naturally well-diversified in a way that a portfolio concentrated in a single commodity or asset class is not. A clearing member with positions across hundreds of event contracts on independent events—GDP, weather, elections, regulatory decisions—has lower portfolio-level tail risk than a clearing member concentrated in, say, energy futures during a supply shock. Siloing event contracts would prevent DCOs from recognizing this diversification benefit, resulting in an oversized guarantee fund that imposes unnecessary costs on clearing members and ultimately on market participants. It would also discourage multi-product DCOs from adding event contracts to their cleared product offerings—since a separate silo means separate capital and separate operational infrastructure—reducing competition in clearing and concentrating event contract clearing in fewer entities. The Commission should instead evaluate each DCO's margin models and default management procedures on their merits, and should require that those models appropriately capture the risk of the specific products being cleared, without mandating segregation by product category.

Regarding cross-margining, event contracts should be eligible for portfolio margining with other contracts on the same DCO where genuinely offsetting positions exist.

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?

Institutional participation is beneficial for market maturation. Institutional traders bring capital, sophistication, and information that improve price discovery and liquidity. Those benefits flow directly to all participants, including retail traders, through tighter spreads and more accurate prices. The Commission should apply the SEF Core Principles in a manner that actively facilitates this participation.

Regarding public disclosure, the Commission should balance the benefits of transparency against the risk that disclosure of large positions could exacerbate adverse selection in markets with relatively few participants on one side. The goal should be a disclosure regime that supports

market integrity without deterring the institutional participation that improves market quality for everyone.

Question 5

5(a): Swap Data Reporting

> *CEA section 2(a)(13) authorizes the Commission to make swap transaction and pricing data available to the public. What factors should the Commission consider in applying these provisions to prediction markets listing event contracts as swaps?*

The Commission should consider formalizing the reporting framework that it has already, in practice, recognized is appropriate for event contracts. As the Commission knows, Kalshi and every other prediction market DCM currently operates under no-action letters providing relief from the standard Parts 43 and 45 SDR reporting requirements. The Divisions have granted this relief each time because the standard swap reporting infrastructure was designed for bilateral, over-the-counter swaps between institutional counterparties, and event contracts do not fit that mold: they are exchange-traded, fully collateralized, standardized instruments with no systemic risk implications, traded on a central limit order book with complete price transparency. The policy goals of Parts 43 and 45—enhancing price transparency, reducing systemic risk, and improving regulatory oversight—are already fully achieved through the alternative reporting framework these NALs establish: Kalshi publishes time and sales data (timestamp, contract, quantity, and price) on its website promptly after execution, complies with Part 16 reporting to the Commission, and maintains all records open to Commission inspection. The fact that the Commission has granted substantively identical relief to every prediction market operator confirms that this is not a one-off accommodation but a structural recognition that the standard SDR reporting regime is not well-suited to these products.

Rather than continuing to administer this relief through serial no-action letters, the Commission should use this rulemaking to formalize the framework that staff and industry have developed. That framework should preserve the core elements that already work: direct publication of transaction data by the DCM, Part 16 reporting to the Commission, and full recordkeeping and inspection rights. It should also address the Commission's legitimate interest in standardization and cross-market surveillance.

Regarding standardization, the Commission should work with the industry to develop a practical taxonomy and naming convention for event contracts. Given the volume of distinct contracts, traditional identifiers like CUSIPs are unlikely to be practical or cost-effective, but a standardized classification system (such as by event category, underlying reference, and resolution date) would facilitate Commission analysis and cross-platform comparison.

Regarding cross-market surveillance, the Part 16 data that Kalshi provides to the Commission, combined with the complete audit trail inherent in centralized order book trading, gives the Commission the tools it needs to monitor for suspicious activity, including potential cross-market manipulation with securities or other financial instruments.

5(b): Pre-Arranged Trading and Wash Sales

> *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?*

Prediction markets should be held to the same high standards regarding these risks as other DCMs. Kalshi monitors for self-trading, wash patterns, and noncompetitive transactions through the same types of surveillance programs the Commission expects of all registered exchanges. The Commission should apply section 4c(a)(1) and (2)(A) to prediction markets in the same manner as to every other DCM.

5(c): Disruptive Trading Practices

> *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?*

Kalshi monitors for spoofing, layering, and other disruptive conduct through the same types of surveillance programs the Commission expects of all registered exchanges. The Commission should apply section 4c(a)(5) to prediction markets in the same manner as other DCMs.

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?*

The most important cost the Commission should weigh is not compliance expense, though that exists; it is the contraction of the universe of contracts available on regulated exchanges. Every new restriction that prevents a contract from being listed on a CFTC-regulated DCM is a contract where demand migrates to unregulated platforms, where participants receive none of the protections the Commission provides. That is a real, measurable cost to market participants and to the public interest, and it should be central to the Commission's analysis under CEA section 15(a).

The benefits the Commission seeks—market integrity, participant protection, effective surveillance, public confidence—can be delivered by the existing DCM and DCO Core Principles and the Commission's enforcement authority. Kalshi's five years of operations under this framework demonstrate that it works. Additional prediction-market-specific rules should deliver significant benefits in the light of any costs, particularly if those rules deter new DCM applicants, slow product innovation, or narrow the range of permissible contracts. The most cost-effective path is to maintain the existing principles-based framework, supplemented by clear guidance and rules when necessary that reduce uncertainty and support market development.

III. Public Interest (Questions 7–14)

Question 7

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?

Respectfully, Kalshi first notes that 7 U.S.C. § 7a–2(c)(5)(C)(ii) requires the Commission to make a determination *if* event contracts in the enumerated categories are contrary to the public interest, not *that* they are de facto contrary to the public interest if they fall into such a category. That being said, Kalshi firmly believes that contracts directly based upon war, terrorism, or violence are highly likely to be contrary to the public interest. Kalshi does not list such contracts. Similarly, Kalshi also refrains from listing contracts based upon casino-style games, such as roulette, slot machines, and other "table games").

The factors the Commission should consider should flow from the statutory text and from the burden Congress placed on the Commission. Importantly, the Commission has the affirmative burden to find a contract "contrary to the public interest"; the special rule does not require DCMs to affirmatively prove that their contracts are in the public interest.

