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July 31, 2026 - via Regulations.gov (https://www.regulations.gov)

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

## Re: Data Reporting Requirements for Certain Event Contracts (RIN 3038-AF73)[1]

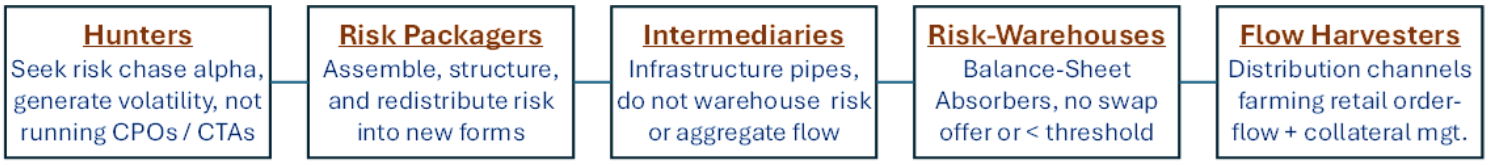
Dear Mr. Kirkpatrick,

On behalf of Data Boiler Technologies, I am pleased to provide the Commission with our comments on the captioned proposal regarding Data Reporting Requirements for Certain Event Contracts. Data Boiler is a Pioneer in FinTech with patented inventions in signal processing, trade analytics, machine learning, time-lock cryptography, etc. We frequently comment on regulatory policy both domestically and abroad with over 12 years in business.

This proposal aims to codify into regulation certain aspects of "Staff No-Action Letters Issued for Fully-Collateralized Event Contracts" that would be superseded and render them temporary moot upon adoption and the compliance date of a final rule. The CFTC has chosen to avoid rewriting the core foundational definitions of 17 CFR Part 39. The CFTC has pursued a narrower, less legally disruptive path – the **Parts 15–18 Routing Approach.** Rather than rewriting what a *"party"* or "clearing member" means under **Part 39**, the proposal simply routes fully collateralized event contract **transparency tracking** into the alternate **futures and options reporting framework**.

In general, codifying permanent laws with clarity on what activities are permissible versus prohibited for the consistency of its application is better than piecemeal deregulation or discretionary *"no-action"* waivers that shield incumbents. The Commission finds itself caught between wanting to encourage technological innovation in fulfilling the mandates of Executive Order 14405 and fearing a major legal challenge under the *Major Questions Doctrine* (where courts strike down agency rules that lack explicit congressional backing). Reliance on **temporary staff no-action letters** and long-winded Requests for Comment is the result of this political polarization. By avoiding a permanent, final rule, the CFTC insulates itself from being sued in federal court for exceeding its authority, but it leaves the matters stranded in a legal gray area with zero clarity on who owns their cash if the architecture fails.

Rulemaking of time-tested principle-based laws requires a holistic review that executes a systematic market structure overhaul anchored to a **five-layer behavioral risk taxonomy** – ***Hunters*** (create risk), ***Risk Packagers*** (transform risk), ***Intermediaries*** (route risk), ***Risk-Warehouses*** (absorb market exposure), and ***Flow-Harvesters*** (absorb client exposure).




*In below discussion, CFTC / National Futures Association (NFA)-regulated entities are marked with* ★

Fully-Collateralized (i.e. 100% pre-funded and no leverage) event contracts in Prediction Markets have **no credit-default risk exposure**. *Exempting such client facing entity from subscribing to insurance of mutualized default funds* would facilitate innovation and competition to financial products and services for FinTech firms.[2] Yet, the **controversy stemmed from whether retail traders are to be treated as clients or counterparties**.

[1] https://downloads.regulations.gov/CFTC-2026-1453-0001/content.pdf
[2] https://www.databoiler.com/index_htm_files/DataBoiler%20CFTC%20FinTech%2020260709.pdf

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Please see the BOX below for an **Executive Summary** of our comments:

**The Retail "Disintermediation Premium" and Systemic Risk**

While the direct-access model eliminates broker layers, retail participants suffer a severe structural deficit in legal rights compared to traditional intermediated markets. Retail traders lose their protected status as "*Public Customers*" and are legally classified as institutional "*Direct Clearing Members*" under Part 39. They sacrifice suitability rights and access to the NFA's low-cost Arbitration Program.

If a vertically integrated platform or DCO experiences an operational failure, a smart-contract hack, or an internal bot-trading glitch, a retail user faces the liquidation estate directly without a broker cushion. Another concern is the **Compression Loop**. Under Part 190 bankruptcy mechanics, uninvested cash balances sitting idle on the platform are swept alongside active wagers into a single pool of "*Member Property*" that is subject to strict **pro-rata haircuts**. If a platform runs portfolio compression cycles right before insolvency, individual retail trade identities are permanently erased and consolidated into institutional blocks, effectively trapping retail funds inside prolonged forensic litigation.

**Technical & Macro-Prudential Surveillance Vulnerabilities**

The proposal's technical reporting alterations generate critical systemic blind spots across the broader financial network:

**The Interoperability Illusion:** The provision allowing a platform-native contract ticker symbol to serve as the UIC "*where practicable*" must be rejected. This approach deviates from the global UPI standard mandated by prudential regulators, creating a localized data silo that leaves macro-prudential supervisors blind to cross-border risk concentrations.

**The Information Silo:** Shifting data directly into the Part 16 futures framework feeds raw transaction records exclusively into the CFTC's internal databases. Prudential banking regulators in this are cut off from automated telemetry pipelines, creating an information gap that undermines the systemic safety mandates of Title VIII under the Dodd-Frank Act.

**Analysis of Specific Rulemaking Provisions**

**§16.03(a) Covered Event Contracts:** The current draft fails to prevent unintended institutional "*scope creep*" because it relies on abstract contract types rather than strict venue boundaries. Furthermore, its four-prong definition discriminates against product innovation by strictly limiting the regime to binary "*all-or-nothing*" contracts, penalizing risk-mitigated structures like CBOE's partial or variable "*Payout Zone*" frameworks.

**§17.00(j) and §17.01(f) Large Trader Tracking:** Bifurcating the reporting duties between DCMs (for direct members) and FCMs (for intermediated clients) creates a blind spot that obscures a large participant's true consolidated positions. By basing the reporting burden on platform access methodology rather than entity classification, the rule grants a compliance subsidy to sophisticated hedge funds and high-frequency market makers operating as direct clearing members.

**§16.03(e) Volume-Based Reporting:** Deploying a flat volume threshold of 125,000 contracts is appropriate given the ultra-short-term, rapid-turnover nature of retail binary options. Yet, we do have concerns with direct-clearing platforms frequent use of portfolio compression cycles to tear up and delete offsetting, redundant trades to shrink their reported risk. Also, there are concerns are about Form 40 Special Call burden on retail traders.

**§16.03(g) Trader-Identifying Information:** Requiring execution venues to collect and continuously audit non-anonymous participant data—including names, physical addresses, occupations, and employers—is out of proportion and highly duplicative. This mandate creates a massive data privacy honeypot for cybercriminals, while simultaneously deterring institutional professionals from participating, ultimately starving the prediction market of fundamental liquidity.