The Commission's analysis should ask whether listing or trading the contract would create perverse and harmful incentives, such as incentivizing an act of terror or violent crime. A further consideration, particularly relevant for contracts whose subject matter directly references one of the enumerated activities, is whether trading in the contract creates substantial incentives for physical harm — such as theft or violence — that is not adequately addressed by the DCM's compliance and contract-design measures. This clearly follows from several of the events identified by the special rule (war, assassination, terrorism).

The Commission should also account for the practical consequences of prohibition in its analysis, including whether prohibition would simply drive activity to unregulated venues, resulting in less protection for participants, not more. Demand for event contracts is real and growing. The ANPRM itself notes that DCM applications have more than doubled in the past year. When a contract type is prohibited on regulated U.S. exchanges, that demand does not disappear; it migrates to unregulated offshore platforms where participants have no regulatory protections and the Commission has no visibility. A public interest analysis that does not account for this substitution effect is incomplete. The Commission retains and should exercise discretion, applying a strong presumption that permitting contracts to trade on regulated exchanges, under the Commission's supervision, serves the public interest.

The Commission should also codify whatever framework it adopts in regulation rather than embedding it solely in guidance, policy statements, or staff interpretations. Codification matters. Codification ensures that any future change to the framework will itself be subject to notice-and-comment rulemaking, with the attendant requirements of reasoned explanation, consideration of alternatives, and public input — protections that prevent the section 5c(c)(5)(C) authority from becoming a vehicle for whatever a sitting Commission, however constituted, decides on a particular day to disfavor., Codification

also reduces uncertainty for market participants. DCMs make significant ex ante investments in product design, compliance infrastructure, market-maker arrangements, and customer onboarding before listing any contract; participants make trading and hedging decisions based on the expectation that listed contracts will remain available; and would-be entrants make capital-allocation decisions based on the regulatory environment they expect to face. Each of these decisions becomes harder, and in some cases impossible, when the operative public-interest framework can be revised by a Commission majority through sub-regulatory means. A codified framework gives the entire ecosystem the kind of stable foundation that mature derivatives markets require and that the Core Principles framework already provides for the bulk of DCM activity.

Question 8

> *The public interests underlying the CEA are described in CEA section 3(a). 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 Commission's section 5c(c)(5)(C) determinations should be reasoned through a rules-based public-interest framework that is consistent with section 3(a), as described above, rather than through a free-floating policy judgment untethered from statutory text. The Commission's analysis should ask, with respect to any contract under review, whether listing or trading the contract would harm the statutorily prescribed public interests. For example, a contract that would impair law enforcement or military operational security may properly be found contrary to the public interest under that section.

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)?*

The Commission should not reimpose the former economic purpose test, which Congress specifically repealed in the CFMA in favor of the self-certification framework. Reimposing it would reverse that legislative choice.

When the Commission evaluates whether a specific event contract is contrary to the public interest under section 5c(c)(5)(C), the fact that the contract serves identifiable economic functions—hedging, risk transfer, price discovery, informational value—should serve as a safe harbor. Event contracts serve all of these functions: businesses hedge event-driven risks, investors manage political and regulatory exposure, and the publicly available prices benefit society as probability signals relied on by journalists, researchers, and policymakers. But the absence of a readily identifiable hedging use should not be treated as grounds for prohibition. Market demand is itself evidence of utility. If participants willingly post collateral to take positions, the contract is serving a function, whether that function is hedging, information acquisition, or speculative risk-taking. All three are legitimate and recognized purposes of derivatives markets, and the CFMA's repeal of the economic purpose test reflected Congress's

judgment that regulators should not second-guess which of those purposes a given contract serves.

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)?*

Event contracts contribute meaningfully to all three functions identified in CEA section 3(a), and a growing body of academic research, including studies specifically examining Kalshi's markets, provides strong empirical support.

Price discovery. Wolfers and Zitzewitz (2004) established that prediction market prices efficiently aggregate dispersed private information into forecasts that outperform most alternative methods, consistent with Hayek's (1945) insight that market prices incorporate information more efficiently than any centralized process. The Iowa Electronic Markets, operating since 1988, demonstrated this empirically across dozens of elections: Berg, Nelson, and Rietz (2008) found an average absolute error of just 1.33 percentage points between election-eve forecasts and actual outcomes across 14 presidential election contracts, and showed that market prices outperformed contemporaneous polls 74% of the time. Researchers have now turned their attention specifically to Kalshi and confirmed these findings at scale. Bürgi, Deng, and Whelan (2025), in the first systematic academic study of Kalshi's pricing, analyzed over 300,000 contracts and found that Kalshi's contract prices are "informative and improve in accuracy as markets approach closing," with prices broadly reflecting the probability of the underlying event occurring—a 50-cent contract wins approximately 50% of the time. Most significantly, a February 2026 Federal Reserve Finance and Economics Discussion Series paper—Diercks, Katz, and Wright, "Kalshi and the Rise of Macro Markets"—found that Kalshi's markets provide "well-calibrated, rapidly updating density forecasts" on important economic variables, and that Kalshi's forecasts for the federal funds rate and CPI "provide statistically significant improvements over fed funds futures and professional forecasters." The Fed researchers concluded that "prediction markets can serve as a valuable complement to existing forecast tools in both research and policy settings." Separately, Swanson, Wang, and Wu (2025) used Kalshi data to evaluate the Fed information effect, confirming that monetary policy shocks reduce expectations for both growth and inflation as reflected in real-time Kalshi prices. And Johansson (2024), in a thesis studying Kalshi's market microstructure, found that Kalshi "appears to operate in an efficiency sweet spot: prices are accurate enough for serious applications, while remaining just inefficient enough to sustain the environment of informed trading that makes these prices possible." This body of research is directly relevant to the Commission's analysis: Kalshi's prices are among the most reliable probability estimates available for a wide range of events, and restricting the range of permissible contracts directly restricts the scope of this public good.

Managing and assuming price risks. Event contracts allow market participants to hedge discrete, event-driven risks that cannot be efficiently addressed with other instruments. A firm with significant revenue exposure to a particular regulatory outcome—an FDA approval decision, a tariff action, a change in environmental regulation—can use an event contract to transfer that binary risk to a willing counterparty, much as it would use a commodity future to

hedge commodity price risk or an interest rate swap to hedge interest rate risk. As Wolfers and Zitzewitz note, prediction markets can serve "those wishing to hedge against specific risks," citing Shiller's (2003) broader argument that financial innovation should expand the universe of hedgeable risks. The Diercks, Katz, and Wright (2026) Fed paper makes this point concrete for macroeconomic risk: the authors document that Kalshi provides "continuously updated full distributions rather than infrequent point estimates" for variables including the federal funds rate, CPI, GDP, and unemployment, giving market participants the ability to hedge not just the direction but the magnitude of macroeconomic outcomes. The hedging application extends across Kalshi's product categories: agricultural businesses hedge weather and tariff risk; energy companies hedge regulatory and policy risk; portfolio managers hedge political risk without unwinding equity positions; insurers use weather event contracts to supplement traditional reinsurance. The breadth of hedging utility is directly proportional to the breadth of available contracts; every new contract category expands the set of risks that market participants can manage.

Disseminating pricing information. Kalshi's publicly available prices provide real-time probability estimates across a wide range of events: economic indicators, political developments, weather events, policy decisions, and more. These prices are cited by major media outlets, used in academic research, and consulted by businesses and policymakers. The Fed paper specifically highlights the value of real-time dissemination: the researchers note that Kalshi prices update continuously in response to new information—for example, the implied probability of a rate cut at a particular FOMC meeting shifted in real time following speeches by Fed Governors and employment reports—providing "rich intraday dynamics often missed in daily data" that "enable policymakers to gauge market reactions to events."

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?*

These purposes are complementary, not conflicting, in the prediction market context—and the Commission should resist any framing that treats them as trade-offs requiring restriction. The existing regulatory framework delivers on each of them simultaneously: the DCM Core Principles and the Commission's enforcement authority under CEA sections 6(c)(1), 9(a)(2), and 4c(a) deter and prevent manipulation; comprehensive customer-protection rules, customer fund segregation, and DCO oversight protect participants and ensure financial integrity; and the self-certification process, promotes responsible innovation and fair competition among DCMs.

Kalshi believes the Commission should affirmatively strengthen its consumer protection framework as the derivatives markets continue to retailize. Some risk-management tools that the Commission should consider codifying as industry-wide standards (and some of which Kalshi is already doing), include:

- Self-exclusion programs, allowing participants to suspend or terminate their own access to the platform on a temporary or permanent basis, with appropriate safeguards against circumvention;

- Deposit limits, including default daily, weekly, and monthly limits with the option for participants to set lower personalized caps and with cooling-off periods before any limit can be raised;
- Mandatory disclosures, so that participants understand the binary-payoff structure, the maximum loss on any position, and the absence of leverage or margin-call dynamics that distinguish event contracts from other speculative instruments;
- Age verification and restrictions on participation by minors, including KYC procedures designed to prevent under-18 participants from accessing the platform and a prohibition on marketing event contracts to minors;
- Restrictions on marketing practices, including limits on advertising that could mislead participants about the risk profile of event contracts; and
- Participant-protection reporting, through which DCMs report on the operation of their customer-protection programs to the Commission on a periodic basis, allowing the Commission to monitor industry practices and identify areas where additional guidance may be warranted.

These measures would benefit the entire regulated derivatives ecosystem, would not single out prediction markets, and would reduce the regulatory arbitrage that currently advantages exchanges with weaker voluntary standards. Calibrating these measures to the actual risk profile of event contracts is critical; standards imported wholesale from contexts with materially different risk profiles would be both over- and under-inclusive. Kalshi would actively support and participate in such a rulemaking.

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?*

Event contracts and insurance contracts are both financial products meant to provide contingent payoffs based on whether an event occurs,but the similarities mostly end there. They are fundamentally different products serving different functions under different legal frameworks. Insurance requires an insurable interest: the policyholder must have a pre-existing exposure to loss from the event, and the payout is limited to indemnification of that loss. It's also bilateral, privately negotiated, and tailored to the specific circumstances of the policyholder. On the other hand, any participant can take either side of an event contract, the payout is fixed regardless of whether the participant suffered any loss, and the contract trades on a public exchange at market-determined prices. Event contracts are standardized, exchange-traded, and publicly priced. Insurance is regulated by state insurance departments under frameworks designed for solvency, reserves, and consumer protection in the context of loss indemnification. Where no insurance product exists, an event contract may supply the only available mechanism through which businesses, municipalities, and individuals can manage exposure to event-driven risk. The risks for which no insurance product exists are not marginal: changes in trade policy, regulatory outcomes, political developments, macroeconomic shifts, and similar exposures collectively represent a substantial portion of the event-driven risk modern enterprises actually face.

Questions 13–14

Why, or why not, would it be appropriate for the Commission to propose any changes to its regulations related to its public interest determination? What considerations of costs and benefits would be relevant?

The Commission should propose changes to its public-interest determination regulations, and should do so in this rulemaking. Codifying a clear framework that details what categories of activity are covered, what "involves" requires, what factors govern the public-interest determination, and what procedure applies, would supply DCMs and market participants with the predictability they need to plan around the regulatory framework. Recent public discussion of offshore markets referencing war, violence, and similar subject matter has highlighted the importance of a clear statement on how the Commission will exercise its discretion.

IV. Activities Listed in CEA Section 5c(c)(5)(C) (Questions 15–22)

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?

The Commission should interpret each of the five listed activities according to its ordinary meaning, informed by usage in other legal contexts, and constrained by the statutory structure.

The first listed activity, “unlawful activity”, is the baseline. Its placement at the top of the list signals the unifying principle that organizes the rest of the enumeration. The four specific categories that follow share a common attribute with “unlawful activity”: each refers to conduct that is generally unlawful somewhere.

Terrorism, assassination, and war comprise the second category. Each is generally unlawful under federal or state law when it occurs within the relevant U.S. territorial jurisdiction, and each is broadly condemned under the laws of other nations and under international law even where U.S. domestic statutes may not directly reach the conduct. Congress’s decision to enumerate these activities separately from “unlawful activity” reflects a recognition that acts of terrorism, assassination, and armed hostilities sometimes occur outside U.S. territorial jurisdiction in ways that no specific federal or state criminal statute reaches, but that nonetheless raise the same public-interest concerns Congress sought to address. The specific enumeration ensures the special rule reaches such conduct without relying on the contingent territorial scope of domestic criminal law. While the CEA does not explicitly prohibit these contracts, Kalshi believes that contracts directly referencing specific acts of terrorism, assassination, or armed hostilities between sovereign nations are nearly always contrary to the public interest and should generally not trade on regulated exchanges. The potential for incentivizing harmful conduct is real, and the public-interest case for permitting such contracts is dwarfed by the potential harm.