*Regulators must beware of the **disintermediation trap** and the **hidden systemic risks** that bypass the FSOC. Given the clear merits of the statutory separation mandated by the CEA, the U.S. cannot and should not adopt the EU/UK MTF model; consequently, **a formal update to Part 39 remains inevitable**.* Our **key recommendations** are as follows:

1. **Mandatory Retail Spin-Off:** Force vertically integrated platforms to completely spin off their retail business units into separate corporate entities to preserve arm's-length execution standards.
2. **"Opt-In Risk" Clearing Safe Harbor:** Exempt 100% pre-funded, non-intermediated tech-clearing utilities from mutualized banking default insurance funds, operating instead under a strict "opt-in risk" regime where users are explicitly not covered by the collective safety net.
3. **Establish an Interagency Framework:** Abandon isolated staff no-action letters and work directly through the Financial Stability Oversight Council (FSOC) and the Interagency Risk Committee to reconcile platform efficiency with global systemic safety standards.

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## Clients versus Counterparties

At the far right of the value chain are the **Flow-Harvesters**, firms that warehouse **client flow** rather than market risk. These include Retail Foreign Exchange Dealers (RFEDs) ★, retail futures brokers (Futures Commission Merchants [FCMs] with retail books ★), Introducing Brokers ★, and other retail broker-dealers, custodians, prime brokers (registered as FCMs but do not make markets in swaps, have no balance-sheet risk books, and do not take principal risk nor hedge market risk ★, such as Hidden Road, Copper PB), and crypto settlement networks such as Fireblocks, BitGo, and ClearLoop.

These are regulated primarily as technology infrastructure providers or banking/trust utilities under state and federal banking laws. These actors provide financing, margin, custody, collateral mobility, and counterparty credit warehousing. They scale with the client relationships rather than market volatility. Their role is to **absorb client exposure**, **NOT market exposure**, which is why they sit downstream of risk-warehousing institutions.

**Intermediaries** sit in the middle, they are the **neutral infrastructure** that enables risk to move through the system. These firms do not seek risk and do not manufacture it; instead, they provide **execution**, **routing**, **liquidity access**, **analytics**, **clearing**, and **settlement**. This category includes regulated trading venues (e.g. Stock / Option Exchanges, Designated Contract Markets [DCMs] ★, Swap Execution Facilities [SEFs] ★, Foreign Boards of Trade [FBOTs] ★), ATSs, Single Dealer Platforms (SDPs), ECNs, Request for Quote (RFQ) networks (★ if using CFTC regulated derivatives), smart order routers, liquidity aggregators, Transaction Cost Analyzers (TCA) vendors, market-impact analytics providers, clearinghouses (e.g. ***Kalshi Klear*** and ***Rothera Exchange and Clearing***, [formerly under the brand name ***MIAXdx*** for LedgerX] are CFTC-regulated Derivative Clearing Organizations [DCOs] ★ *that would no longer need to rely on temporary no-action relief if the newly proposed rule is formally adopted*),[3] swap data repositories (SDRs) ★, and Trade Reporting Facilities (TRFs). Intermediaries are the "pipes" of the ecosystem — they match orders, move collateral, manage margin, and ensure the mechanical functioning of markets. They are essential but economically **neutral**.

While retail traders gain *direct access* to vertically integrated platform for covered event contracts, they suffer a severe net *deficit in rights* compared to traditional markets. Below table unveils the operational reality:

| Protected FCM Brokerage Customer | Direct Retail Clearing Member (DCO Model) |
|---|---|
| **Right to Suitability Protections:** The broker must legally verify if a product matches the client's financial sophistication.[4] | **No Suitability Rights:** The retail user is **treated as an institutional peer; the platform assumes they fully understand all risks.** |
| **Protected Bankruptcy Class:** Under Part 190, customer shortfalls are insulated and prioritized via an FCM omnibus pool.[5] | **Unprotected Institutional Class:** If the DCO fails, the retail user's funds are **legally tangled in the general liquidation estate of a clearinghouse**.[6] |

While both the CFTC and the SEC aim to eliminate fraud and abuse, the two agencies approach ***investor protection*** from fundamentally different legal philosophies. The SEC has an explicit statutory mandate under the Securities Exchange Act of 1934 to protect retail investors. Its rules assume the general public owns stocks and bonds, meaning the agency heavily

[3] https://www.cftc.gov/csl/26-14/download
[4] https://www.linkedin.com/pulse/fiduciary-suitability-best-interest-what-kelvin-to/
[5] https://www.ecfr.gov/current/title-17/chapter-I/part-190
[6] https://www.jenner.com/a/web/kJvg46xz6oiNYoeoM1si5e/7KFEao/lazar-futures-and-derivatives-law-report-may-2023.pdf

regulates public disclosures to prevent everyday consumers from being exploited. The CFTC's mandate under the Commodity Exchange Act (CEA) focuses on ***market integrity*** and ***price discovery***. The derivatives markets were built for commercial hedgers (like farmers or banks) managing massive risk.

The CFTC determined that a DCO holding member funds under its own clearing rules does not satisfy the statutory definition of an FCM acting as a broker-dealer by strictly applying the **"agency vs. principal" test** under the CEA. The NFA – a Self-Regulatory Organization (SRO) with authorities to fine, suspend, or expel if a broker mistreats a customer regarding sales practices, or fail to comply with capital requirements, cybersecurity, and data protection requirements – argues that if a DCO chooses to act as its own broker, it must be forced to adopt the same customer-protection standards that the NFA enforces on traditional FCMs,[7] including:

- **Strict Know-Your-Customer (KYC) and Anti-Money Laundering (AML)** digital onboarding standards.
- **Digital disclosure mandates** that explicitly warn retail users they are sacrificing standard bankruptcy and bankruptcy-pool protections.
- **Algorithmic guardrails** to ensure the DCO's auto-liquidation engines do not predatorily wipe out retail balances during flash-crash events.

Trade Associations, such as the FIA argued that *"When a direct-clearing platform transforms a retail customer into a '**Direct Clearing Member**' to bypass the FCM broker layer, it creates a unique legal relationship. The retail participant completely strips away their status as a protected 'brokerage customer' and assumes the raw rights and obligations of an institutional clearing house member under **CFTC Part 39**."*[8]

Average retail traders would NOT be aware that they *lost access to the NFA low-cost Arbitration Program* – a practical consumer-protection tool to resolve disputes between customers and brokers. Even if it is fully disclosed in a comprehensive user agreement, the average retail traders may NEVER understand that they are bound to a DCO's disciplinary and arbitration jurisdiction where the platform possesses the unilateral right to audit the user's trading patterns, freeze accounts, or seize collateral to enforce market integrity without traditional broker-level customer dispute protections. Retail traders are assuming *"first-line"* settlement liability in this case. For example, if an operational error occurs, the user faces the clearinghouse directly with no broker buffer to protect or advocate for them.

In a traditional clearinghouse insolvency, the liquidation estate can demand extra cash from its clearing members through "assessment powers" to cover systemic shortfalls. Thankfully, under CFTC Regulation §39.2 and general DCO core principles, the definition of a **fully collateralized contract** means the participant's liability is **permanently capped at the initial margin pre-funded for the trade**. Yet, unlike FCM bankruptcy, the retail trader legally surrenders their priority status as a ***"Public Customer"***; if the DCO fails due to an operational glitch, cybersecurity breach, or parent-firm insolvency, the bankruptcy trustee aggregates all assets into a massive *"Member Property"* estate.

If an asset shortfall occurs within a specific asset class during a clearinghouse liquidation, the bankruptcy trustee must distribute the remaining Member Property on a strict pro-rata basis under Part 190. This depends on whether the DCOs' rulebooks have explicitly stated that retail direct clearing members do not participate in the clearinghouse's mutualized default fund. If one does not share in DCO's mutualized risk pool, one carries zero legal obligation to contribute capital to repair a collapsing clearinghouse. The **maximum loss** for a direct retail participant extends well beyond **100% of their active wagers**, encompassing **100% of the uninvested cash sitting idle in their platform account balance**.

[7] https://www.nfa.futures.org/news/newsComment.asp?ArticleID=5795
[8] https://www.fia.org/sites/default/files/2026-02/FIA%20Response%20to%20CFTC%20on%20Direct%20Clearing%20of%20Derivatives%20by%20Retail%20Investors.pdf

Do NOT mistakenly assume that an exchange or clearinghouse operates like a traditional sportsbook or brokerage, where only the active *"money on the table"* is at risk. If the platform utilizes **portfolio compression**[9] right before an insolvency, individual contract legs are permanently terminated and consolidated into compressed institutional blocks. Because compression strips away the granular, individual trade identities, the trustee cannot trace *which* specific retail human being contributed *which* exact cash dollar to the clearing vault. The court views the compressed block as a single consolidated institutional claim, leaving individual retail participants unable to claim specific asset ownership and freezing their funds inside the general estate for years during forensic litigation.

The above illustrates the ***"disintermediation premium"*** that *retail traders unknowingly pay* when they trade on direct-clearing DCO platforms. Amid the proposed updates to CFTC **Rule 39.15** is the attempt to force DCOs to place clearing member funds into bank accounts with written segregation acknowledgments, but this shield ONLY protects against routine creditor seizures – it fails during operational defaults. If a vertically integrated platform fails due to a **smart-contract hack, an internal operational error, or an algorithmic trading glitch** caused by its prop-trading affiliate, the shortfall occurs *inside* the clearing ledger itself. Because a direct retail DCO lacks the secondary financial backstop of an independent FCM, the cash shortfall hits the retail members instantly. The court merely wraps the remaining funds into the general liquidation estate, transforming the retail user into an unsecured creditor waiting for cents on the dollar.

## Structural Conflict and Systemic Risk

We are concerned that automated quoting or **Automated Market Makers** (AMMs) may widen spreads to avoid *"pick-off"* rather than continuously providing tight two-sided quotes. When volatility spikes or an *"asymmetric information shock"* hits, an algorithm's code may prioritize protecting its own balance sheet first. True market makers are supposed to fulfill their structural obligations by using their balance sheet strength to absorb risk and maintain orderly markets in **both good times and bad times**. When a platform tolerates a relaxed, content-based framework, it permits an architecture where predatory actors can selectively time the market. Allowing a vertically integrated platform or its affiliated DCO or AMM to *flick between acting as an agent for a client versus acting as a proprietary counterparty* – or routing orders for proprietary gain over a **client's best interest** – presents a severe, structural **conflict of interest**.

The proposal has NO provision in requiring the vertically integrated platform to programmatically demonstrate through algorithmic simulation that its data and routing architecture naturally prevents house-style spread widening, oracle manipulation, and mempool exploitation (automated bots that monitor public transaction queues) in Maximal Extractable Value (MEV)[10] by preferred market makers during high-volatility spikes. If the simulation reveals that the platform's vertical loop allows it to run its brokerage arm as a loss-leader to front-run retail order flow, certification should be denied. This replaces formal endorsements from costly law firms with actual, code-governed risk controls.

### *The Common Clearing Member Network (The Capital Drain)*

Although retail users clear directly on the platform, **institutional market makers and proprietary trading firms** act as the primary liquidity providers on the other side of the order book to capture the bid-ask spread. These institutional market makers do not isolate their capital; they are simultaneously clearing members at major traditional DCOs (such as the CME Group or the Options Clearing Corporation).[11] This creates **interlinkage** and a **contagion mechanism**. If a retail DCO suffers

[9] https://www.garp.org/hubfs/Whitepapers/a2r1W0000011S9AQAU_RiskIntell.WP.10.1.SystemicRisk-1.pdf
[10] https://chain.link/article/mev-protection-mechanisms ; https://a16zcrypto.com/posts/article/mev-explained/ ; https://owasp.org/www-project-smart-contract-top-10/2023/en/src/SC05-front-running-attacks.html ; https://blocksec.com/blog/harvesting-mev-bots-by-exploiting-vulnerabilities-in-flashbots-relay
[11] https://www.cmegroup.com/articles/brochures-and-handbooks/101-overview-default-management.html ; https://www.theocc.com/risk-management/cross-margin-programs

a catastrophic exploit or a frozen liquidation estate, the capital and collateral deposited by these large market makers is locked indefinitely. To repair their sudden balance-sheet hole and meet strict margin calls at traditional exchanges, these firms will aggressively pull liquidity, slash risk limits, or draw down credit lines across other clearinghouses, transmitting the shock instantly.[12]

### *Concentration of Settlement Bank and Custodian Exposure*

Clearinghouses do not hold physical cash vaults; they deposit customer and member performance collateral into a highly concentrated network of commercial **Settlement Banks and Permitted Depositories**.[13] A direct-to-retail DCO and a massive traditional DCO frequently share the exact same top-tier settlement banks (e.g., BNY Mellon or JPMorgan Chase). If a retail DCO fails due to an operational or fraud-related run, the chaotic liquidation or freezing of its massive, un-leveraged cash pool can trigger localized liquidity strain or operational gridlock at the shared settlement bank. This bottleneck directly delays the real-time processing of end-of-day settlement cycles for *other* completely unrelated clearinghouses, causing a multi-market payment standstill.[14]

### *Cross-Margining and Correlated Portfolio Fracturing*

Many sophisticated trading firms optimize their capital by utilizing **cross-margining programs**. This mechanism allows them to reduce their required margin at a traditional DCO if they hold an offsetting, highly correlated hedge position at an affiliated or partnered clearing venue.[15] If a platform hosting event contracts or digital options freezes into bankruptcy, the cross-margined hedge is completely neutralized or rendered untradable. The surviving traditional DCO will observe that the market maker's portfolio is suddenly unhedged and exposed to massive gross market risk. The surviving DCO's risk engine is statutorily mandated to issue immediate, multi-million-dollar **emergency margin calls** to that member. If multiple market makers face these unexpected margin spikes simultaneously, it can trigger a wave of forced liquidations across traditional commodities and futures markets.[16]

In general, the CFTC–SEC latest Request for Comment on *Further Implementation of Portfolio Margining and Cross-Margining of Securities and Derivatives*[17] is a structural enhancement for Layers 1-5 only if margin offsets are restricted to high-integrity, real-asset-anchored exposures. Otherwise, it becomes a degradation if the adopted version allows synthetic products to transmit volatility and liquidity shocks across the entire derivatives value chain.