Gaming occupies a distinct third category. At the time of Dodd-Frank’s enactment, wagering on sporting events was generally prevented by the Professional and Amateur Sports Protection Act of 1992, and was prohibited or tightly regulated by most states. Gaming therefore fit the unifying “unlawfulness” principle of the list. Still, rather than outright prohibit contracts based on

"gaming," Congress tasked the CFTC with public interest review and discretion over their listing. That grant of discretion allows for flexibility as laws and public opinions shift over time.

As we know, the legal landscape has shifted substantially since. The Supreme Court's decision in *Murphy v. NCAA*, 138 S. Ct. 1461 (2018), invalidated PASPA on anti-commandeering grounds, and a majority of states have since legalized and regulated sports wagering. Casinos have also proliferated across the country in the interim years. Thus, the Commission's interpretation of "gaming" in section 5c(c)(5)(C) and the related public interest determination should be informed by that evolution, and should track the contemporary core meaning of "gaming" in federal and state law: the operation of casino-style games of pure chance (such as roulette wheels, lotteries, and slot machines) whose outcomes are determined solely and purely by chance or by the structure of the game itself. [2]

Question 16

> *The first listed activity is an "activity that is unlawful under any Federal or State law." What types of event contracts could potentially involve such activity? What public interest factors should the Commission consider for event contracts involving unlawful activity?*

A contract "involves" unlawful activity only when the event that the contract directly references is itself an unlawful act, *not* when the underlying event could theoretically be affected by illegal conduct. This distinction is essential because virtually any event can be influenced by some form of illegality if the chain of causation is drawn loosely enough. A contract on FDA drug approval does not "involve" bribery merely because someone could theoretically bribe an FDA official.

If a contract references an event that is lawful under federal law and under the laws of the vast majority of states, the Commission should not treat the fact that one or a handful of states prohibit the underlying activity as a basis for a national prohibition. Consider that many activities—cannabis sales, certain firearms transactions—are lawful in some states and unlawful in others. A contract on the total revenue of the legal cannabis industry, or on whether a particular state will legalize sports betting, does not "involve" illegal activity – only legal activity.

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?*

The meanings of terrorism and assassination are largely self-evident, and the Commission should not overthink them. Terrorism refers to acts of violence or destruction committed against civilian populations or critical infrastructure for ideological, political, or religious purposes, a meaning well-established in federal criminal law (18 U.S.C. § 2331), the insurance industry's standard terrorism exclusion clauses, and common usage. Assassination refers to the targeted killing of a

[2] Kalshi does not believe that sports event contracts fall into the category of the "casino-style" games listed above. However, even if "gaming" includes sports events, Kalshi believes that the CFTC should permit contracts on such events as not contrary to the public interest.

specific individual, typically a public figure, for political purposes. Both activities are unlawful. Under U.S. federal and state law when they occur within U.S. territorial jurisdiction, and under the criminal codes of other nations and applicable international law instruments when they occur abroad. Contracts that directly reference specific acts of terrorism or specific assassinations — for example, "Will a terrorist attack occur at [specific location] before [date]?" or "Will [named individual] be assassinated?" — should not trade on regulated exchanges.

Question 18

> *The fourth activity is war. Does this activity encompass all military actions, or are there military actions that do not constitute war? What factors distinguish war from civil unrest, political actions, or international relations?*

The scope of "war" can be difficult to delineate, and the line between formally declared war, undeclared armed hostilities, peacekeeping operations, sanctions regimes, and other instruments of international relations is contested in legal, insurance, and policy contexts. We encourage the Commission to consult broadly with stakeholders before drawing lines that will define the universe of permissible geopolitical event contracts.

Contracts that directly reference specific acts of armed violence — discrete attacks, casualty counts, the conduct of particular military operations — present concerns, and the Commission's authority to address those concerns is well-grounded. They should not be listed in our view. The broader category of contracts on geopolitical risk, such as on sanctions, diplomatic developments, alliance decisions, defense policy, trade restrictions, international negotiations, is a separate issue, and these contracts serve substantial purposes that the Commission should preserve in drawing whatever lines it ultimately draws.

Question 19

19(a): Scope of "Gaming"

> *What factors should the Commission consider in determining the scope and public interest implications of this activity? What sources should inform the Commission's determination of the scope of the term "gaming"?*

If defined too broadly, "gaming" could encompass a vast range of economically valuable contracts not because those contracts raise the concerns Congress identified, but because they happen to reference events with entertainment or competitive elements, or merely because they might involve speculators. Instead, "Gaming" should be interpreted with reference to the body of federal and state law that defines gaming and gambling, recognizing that the meaning of those terms has evolved substantially over time. Gaming has historically referred to and continues to refer to the operation of games of chance: casino table games, slot machines, lotteries, and similar activities.

In other areas, the federal-level evolution since Dodd-Frank's enactment is relevant to the analysis. At the time the statute was enacted in 2010, the Professional and Amateur Sports Protection Act of 1992 imposed a near-categorical federal ban on state authorization of sports wagering. The Supreme Court's decision in *Murphy v. NCAA*, 138 S. Ct. 1461 (2018), invalidated

PASPA on anti-commandeering grounds, and a majority of states have since enacted regulated sports wagering regimes. Casinos have also proliferated across the country.

In light of that evolution, the landscape Congress confronted in 2010 no longer exists. The Commission's interpretation of "gaming" in section 5c(c)(5)(C), as well as its understanding of what contracts are contrary to the public interest, should reflect that change rather than be frozen in the 2010 landscape.

The right line for the Commission to draw now is to interpret "gaming" to refer to the operation of games of chance, like casino games, lotteries, slot machines, and similar activities whose outcomes are determined solely and purely by chance or by the structure of the game itself. Real-world competitions—sports competitions, award ceremonies, scientific prizes, electoral contests, and other events determined by skill, judgment, performance, and other factors—are distinct. They occur for reasons independent of any prediction market and are determined by the actions of real participants. Contracts on the Super Bowl, the winner of the presidential election, or the Best Picture Oscar should not "involve" gaming within the statutory meaning. Concerns about specific contracts on contests with limited governance or officiating, the kind of low-organization amateur events where outcomes can be more easily influenced, are properly addressed through Core Principle 3's susceptibility-to-manipulation analysis at the contract-design stage, not through expansion of the gaming category. Kalshi does not believe that sports event contracts fall into the category of the "casino-style" games listed above. However, even if "gaming" includes sports events, Kalshi believes that the CFTC should permit contracts on such events as not contrary to the public interest.

19(b): Distinguishing Types of Contests

> *How should the Commission distinguish between various types of contests? Should a sports competition be treated differently than an award competition, and if so, what factors support this distinction?*

Neither sports competitions nor award competitions are gaming, and the Commission should not draw distinctions between types of contests for the purpose of determining which ones fall within the gaming provision. The relevant question under section 5c(c)(5)(C) is whether the underlying event is itself a game of pure chance, not whether the event involves competition, uncertainty, or entertainment. Sports competitions, award ceremonies, scientific prizes, and other real-world contests are not games of pure chance. They are events that occur in the world for reasons entirely independent of the prediction market, that are determined by the skill, judgment, performance, or deliberation of real people, and that generate real financial, economic, and commercial consequences for the industries built around them.

The right framework for addressing concerns about specific contract designs within these permissible categories is Core Principle 3, not category-level prohibition under section 5c(c)(5)(C). CP3 requires DCMs to assess each contract for susceptibility to manipulation at the design stage, and that assessment can produce contract-specific prohibitions where the design raises genuine manipulation concerns even though the underlying category is permissible. Kalshi applies this framework rigorously.

However, the attempt to draw lines between types of contests—treating the Super Bowl differently from the Oscars, or the Nobel Prize differently from the Heisman Trophy—illustrates why the gaming provision should not be read to reach real-world competitive events at all. Any such line would be arbitrary. The global sports industry generates hundreds of billions of dollars in annual economic activity; sporting outcomes directly affect the revenues of leagues, teams, broadcasters, advertisers, sponsors, municipalities, and hospitality businesses. Award competitions drive billions in entertainment industry revenue. A Best Picture win materially affects a film's box office and streaming performance, and the Recording Academy's selections influence billions in music industry economics. Scientific prizes affect research funding, university prestige, and the commercial viability of research programs. Real-world events embedded in significant economic ecosystems are not gaming in the relevant sense, regardless of whether they involve competition or entertainment.

19(c)–(f): Public Interest; Responsible Gaming; Demographics; Differences Among Contracts

> *What aspects of event contracts involving gaming should the Commission consider in a public interest determination? What aspects of responsible gaming standards should the Commission consider?*

The Commission should consider the same factors as with other contracts in making a determination that a contract is contrary to the public interest, as discussed above.

Regarding responsible trading standards, the Commission should consider adopting principles-based guidance on measures such as deposit limits, self-exclusion programs, and loss limits, measures that some DCMs already offer voluntarily and that we support as sound practice for the industry, where these measures should be calibrated to the actual risk profile of event contracts. We would also support restrictions on marketing event contracts to individuals under 18. Prediction markets are regulated financial markets for adults, and the industry should hold itself to that standard.

Regarding participant demographics more broadly, the Commission should tread carefully before restricting market access or make public interest determinations based on the age profile of adult participants. Adults of legal age are entitled to equal access to regulated markets. No other form of regulated trading activity, whether futures, options, equities, or the like, involves similar age profiling on any sort of categorical basis.

Finally, to the extent different types of event contracts raise different concerns, those differences are best addressed through contract-specific design and DCM-level compliance rather than categorical distinctions at the Commission level. The diversity of event contracts is a strength of prediction markets, not a problem to be solved. The existing principles-based framework gives DCMs the flexibility to tailor their surveillance, position limits, and responsible trading measures to the specific characteristics of each contract.

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?

The "similar activity" provision should be interpreted narrowly. The unifying characteristic of the five enumerated activities is unlawfulness. Each refers to conduct that is generally unlawful somewhere: under U.S. federal or state criminal law for unlawful activity, terrorism, assassination, and war when occurring within U.S. territorial jurisdiction; under the criminal codes of other nations and applicable international law for terrorism, assassination, and war when occurring abroad; and under the federal and state legal architecture that governs gaming as games of pure chance. A "similar activity" within the scope of section 5c(c)(5)(C)(i)(VI) must share that unifying characteristic, and must be conduct that is generally unlawful in the relevant sense, not merely conduct that the Commission, in its policy judgment, finds unwelcome or unsavory.

Questions 21–22

Why, or why not, would it be appropriate for the Commission to propose any changes to its regulations related to the activities listed in CEA section 5c(c)(5)(C)? What considerations of costs and benefits would be relevant?

The Commission should propose substantive amendments to the regulations governing the activities listed in section 5c(c)(5)(C). Two changes warrant particular attention.

1. The Commission should define key terms in the section 5c(c)(5)(C) framework — both "involves" and the enumerated activities themselves — to future-proof the framework against inconsistent application. The Commission should fill the gap through codified definitions in regulation, for the same reasons it should codify any framework it adopts under section 5c(c)(5)(C) more generally: codification makes the Commission consistent and principled over time, ensures that any future change to interpretive choices proceeds through notice-and-comment rulemaking with reasoned explanation and public input, and gives DCMs and market participants the stable foundation they need to plan around the regulatory framework. The interpretive choices most in need of codification are:

- "Involves" should be defined to require that the contract directly reference the enumerated activity as its subject matter — i.e., the contract resolves based on whether the enumerated activity occurs — rather than encompassing any contract whose underlying event could theoretically be affected by the enumerated activity. Without this clarification, "involves" has no limiting principle: virtually any event can be influenced by some form of unlawful conduct if the chain of causation is drawn loosely enough, and the category would sweep in every event contract on any topic.
- Gaming should be defined narrowly to refer to the operation of casino-style games of pure chance (casino games, lotteries, slot machines, and similar activities). This definition tracks the historical and current usage of "gaming" in federal and state law, and it preserves the categorical distinction between games of pure chance and real-world outcomes determined by skill, judgment, performance, or deliberation.