### *Psychological Panics and "Asymmetric Information" Runs*

Central counterparty clearing relies entirely on market confidence.[18] Because vertically integrated platforms operate via closed-loop stacks, a failure creates a fog of war regarding where the losses reside.[19] If a direct-clearing DCO fails due to a flawed automated portfolio compression cycle or an internal bot-trading glitch, the broader market will not instantly know if the problem was unique to that platform or systemic to automated risk engines. Fearing a similar hidden structural vulnerability, institutional participants will proactively execute pre-emptive asset withdrawals and pull liquidity from other

[12] https://academiccommons.columbia.edu/doi/10.7916/D8CN7GCC ; https://clsbluesky.law.columbia.edu/2015/10/09/failure-of-the-clearinghouse-dodd-franks-fatal-flaw/ ;
[13] https://www.federalregister.gov/documents/2013/12/02/2013-27849/derivatives-clearing-organizations-and-international-standards
[14] https://aaronhall.com/de-facto-dissolution-without-formal-filing-explained/
[15] https://www.dydx.xyz/crypto-learning/cross-margining
[16] https://learn.optimusfutures.com/margin-calls-explained
[17] https://www.sec.gov/files/rules/other/2026/34-105781.pdf
[18] https://www.investopedia.com/terms/c/ccph.asp
[19] https://www.cftc.gov/PressRoom/SpeechesTestimony/johnsonstatement121823c

platforms that utilize similar integrated clearing models or automated netting logic. This asymmetric information panic turns a localized operational glitch into a system-wide liquidity drain.

*Mismatch Mimics Ponzi Dynamics (The Liquidity Circulation Trap)*

While a vertically integrated, direct-clearing DCO model is not a literal Ponzi scheme – because it is not built on a fraudulent ledger using new investor money to pay fake returns to old investors – it can exhibit Ponzi-like structural dynamics when trading volume is artificially circulated. If an integrated platform relies on an internal proprietary trading affiliate or AAM to buy and sell contracts against itself to fake volume, the system becomes a closed-loop liquidity trap. The **CFTC,** the **Interagency Risk Committee (IRC)** in particular, should NOT ignore these structural **blind spots**.

Hypothetically, the platform uses its internal bots to drive up trading activity and price actions, creating a **Valuation Mirage**. Retail users see high volume, assume a contract has real fundamental depth, and deposit cash. Yet, even if every single contract is technically **100% pre-funded** under regulatory mandates, the underlying internal affiliate may be backing hundreds of highly correlated positions across the exchange using a single, centralized pool of corporate cash – introducing a structural layer of **Hidden Leverage**. If the platform deploys a flawed **portfolio compression** cycle to prematurely terminate or ***"flip"*** those offsetting internal bot trades, it artificially shrinks its reported *gross risk* metrics. When an operational hack occurs, this illusion of deep liquidity vanishes instantly. The platform cannot fulfill customer payouts because the actual settlement capital was trapped in a circular loop of internal affiliate trades, ultimately leaving direct retail participants holding nothing but an unbacked, illiquid ledger.

## Vertical Integration and Antitrust Concerns

We reiterate our already raised concerns in our response to the CFTC Advance Notice of Proposed Rulemaking to regulate Prediction Market,[Error! Bookmark not defined.] about conflating the respective functions of DCM, DCO, and FCM in a vertically integrated model and other anti-competitive behaviors. **Independent micro-microstructure fixes by a single DCM are mathematically and commercially impossible** in the current regulatory and clearing environment.[2] A responsible DCM cannot survive alone because the independent DCO will dilute its standards, and the **vertically integrated** DCMs will out-compete by generating volume driven by inherent conflicts of interest,

Checks and balances between DCM – the venue (KalshiEx), DCO – the Guarantor (Kalshi Clear), and FCM – the brokerage arm (Kinetic) are key to preserve US derivatives market's integrity (preventing market manipulation, minimizing operational risks, and mitigating conflicts of interest). The DCM maintains fair and orderly markets and ensures open access. The DCO sets the minimum margin requirements for the exchange to ensure there is enough *skin in the game* to cover potential losses and eliminates bilateral counterparty risk. The FCM safeguards customer assets.

Separation of duties prevents a DCO from using one customer's funds to cover another's or the house's obligations. Integration can lead to an entity using its FCM as a *loss-leader*, reducing customer choices. Conflating respective functions of DCM, DCO, and FCM in a **vertically integrated model** poses significant threats to financial stability. E.g., the failure of an affiliated FCM could trigger a *run* on the DCO, potentially leading to a catastrophic collapse of the entire clearing system.

Even though Kinetic Markets' new FCM product will only be available to institutions initially and a Bloomberg news piece suggests that *"the prediction market is not expected to launch margin on event contracts immediately,"*[20] we have reservations. Under normal Dodd-Frank and CFTC rules, an intermediary must maintain an arm's-length separation to ensure fair execution. In a vertically integrated loop, the affiliated FCM ★ is highly incentivized to push customer order flow directly to its own exchange matching engine or its preferred market-making partners.

[20] https://www.bloomberg.com/news/articles/2026-03-27/kalshi-approved-for-margin-trading-as-it-lures-wall-street-pros

The current and proposed review process if adopted as-is,[21] is blind to data architecture and contract mechanics. It allows vertically integrated retail platforms to secure an exchange designation (DCM) and a clearing license (DCO) to list event contracts while running a closed corporate loop. These platforms can exploit their economies of scale to gamify execution, using a *"False-Beard"* veneer of retail democratization to drive unhedged momentum upstream. This triggers severe **favorite-longshot bias** (where retail systematically overvalues low-probability outcomes) and oracle distortions, passing massive, uncompensated social costs onto non-participants.

Again, vertical integration and the overuse of leverage could be a danger to the health of financial markets if the market for a "cause" may become an outsized risk in of itself. ***The CFTC has yet to address the above anti-competitive concerns.*** The CFTC may refer to this article for additional thoughts about Antitrust Principles for Prediction Markets.[22]

## Dodd-Frank Act, FSOC's likely Objections

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 fundamentally transformed the CFTC from a niche regulator of agricultural and financial futures into a powerful federal agency:

- Authority over Over-the-Counter (OTC) Swap Markets;
- Created Swap Dealers, Major Swap Participants (MSPs), and Swap Data Repositories (SDR) regimes that gave the CFTC the absolute power to register, regulate, and audit them;
- Expanded Anti-Fraud and Anti-Manipulation Powers, such as §6(c)(1) and outlawing "Spoofing";
- The Retail Commodity Leveraged Transaction Rule under Section 2(c)(2)(D) and the Physical Delivery Mandate;
- Position Limits and Extraterritorial Jurisdiction.