2. The Commission should codify the conditions under which it will find a contract contrary to the public interest. Defining "involves" and the enumerated activities determines which contracts

come within the Commission's section 5c(c)(5)(C) authority. It does not determine which of those contracts the Commission will, in fact, prohibit. Indeed the statute requires a two-part test, as reflected by how the Commission has interpreted and applied Regulation 40.11. Without a codified substantive standard, the public-interest determination remains discretionary in a way that produces inconsistent treatment.

V. Procedural Aspects of CEA Section 5c(c)(5)(C) (Questions 23–28)

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?*

The phrase "[i]n connection with the listing" should be understood to mean that the Commission's public interest authority is triggered when a DCM lists or proposes to list an event contract through the self-certification or voluntary submission process.

The Commission should not make public interest determinations based on anticipated but unfiled listings. Such an approach would create uncertainty in the product development process and could chill innovation; the appropriate time for the Commission to evaluate a contract is when the DCM files its certification.

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?*

The Commission's public-interest determinations under section 5c(c)(5)(C) should be made on a case-by-case basis, contract by contract, on the record developed through the self-certification or voluntary submission process. Case-by-case analysis is what the statutory text contemplates — the determination is made "in connection with the listing" of a contract — and it is the approach best suited to the diversity of event contracts and the contract-specific nature of the relevant considerations. A categorical or class-based determination, applied prospectively across an open-ended set of yet-to-be-designed contracts, risks both over- and under-inclusion: it may sweep in contracts whose specific design, surveillance posture, and public-interest profile would warrant permitting them, and it may fail to anticipate the structural features of future contracts that genuinely raise public-interest concerns. The contract-specific analysis is the analytically correct one and should be the default.

That said, the Commission could usefully provide guidance identifying categories of contracts that, in its view, will almost always be contrary to the public interest, and that DCMs should therefore expect to face a public-interest objection if they certify. Contracts directly referencing specific acts of terrorism, assassination, war, or similar illegal violence are the clearest examples. Guidance of this kind would not displace the case-by-case framework; DCMs would retain the

procedural protections of the self-certification process, and the Commission would retain its discretion to consider any contract on its specific facts. It would supply useful ex ante signaling about how the Commission's discretion is likely to be exercised in the most clear-cut cases. The Commission should reserve guidance for rare occasions, and should resist the temptation to extend guidance to categories, such as contracts on the outcomes of legally regulated commercial activities, where the analysis is genuinely contestable and contract-specific.

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"?*

The Commission should, in its rulemaking, establish "involve" to mean that the contract's subject is about the listed activity, rather than that the contract itself constitutes the listed activity. This is the only way to read the statute. A contract whose subject matter is whether a specific act of terrorism will occur "involves" any of the categories; it is hard to imagine how trading on any DCM could itself be an act of war, assassination, or terrorism, for example.

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?*

The 90-day deadline reflects Congress's judgment that the Commission should act promptly and that the review process should not become an indefinite hold on product innovation. The Commission should honor both the letter and the spirit of this limitation.

Questions 27–28

> *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)?*

The most important procedural change the Commission could make in this rulemaking is to clarify, in regulatory text, that Regulation 40.11 operates consistently with the contract-specific procedural structure section 5c(c)(5)(C) requires. The statute conditions any prohibition on a finding that a particular contract is "contrary to the public interest", a substantive constraint on the Commission's prohibitory power that cannot be satisfied by a categorical rule deeming entire classes of contracts impermissible without individualized assessment.

Regulation 40.11 has never been administered as a categorical ban: in every instance in which the Commission has acted under section 5c(c)(5)(C) — Nadex's 2011 political-event contracts, the 2020 ErisX sports-event submission, Kalshi's 2023 election-contract submissions — the Commission has triggered individualized public-interest review under § 40.11(c) rather than treated the contract as automatically prohibited. That is the framework Congress enacted, the

framework the Commission has consistently applied, and the framework that should govern going forward.

Some commentators have nonetheless advanced an alternative reading of § 40.11(a) under which it operates as a categorical ban on contracts within the enumerated categories, with no individualized review. That reading is inconsistent with the statute and with the Commission's own practice. Nonetheless, its persistence has produced regulatory uncertainty that chills innovation, invites litigation, and undermines market integrity. The longer the textual ambiguity persists, the greater the disruption to DCMs, SEFs, intermediaries, and the broader prediction-markets ecosystem. The Commission should resolve that ambiguity in this rulemaking by amending the text of Regulation 40.11 to make clear, on its face, that § 40.11(a) sets forth principles guiding the Commission's review framework rather than a categorical prohibition, and that any prohibition under the regulation requires a contract-specific finding that the contract "involves" an enumerated activity together with a contract-specific public-interest determination.

The cost-benefit case for this clarification is favorable. The costs of inaction are concrete and presently being borne by market participants, including regulatory uncertainty that chills product innovation. The benefits are equally concrete: a regulation that, on its face, requires the contract-specific findings the statute demands, that aligns the Commission's regulatory framework with longstanding agency practice, and that disciplines future Commissions through APA notice-and-comment requirements rather than leaving the framework subject to administration-by-administration reinterpretation. This is the most consequential single regulatory action the Commission could take in this rulemaking, and the rulemaking is the right vehicle: retaining the current text during the pendency of an ANPRM that itself recognizes the framework needs revisiting serves no sound regulatory purpose.

VI. Inside Information (Questions 29–32)

Question 29

> *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?*

Trading on material nonpublic information in prediction markets can be unfair, corrosive to market integrity, and is already illegal under the CEA, and the Commission should enforce that prohibition. Kalshi supports strong anti-insider-trading enforcement as essential to the long-term health of prediction markets, and we urge the Commission to adopt a framework that will encourage such enforcement.

The observation that asymmetric information can in principle improve the informational content of prices depends on other participants continuing to provide liquidity in the face of known informed trading. The right way to capture the price-discovery benefit of informed trading is to make it easier for participants with legitimate analytical edge (research, modeling, expert knowledge) to participate, while continuing to prosecute the misuse of material nonpublic information.