Challenging the CFTC's broad authority in courts regarding whether the Commission **acted ultra vires** by permitting DCOs to bypass brokers and accept retail funds presents a formidable hurdle. We want to emphasis:

(1) Under normal Dodd-Frank and CFTC rules, an intermediary must maintain an arm's-length separation to ensure **fair execution**. In a vertically integrated loop, the affiliated FCM ★ is highly incentivized to push customer order flow directly to its own exchange matching engine or its preferred market-making partners.

(2) In a distorted derivatives ecosystem, the "false-beard" platforms[23] are winning by exploiting a structural imbalance in how regulations are applied across the five-layers (i.e. the current regulatory framework is stuck in an obsolete, siloed view of the market).

(3) Bad actors / foreign adversaries play across markets and payment systems simultaneously. All five Dodd-Frank regulatory agencies (CFTC, SEC, OCC, FRB, FDIC) must break down silos and work in unison to safeguard US financial stability.

With all due respect to the CFTC, other agencies in the **Financial Stability Oversight Council (FSOC)** also have authority to audit and evaluate DCMs and DCOs using specific systemic risk metrics under Title VIII of the Dodd-Frank Act to catch the hidden circulation risks (mentioned earlier) before they trigger multi-exchange contagion.[24] This CFTC proposal fails to holistically assess changes in market dynamics, understand where frictions and liquidity concentration may shift at rapid

[21] https://downloads.regulations.gov/CFTC-2026-1189-0001/content.pdf
[22] https://jolt.law.harvard.edu/digest/antitrust-principles-for-prediction-markets
[23] https://digitalcommons.chapman.edu/cgi/viewcontent.cgi?article=1031&context=philosophy_articles ; https://www.econ.uzh.ch/dam/jcr:ffffffff-9758-127f-ffff-fffffcd18b65/Fehr_Fiba_in_Analyse_Kritik_73-84.pdf
[24] https://oig.treasury.gov/system/files/OIG_Sorter/CIGFO_AUDIT_71713.pdf

pace, or consider stress and weak links where the next flash crash or systemic risks may emerge in order to develop mitigation protocols with more effective and timely **volatility interruption mechanisms**.

When analyzing DCOs designated as **Systemically Important Financial Market Utilities (SIFMUs)**,[25] the FSOC focuses on three macro-metrics:

*The Common Clearing Member Overlap Index (CCMOI)*

The FSOC does not evaluate clearinghouses in isolation; it maps the concentration of shared institutional networks.

**The Metric:** The CCMOI measures the exact percentage of clearing members that hold simultaneous memberships across multiple DCOs (e.g., matching a firm's exposure at the OCC, CME, and a retail platform).

**The Vulnerability Target:** If the index reveals that a small cluster of 5 to 10 market-making firms provide more than **70% of the daily liquidity** across multiple clearinghouses, the FSOC flags the network as highly fragile. A localized failure at one small direct platform will trigger an automatic margin-drain or credit freeze that forces those specific firms to pull liquidity from the larger SIFMUs.

*The Settlement Bank Interconnectedness Ratio (SBIR)*

This metric evaluates the concentration of the physical cash pipes handling end-of-day money movements.

**The Metric:** The SBIR calculates the volume of daily margin, performance bonds, and settlement cash flowing through specific **Settlement Banks** relative to those banks' total tier-1 liquid capital.

**The Vulnerability Target:** If a retail direct DCO and a massive traditional commodities exchange route their cash through the exact same commercial depository bank, the FSOC calculates the **"Co-Insolvency Probability."** If an operational cyber-breach locks up the ledger files of the smaller retail exchange, the FSOC uses the SBIR to model whether the operational gridlock will bleed into the shared bank's clearing account, freezing the settlement cycles of the broader financial system.

*Net-to-Gross Exposure Ratios and Compression Tracking*

To ensure that platforms are not using post-trade netting to mask massive system-wide vulnerabilities, the FSOC audits the structural density of **compressed portfolios**.

**The Metric:** The FSOC tracks the delta between **Gross Notional Exposure** (the absolute total value of all open contracts) and **Net Notional Exposure** (the value remaining after positions are compressed and canceled out).

The proposal to allow platform-native **UICs** *"where practicable"* must be rejected, see later section for an elaborated discussion. In short, it fundamentally **undermines global financial stability frameworks** by breaking alignment with the **UPI** standard mandated by prudential regulators. Rather than ensuring interoperability, this lax approach serves as a functional **loophole** that shields event contracts from macro-prudential surveillance, leaving **systemic risk trackers completely blind** to cross-border concentrations in prediction markets.

**The Vulnerability Target:** If a platform reports a near-zero net exposure but maintains a massive gross exposure fueled by rapid internal bot trades, the FSOC flags it for **"Risk Transformation Arbitrage."** The council applies algorithmic stress tests to model what happens if a bankruptcy court voids those compression cycles right before a platform's collapse, forcing the sudden resurrection of billions in gross liabilities that can break the clearing house's default resources.

## Macro-prudential paradox of the direct-clearing model

Allow us to recap our comments in our separate submission on Prediction Markets' Public Interest determination,[26] **insider-risk detection** should rightfully be a critical baseline metric among all other indicators. Yet, we have reservations

[25] https://www.jonesday.com/en/insights/2023/05/fsoc-proposal-could-bring-back-nonbank-designation
[26] https://www.databoiler.com/index_htm_files/DataBoiler%20CFTC%20PMPublic%2020260727.pdf

about requiring the DCMs and SEFs to obtain and maintain occupation and employer information for participants under section 16.03(g) of this proposal. DCMs and SEFs are execution venues, not relationship managers. They are structurally insulated from the end-customer. FCMs are the entities that directly onboard clients, manage margin accounts, and execute comprehensive KYC and AML checks. Requiring an exchange to independently collect, verify, and maintain sensitive employer and occupation data is highly duplicative. Unnecessary *data-in-motion* should be avoided.[27] CAT has set a bad precedent with significant privacy and security issues,[28] as well as civic concerns about Massive Government Surveillance.[29] We strongly recommend analysis of data at the original sources.[30]

We also are concerned that broadly applying proposed §16.03(g) to DCMs and SEFs would turn these venues into cybersecurity honeypots for hackers seeking corporate credentials. Leaving this data in the hands of heavily regulated FCMs – who are already built to safeguard sensitive financial information under strict banking-grade privacy laws – minimizes the surface area for devastating corporate data breaches.

Forcing firms to wrap and transmit petabytes of retrospective *"data-in-motion"*[31] logs to a data repository does absolutely nothing to prevent a flash-loan manipulation[32] or a code exploit from freezing the pipeline in real time. It simply creates an expensive data-processing tax that forces fintech innovators to spend millions on law and consulting firms just to achieve *"bare-minimum compliance,"* while leaving the actual financial plumbing exposed to catastrophic freezes.

By removing the independent broker layer, the CFTC forces the exchange architecture to serve as its own compliance firewall. Large trader reporting obligations under Parts 15-18 fall squarely on FCMs and clearing members, who report positions to the Commission via Form 102.[33] Proposing that the exchange (DCM) handles this specialized insider screening breaks the established futures regulatory design and creates an inconsistent, fragmented compliance workflow.

Nevertheless, the proposed revisions to Part 15 establish an event-contract reporting trigger at 125,000 contracts to account for the micro-sized nature of retail binary options.[34] Platforms should use automated pattern-recognition to detect *"slicing"* (fracturing macro-orders into tiny pieces), where they will enforce mandatory **Beneficial Ownership Rules (Rule 18.01)** to aggregate interconnected accounts back into a single exposure.[35] How those platforms would ensure that they would not utilize internal liquidity bots to artificially circulate volume is one of the questions.

We are not sure how the CFTC would expect to stream unedited platform data into its internal surveillance systems, filtering for trades with **No Change in Beneficial Ownership (NCBO)** for anti-Wash Trading audits.[36] By checking the boxes of the DCO Core Principles under **Part 39**, the CFTC can technically claim that a fully collateralized platform has *"shifted the*

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[27] https://www.databoiler.com/index_htm_files/DataBoilerInMotion.pdf ; When data is "at-rest" rather than "in-use," it serves no value other than one must pay for storage of the data. As data is redundantly stored on original data sources, then filter through broker-dealers' systems and at the CAT system and then is regurgitated in bulk to CAT users' systems, causing significant wastages.
[28] https://www.linkedin.com/pulse/cat-through-z-security-privacy-requirements-kelvin-to/
[29] https://cs.stanford.edu/people/eroberts/cs181/projects/ethics-of-surveillance/ethics.html
[30] https://www.databoiler.com/index_htm_files/DataBoiler%20SEC%20CAT%2020260622.pdf
[31] https://www.databoiler.com/index_htm_files/DataBoilerInMotion.pdf
[32] https://medium.com/cryptodition/defi-vs-tradifi-key-differences-real-world-examples-the-future-of-finance-99dc072f7b49
[33] https://www.cftc.gov/IndustryOversight/MarketSurveillance/LargeTraderReportingProgram/index.htm
[34] Per Section VIII of this CFTC proposal, *"the old legacy threshold of 25 contracts would have mistakenly swept over one million retail accounts into the "Special Account" tracking system. Raising the trigger to 125,000 contracts successfully filters out the everyday retail participants, scaling the pool down to an actionable 300 to 400 institutional-sized accounts."*
[35] https://www.law.cornell.edu/cfr/text/17/18.01 ; https://www.federalregister.gov/documents/2015/09/29/2015-24596/aggregation-of-positions ; https://www.cftc.gov/PressRoom/PressReleases/9110-25
[36] https://financialmarkets.law/foundations/futures-fx-trading-conduct/ ; https://www.steel-eye.com/news/market-abuse-detection-how-to-identify-wash-trading ; https://www.cftc.gov/filings/orgrules/rules03172641077.pdf

*risk out the door"* of its immediate enforcement perimeter. However, this creates a **dangerous regulatory illusion**. Because the derivatives ecosystem is deeply interconnected, the underlying vulnerabilities are merely transferred into the broader banking, liquidity, and settlement networks – directly impacting the jurisdictions of the **Dodd-Frank Prudential Regulators** (the Federal Reserve, the OCC, and the FDIC). The CFTC cannot continue to approve these direct-access models in an administrative silo without achieving explicit consensus with these banking regulators for four fundamental reasons:

### *The Federal Reserve's Ultimate Jurisdiction Over Title VIII (SIFMUs)*

Under **Title VIII of the Dodd-Frank Act**, the FSOC has the authority to designate critical clearinghouses as **SIFMUs**.[37] Once a clearinghouse achieves or threatens to impact macro-stability, the **Federal Reserve Board of Governors gains backstop supervisory authority** alongside the CFTC. If the CFTC unilaterally allows direct retail clearing platforms to scale up without consulting the Fed, it compromises the Fed's ability to monitor systemic liquidity pipelines. The Fed's primary mandate is to protect the banking system from sudden credit or depository strains, meaning any CFTC rule that shifts un-intermediated retail asset pools into shared settlement commercial banks requires joint prudential authorization.

Historical precedents demonstrate that the Federal Reserve leverages **statutory boundaries, macroprudential banking powers, and Interagency safe harbors** to legally force the renegotiation, delay, or structural containment of CFTC initiatives that threaten systemic liquidity.[38]

### *The Commercial Settlement Bank Contagion Loop*

As direct-clearing DCOs eliminate the FCM broker buffer, they must interface directly with commercial banks to process real-time retail cash movements. These depository banks are strictly supervised by the **Office of the Comptroller of the Currency (OCC)** and the **Federal Reserve**; **Prudential Bank Risk** are outside scope of the CFTC.[39] If a retail DCO suffers a sudden operational collapse, an algorithmic trading glitch, or a massive cyber exploit, the resulting frantic attempt to freeze or claw back assets occurs inside the commercial banking ledger. This **hidden risk transfer** instantly transforms a specialized "CFTC derivatives issue" into a **prudential bank liquidity event** that the OCC and Fed must manage to prevent a localized banking run.

### *The FDIC's Clearing Member Resolution Paradox*

The **Federal Deposit Insurance Corporation (FDIC)** is tasked with executing the **Orderly Liquidation Authority (OLA) under Title II of Dodd-Frank** to wind down failing systemically important financial institutions.[40] In a traditional crisis, if a major market-making firm faces insolvency, the FDIC and the Fed work together to wind down the firm while its intermediate FCM structures shield retail client assets.[41] If a direct-clearing DCO collapses, the thousands of retail users are legally categorized as direct **Clearing Members**. The FDIC's systemic resolution tools are designed to handle complex institutional counterparty netting, not thousands of individual retail human accounts tangled inside a central counterparty's liquidation estate. The CFTC acting in a silo fails to provide the FDIC with the operational playbook needed to resolve a direct-to-consumer infrastructure collapse.

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[37] https://www.brookings.edu/articles/what-if-a-clearinghouse-fails/

[38] The Interagency Blocking of Over-the-Counter (OTC) Derivatives Regulation (1998) ; Title VIII SIFMU Mandates and Banking Rails Containment (Post-2010) ; The Fed-Treasury Veto Over Joint Cleared Swap Rules

[39] https://www.sullcrom.com/insights/memo/2026/June/OCC-FDIC-Propose-Bank-Secrecy-Act-Sanctions-Compliance-Standards-Permitted-Payment-Stablecoin-Issuers

[40] https://www.rsfjournal.org/content/3/1/20 ; https://www.brookings.edu/articles/a-primer-on-dodd-franks-orderly-liquidation-authority/

[41] https://www.isda.org/a/YjsgE/ISDA-Responds-to-CFTC-on-Clearing-Member-Funds-Protection.pdf

*The Loss of Cross-Market Systemic Telemetry*

Prudential regulators monitor the macro-economy by tracking bank capital adequacy and large broker-dealer exposures. By permitting vertically integrated platforms to bypass traditional brokers, the CFTC restricts vital transaction telemetry from entering the broader prudential surveillance data pool. Because banking regulators cannot easily monitor where the compressed, un-intermediated risk is shifting, they cannot calculate true system-wide leverage, creating a dangerous information gap that undermines the core structural goals of the Dodd-Frank Act.