When participants believe that counterparties are trading on material nonpublic information, the well-documented result is not better prices, but less trading. This is the adverse selection problem identified by Akerlof (1970) ("The Market for Lemons") and formalized in market microstructure theory by Glosten and Milgrom (1985) ("Bid, Ask and Transaction Prices") and Kyle (1985) ("Continuous Auctions and Insider Trading"): uninformed participants widen their spreads or withdraw from the market entirely when they believe they are being picked off by insiders. Spreads widen, volume declines, and price discovery degrades.

What the Commission should not do is treat insider trading risk as a reason to limit the types of contracts that may be listed, the appropriate response to insider trading is enforcement against insiders, not removal of the markets they might misuse. The Commission has ample tools to address this. CEA section 6(c)(1) and Regulation 180.1 prohibit manipulative and deceptive devices in connection with any swap or futures contract. CEA sections 4c(a)(3) and (4) specifically target government employee trading on nonpublic information. DCMs like Kalshi maintain surveillance programs specifically designed to detect trading patterns consistent with information-based manipulation (e.g. unusual volume or price movements ahead of known decision points, concentrated trading by accounts with potential access to nonpublic information, and correlated activity suggesting tipping). The Commission should make clear that insider trading on prediction markets will be prosecuted under these existing authorities, should coordinate with agency ethics offices and Inspectors General to ensure that potential insiders are aware of the prohibitions, and should evaluate whether additional guidance on the application of Regulation 180.1 to prediction markets would be useful.

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?*

The number of individuals who control the outcome of an event underlying a contract is key to manipulation analysis, but the Commission should recognize that it cuts in both directions, and often in favor of the contract's integrity rather than against it. A contract whose outcome is determined by a single identifiable individual or small group is in many respects easier to surveil. The pool of potential manipulators is known, finite, and identifiable ex ante; surveillance can be targeted and specific; and the individuals in question are often subject to extensive independent accountability structures that make covert misconduct exceptionally risky.

Some of the most important derivatives markets in the world resolve based on the decisions of a single individual or small committee, and they are more valuable for it, not less. Federal funds futures and options, among the most liquid and informationally significant derivatives in existence, resolve based on the votes of 12 FOMC members. OPEC production decisions, which drive a substantial portion of the global energy derivatives complex, are made by a small group of oil ministers. Credit rating agency actions—upgrades, downgrades, and watch placements by S&P, Moody's, and Fitch—are rendered by small committees of analysts and have for decades been the settlement trigger for credit derivatives and structured finance instruments. FDA approval decisions, made by a single agency head on the recommendation of a review division, are among the most consequential binary events in the pharmaceutical industry, and contracts

referencing them serve critical hedging and price discovery functions. Patent grants are determined by individual USPTO examiners. Major judicial decisions, from Supreme Court rulings to district court orders in antitrust or regulatory cases, are rendered by one judge or a small panel. In every one of these cases, the concentration of decision-making authority makes surveillance easier, not harder.

Questions 31–32

> *CEA section 6(c)(1) provides that it shall be unlawful to use any manipulative or deceptive device in connection with any swap. CEA section 4c(a)(3) provides that it shall be unlawful for any federal government employee to use nonpublic information to trade swaps for personal gain. How are prediction markets likely to be affected by nonpublic information that is available to Federal Government employees or officials?*

Kalshi takes the risk of manipulation and misuse of nonpublic information on its markets seriously. Manipulation attempts from government officials and employees are a key focus of Kalshi's surveillance program, and Kalshi also uses politically exposed persons checks in the sign-up and KYC process. These are important tools in reducing the risk that such trading occurs, and occurs unpunished, to a low level. The government officials who possess the most sensitive nonpublic information relevant to prediction market contracts are also subject to overlapping layers of accountability that make undetected misuse exceptionally difficult. Senior federal officials are subject to mandatory financial disclosure under the Ethics in Government Act, including disclosure of financial interests and transactions; are bound by standards of ethical conduct under 5 C.F.R. Part 2635, which restrict financial conflicts of interest; undergo background investigations and hold security clearances that impose ongoing reporting obligations; and are subject to Inspector General oversight within their agencies. Many of these individuals have sworn oaths to uphold the Constitution and faithfully discharge their duties oaths that carry professional, reputational, and in some cases criminal consequences for violation. The combination of specific statutory prohibitions under CEA sections 4c(a)(3) and (4), broad anti-manipulation authority under section 6(c)(1), ethics and disclosure frameworks across all three branches of government, and any given DCM's own surveillance programs creates a multilayered, robust deterrent against misappropriation of information.

The Commission should publicize the restrictions in sections 4c(a)(3) and (4) through guidance, coordination with agency ethics offices, or public education, to ensure government employees are aware that prediction market trading on nonpublic information is unlawful.

VII. Types of Event Contracts and Other Issues (Questions 33–40)

Question 33

> *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?*

Event contracts traded on CFTC-registered DCMs are properly classified as swaps. Event contracts fit comfortably within multiple prongs of the swap definition. Under CEA section 1a(47)(A)(ii), they are agreements that provide for payment dependent on the occurrence or

nonoccurrence of an event associated with a potential financial, economic, or commercial consequence. The "potential financial, economic, or commercial consequence" requirement is satisfied very broadly: election outcomes, for example, affect fiscal policy, tax rates, and regulated industries; weather events drive agricultural output, energy demand, and insurance losses; regulatory decisions reshape the competitive landscape for entire sectors; macroeconomic data releases move trillions of dollars in financial markets; and sporting events underpin a multi-hundred-billion-dollar global economy encompassing broadcasting rights, sponsorship, hospitality, municipal infrastructure, and employment.

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?*

Some event contracts whose payouts track continuously moving values rather than discrete binary outcomes resemble futures contracts in their structure. That observation predates the Dodd-Frank Act's swap definition. Under the post-DFA framework, CEA section 1a(47) defines "swap" to include any agreement providing for payment based on "the occurrence, non-occurrence, or extent of the occurrence of an event or contingency associated with a potential financial, economic, or commercial consequence", language that captures both binary and scalar event contracts. Event contracts should therefore broadly be treated as swaps, consistent with the textual scope of section 1a(47) and with the Commission's own litigation position.

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?*

In practice, virtually every event contract that has been or would be self-certified by a DCM falls within 1a(19)(iv). The swap requirement that the occurrence be associated with financial, commercial, or economic consequence is satisfied as a structural matter by any event contract designed in good faith.

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?*

Yes. The most important example is the large and growing offshore prediction market ecosystem. Platforms which operate outside the United States and are not registered with the CFTC, offer products that are functionally identical to the event contracts listed on DCMs: they are exchange-traded on centralized order books, available to retail participants, denominated in fixed units with binary or bounded payoffs, and resolve based on the determination of a third-party source or the observable occurrence of a real-world event. Additionally, event categories overlap substantially (politics, economics, weather, sports, entertainment, geopolitical events). DCMs operate under the full supervision of the CFTC's regulatory framework—DCM and DCO Core

Principles, anti-manipulation surveillance, KYC/AML compliance, customer fund segregation, swap data reporting—while offshore platforms operate with none of these protections.

The Commission should also commit to sustained enforcement against offshore platforms that solicit or tolerate U.S. participation. Offshore venues typically purport to exclude U.S. persons through terms-of-service disclaimers and IP-based geoblocks, but those measures are circumvented daily. VPNs are widely available, easily configured, and defeat IP checks at trivial cost, and platform operators have economic incentive to maintain the formal appearance of exclusion while tolerating, and at times encouraging, U.S. participation. The result is a substantial population of U.S. participants trading on venues that operate without CFTC registration, without DCM or DCO Core Principle compliance, without segregated customer funds, without anti-manipulation surveillance, without customer-protection rules, and without resolution-integrity or dispute-resolution infrastructure. These participants are exposed to precisely the harms the CEA was designed to prevent, and they have no practical recourse when those harms materialize. The Commission has clear authority to enforce against this conduct under CEA sections 4(a) and 4d, and has done so before. In In re iFinex Inc., CFTC Docket No. 22-05 (Oct. 15, 2021), the Commission settled charges against the British Virgin Islands entities operating the Bitfinex platform for offering leveraged retail commodity transactions to U.S. non-ECPs and operating as an unregistered futures commission merchant, imposing a $1.5 million civil monetary penalty together with a cease-and-desist order and remedial undertakings. The order's findings are directly on point: Bitfinex was sanctioned in significant part for tolerating (and at times encouraging) VPN-based circumvention by U.S. customers notwithstanding its formal U.S. exclusion. That order followed a 2016 enforcement action against the same entities for substantially similar conduct, confirming that absent sustained enforcement attention the underlying business model involving onshore demand, offshore registration, and pretextual geofencing, persists and escalates. The Commission should make clear that the offshore-platform model is not a viable workaround to U.S. derivatives regulation.

Question 37

> *In the 2012 joint rulemaking to further define the term "swap," the CFTC and the SEC adopted an interpretation excluding certain consumer agreements from the swap definition. Are any event contracts similar to, or different from, those excluded transactions?*

The Commissions excluded those transactions because they were customary bilateral arrangements. This includes mortgages with embedded rate locks, appliance warranties, layaway plans, employment contracts, and commercial loans with embedded interest rate provisions that incidentally contained swap-like features but existed to facilitate a primary non-financial purpose such as purchasing a home, acquiring goods, or conducting a business combination. The Commissions reasoned that Congress did not intend the broad statutory swap definition to sweep in these ordinary arrangements, which were already adequately regulated under other legal frameworks and had never previously been understood as derivatives.

Event contracts are purpose-built derivatives, entered into for the express purpose of taking a financial position on the probability of a future event. They are standardized, exchange-traded instruments listed on a registered DCM, traded on a centralized order book, and cleared by a registered DCO. They satisfy every requirement the Commissions identified for classifying a

transaction as a swap: they are characterized as swaps, traded on organized markets, have standardized settlement terms, and function as economic substitutes for other derivative positions. Under the Commissions' own 2012 framework, event contracts fall clearly on the "swap" side of the line.

The right principle for distinguishing swaps from wagers is mechanical and contextual, not subject-matter based. The 2012 joint rulemaking confirmed this in its treatment of insurance: the Commissions did not exclude insurance from the swap definition because of what insurance contracts are about; they excluded it because of how insurance contracts work. Insurance is bilateral, indemnification-based, requiring an insurable interest, and regulated under a state-law framework designed for that mechanism. The same principle distinguishes consumer and commercial agreements with embedded swap-like features from swaps proper. What makes an instrument a swap, rather than a form of insurance or a wager, is the mechanic: standardized, exchange-traded, centrally cleared, fully collateralized, listed on a registered market with surveillance, anti-manipulation rules, and customer protection requirements, and accessible to participants on uniform and fair access terms. The 2012 exclusion was designed to keep ordinary consumer and commercial arrangements out of a regulatory regime they do not need; event contracts should remain within a regulatory regime that serves them well. The Commission should affirm that event contracts are and remain swaps subject to the full protections of the CEA.

Questions 38–39

> *CEA section 15(a) requires that the Commission, before it promulgates a regulation under the CEA, consider the costs and benefits of its action. CEA section 15(b) requires that the Commission take into consideration the public interest to be protected by the antitrust laws. How are these considerations relevant to the Commission's regulation of prediction markets?*

The Commission should recognize that the relevant competitive landscape for prediction markets is not limited to domestic regulated DCMs—it includes unregulated offshore platforms that currently serve users in the US and worldwide without any of the protections that CFTC registration provides. Overly restrictive regulation of domestic DCMs shifts competitive advantage to unregulated foreign platforms, producing less competition, less transparent market, diminished customer protection, and reduced market integrity overall. This is the most anticompetitive outcome possible: regulated entities lose market share not because a competitor offers a better product, but because the regulatory framework makes it impossible for them to compete. The Commission is required by section 15(b) to "endeavor to take the least anticompetitive means of achieving the objectives of the CEA." In the prediction market context, this means enforcing existing rules —anti-manipulation, anti-fraud, surveillance, financial integrity—while permitting broad product innovation on regulated exchanges.

Question 40

> *How would any potential rule changes for prediction markets impact "small entities" as defined by the RFA? In general, how do small entities use prediction markets?*

Potential rule changes affect small entities as they do other market participants. Kalshi's traders represent the full spectrum of entity size, from individuals to small entities to large companies. Small entities use these markets for many purposes, including risk management. Therefore, the Commission should be careful that small entities are considered in the purpose and effect of any rulemaking.

Respectfully submitted,

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