*The Need for an Interagency Framework*

This macro-prudential reality proves that the direct-clearing debate has outgrown the CFTC's solitary jurisdiction. To protect market stability, the CFTC must abandon case-by-case staff no-action letters and work directly through the **FSOC and the Interagency Risk Committee** to build a unified framework. This joint approach must reconcile the platform efficiencies of the CFTC with the strict, systemic safety standards of the nation's banking regulators.

## Gresham's Law of Microstructure

The existing regulatory framework focuses on *what* is traded rather than *how* it is executed. It sparks a "Gresham's Law of Microstructure" and fuels a race to the bottom.[42] For examples:

**1. Codifying a "Micro-FCM" or "Retail DCO" Registration Category[43]**

Congress and the CFTC to establish a streamlined, low-overhead registration tier to allow a single corporate entity to combine exchange execution and direct retail clearing, provided it operates under a strict, alternative rulebook:

- **Exemption from Credit-Risk Rules**: Platforms are statutorily exempt from legacy Part 39 default waterfall contributions, institutional stress testing, and mutualized default insurance.
- **Mandatory Operational Capital**: Instead of holding capital reserves against trading defaults, the platform must maintain a liquid financial buffer scaled strictly to its **cybersecurity exposure and operational overhead**.

**2. The Technological Compromise: "Embedded" Broker Modules[44]**

Instead of a physically and legally spun-off corporate broker subsidiary that routes orders via slow external APIs, the platform isolates its client-facing duties using **isolated software code modules** within its unified tech stack:

- **The Compliance Ledger**: The platform runs an integrated, automated KYC/AML and suitability engine at the point of user onboarding, satisfying the NFA's customer protection mandate.
- **Frictionless Direct Execution**: Once a user is verified, their orders face the matching engine natively on a single ledger, preserving the millisecond transaction speed and low fee structure vital to micro-sized event contracts.

**3. Resolving the Bankruptcy & Compression Gridlock[45]**

To satisfy the strict consumer safety requirements of Part 190 without destroying the efficiencies of portfolio compression, the compromise mandates a **Direct-to-Consumer Property Shield**:

- **The Traceable Sub-Ledger**: DCOs utilizing compression are required to maintain automated, real-time cryptographic tracking or secondary sub-ledgers that map the original beneficial owner of every compressed leg.

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[42] https://en.wikipedia.org/wiki/Gresham%27s_law ; https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3236030
[43] https://www.fia.org/sites/default/files/2026-02/FIA%20Response%20to%20CFTC%20on%20Direct%20Clearing%20of%20Derivatives%20by%20Retail%20Investors.pdf
[44] https://comments.cftc.gov/Handlers/PdfHandler.ashx?id=35787
[45] https://www.cftc.gov/LawRegulation/FederalRegister/finalrules/2022-17736.html ; https://www.fia.org/sites/default/files/2019-05/FINAL-FIA-Europe-response-to-the-EMIR-Review.pdf

- **Bankruptcy Super-Priority**: If a platform suffers an operational collapse, Part 190 rules are adjusted to recognize this unique account class. Retail funds are legally classified as **isolated customer property** that cannot be frozen, netted, or dragged into pro-rata loss distributions to pay off institutional clearing house creditors.

### 4. The Funding and Oversight Compromise

To lift the direct surveillance burden off the CFTC's internal PERT system, platforms operating under this new tier must become **specialized members of the NFA**:

- **The Transaction Assessment Fee**: The platform pays a micro-fee per contract directly to the NFA. [46]
- **Independent Tech Auditing**: The NFA uses this new revenue stream to fund specialized, tech-focused compliance teams that conduct automated algorithmic audits and verify that the platform's internal matching bots are not engaging in wash trading or front-running retail users.

"**Principles-Based**" Authority[47] entrusted to the CFTC is leading the pack in **rewriting the definition of a** "**Customer**."[48] The Commission should heed the lessons from several headline cases,[49] where ***public trust*** is already eroding. It is NOT in how a participant or platform claims the trades were executed with a customer or counterparty. Rather, as the trade data would reveal, with consistency, whether the firm was in effect acting in the ***best interest*** of the customer rather than treating the party as a counterparty (i.e. *without fiduciary responsibility*). By blurring these legal boundaries, this **conflation** or strategic danger of the **Current Stalemate** directly drives several critical **market distortions**:

- **Amplifies Capital At-Risk**: It exposes **100% of a user's uninvested cash** to the exact same pro-rata bankruptcy haircuts as active wagers during a clearinghouse liquidation.
- **Triggers Systemic Contamination**: It allows the catastrophic margin defaults of highly leveraged, non-retail institutional segments to bleed into and wipe out the pre-funded pools of retail event traders.
- **Masks Internal Conflicts**: It creates a regulatory blind spot where platforms can deploy internal affiliate bots to engineer a **Valuation Mirage**, driving artificial volume while shielding corporate cash via **Hidden Leverage**.
- **Dismantles the SRO Safety Net**: It completely bypasses the protective buffer of FCMs, stripping away mandatory NFA arbitration and leaving retail participants to face settlement finality liabilities entirely alone.

Therefore, an automated system is needed to conduct the "regular and rigorous review" for "***best execution***" compliance if regulators want to discourage the "*flipping-a-switch*" between clients versus non-clients' behavior. Also, the automated checking would need to access if a market maker's or AMM's risk profile may suddenly change and under what market conditions this would happen. Ultimately, any "*out-of-proportion*" or "*unreasonable*" trade activities should be curbed because the result of many small incremental exploitations or hedges and/or commitments can accumulate into out-sized bets or bubbles to become the biggest threats to financial markets.

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[46] https://www.nfa.futures.org/members/ib/regulatory-obligations/digital-asset-commodities.html

[47] CEA §5b grants the CFTC broad discretionary authority to register and oversee DCOs based on their compliance with core statutory principles. Yet, such authority is NOT without limits. Those who suggests the Commission has total legal authority to approve its operational rules without forcing a broker into the middle, as long as DCO satisfied "Core Principle-F" (*Treatment of Funds*) and "Core Principle-I" (*Systemic Risk Management*) via 100% pre-funded, zero-leverage structures, please be reminded that *Systemic Risk Management* is within scope of FSOC, where CFTC shares authorities with other financial regulators, see earlier section.

[48] https://www.nfa.futures.org/news/newsComment.asp?ArticleID=5630

[49] https://www.investmentnews.com/ria-news/bank-of-america-merrill-lynch-fined-3m-over-deficient-supervision-systems/256868 ; https://www.thetradenews.com/baml-slapped-second-time-42-million-fine-masking-orders/ ; https://constantinecannon.com/whistleblower/virtu-agrees-to-pay-2-5m-to-settle-sec-lawsuit-concerning-customer-data/

## Our Recommendation: Spin-off + No-Insurance / No-Coverage

US Policy Makers should note the differences on how international jurisdictions handle direct retail clearing.

Europe does not require a broker buffer if the platform holds a specialized corporate omnibus license. Under MiFID II, platforms offering non-traditional retail trading operate as an **Authorized Multilateral Trading Facility (MTF)**. An MTF is legally permitted to integrate execution and clearing functions into a single system. MiFID II explicitly permits regulated venues to grant **direct electronic access (DEA)** to retail participants, provided the exchange architecture handles the consumer suitability natively. Under European Market Infrastructure Regulation (EMIR) and MiFID II, the platform itself strips away anonymity by assigning or requiring a **Legal Entity Identifier (LEI)** or a unified passported customer ID for all direct retail accounts. The exchange performs the exact KYC/AML checks that a broker would traditionally conduct.[50]

The UK's Financial Conduct Authority utilizes an entirely different operational method. Instead of fighting over old rulebooks, the FCA places direct-to-consumer digital and prediction clearing platforms into its active statutory **Digital Sandbox and innovation sandboxes**.[51] Rather than forcing a platform to fit into a rigid "Broker" or "Clearinghouse" box, the FCA evaluates the platform based on the ***outcome* of consumer protection**. If a platform can prove its matching engine natively blocks sub-cent margin deficits and has automated disclosures built directly into the user interface, it is granted a custom operating charter.

We like the Sandbox approach. Yet, we recognize deep differences in risk philosophy. The primary reason the US does not simply adopt the EU/UK's Multilateral Trading Facility (MTF) model is **the statutory separation mandated by the CEA**. The US believes that if a trading venue fails or suffers a massive cyberattack, that failure must be segregated so it does not take down the clearinghouse or the client's funds. The broker must be kept separate from the exchange to act as a firebreak. The European regulators argue that if a platform is fully pre-funded and utilizes advanced, automated real-time risk controls, forcing a separate broker layer into the middle creates artificial transaction costs with no added safety.

Our analysis concludes that this proposal, as well as the entire *"Parts 15–18 Routing Approach"* designed to legitimize the direct-clearing DCO model, is unworkable, or at the least **creates more questions than answers**. While we support the Commission establishing a programmatic **"Fully Collateralized Tech-Clearing" Safe Harbor** to *exempt* 100% pre-funded, non-intermediated clearing utilities from traditional *mutualized banking default funds* – replacing manual paperwork with rigorous mathematical code **audits** of underlying smart contracts, liquidation scripts, and oracle price feeds to defend ***against flash-loan vulnerabilities*** – a formal update to Part 39 remains inevitable.

Again, forcing firms to wrap and transmit petabytes of retrospective "data-in-motion" logs to centralized SDRs or this Data Reporting regime under Parts 15-18 does absolutely nothing to prevent a *flash-loan* manipulation or a code exploit from freezing the pipeline in real time. It simply creates an expensive data-processing tax that forces fintech innovators to spend millions on law and consulting firms just to achieve "bare-minimum compliance," while leaving the actual financial plumbing exposed to catastrophic freezes.

To balance market integrity, FinTech innovation, and the US's prominent market position, we recommend requiring vertically integrated platforms to **spin off** their retail business units. Under this framework, these spun-off retail units would be **exempt from mutualized insurance requirements**, operating under an *"opt-in risk"* regime where users are explicitly notified that they are not covered by the collective safety net in the event of a platform loss.

[50] https://www.fsb.org/uploads/P280519-2.pdf
[51] https://www.northerntrust.com/content/dam/northerntrust/pws/nt/documents/asset-servicing/growth-within-controlled-risks-a-new-era-of-strategic-realignment.pdf

## A. § 16.03(a): Covered Event Contracts

*(1) Whether the proposed definition of Covered Event Contracts in § 16.03(a) effectively limits the alternate reporting regime set out in proposed § 16.03 to the types of contracts covered by the Staff Event Contract Reporting No-Action Letters such that swaps that have traditionally been reported under the part 43 and part 45 regime continue to be reported under that regime.*

The definition, as currently drafted, is insufficient. It lacks the explicit structural criteria necessary to prevent unintended institutional *"scope creep,"* creating a loophole that sophisticated market participants could exploit to evade real-time public reporting (Part 43) and regulatory swap data repository reporting (Part 45). The proposed text relies heavily on *abstract contract types* rather than the structural environment where the trade occurs. Without strict venue boundaries, sophisticated OTC institutional counterparties could label complex macro-economic or binary-payout derivatives as *"event contracts"* to bypass SDR pipelines.

Also, the four-prong architecture of proposed § 16.03(a) suffers from a design flaw: it actively discriminates against contract innovation by excluding *partial or variable payout structures*. By limiting the alternate reporting regime strictly to *binary*, *"all-or-nothing"* contracts, the Commission inadvertently penalizes risk-mitigated products like CBOE's *"Payout Zone"* / *'Vertical Spread"* frameworks.[52] If an exchange attempts to offer a sliding-scale settlement to protect retail users from sharp cliff-edge losses, the rule forces them out of the streamlined track and back into burdensome Part 43 and Part 45 reporting. This structural penalty directly undermines the Commission's stated goal of future-proofing the market, transforming a transparency rule into an unintended barrier to product safety and innovation.

We do recommend the Commission maintains an open-ended definition under § 16.03(a) regarding underlying event topics, as a rigid, category-based taxonomy would fundamentally misunderstand the evolving nature of risk management. The true market function of an event contract is to isolate and price the *"cause"* of macroeconomic volatility, whereas traditional derivatives and high-frequency instruments – like 0DTE options – are designed to capture the downstream *"effect"* on asset prices. The beauty of simultaneous hedging strategies is the decoupling of *Event* and *Price Risk*.

Because these two regimes serve entirely different economic utilities, an open-ended approach is the viable way forward. It allows platforms the operational freedom to list novel contract types reflecting an infinite array of real-world causes without triggering administrative gridlock at the Commission. So long as a contract satisfies the strict structural guardrails of being 100% pre-funded and fully collateralized by direct clearing participants, the alternate reporting regime under § 16.03 must apply universally to all underlying events, leaving traditional Part 43 and Part 45 repository frameworks to govern the high-leverage instruments tracking market effects.

*(2) Whether an alternative approach whereby a DCM that lists Covered Event Contracts registers with the Commission as an SDR and reports Covered Event Contract data under the part 43 and part 45 regime would be a feasible alternative. What would be the costs and benefits of a DCM registering as an SDR?*

We have no objection to a DCM that also operates an SDR as an affiliated separate legal entity. Yet, the Commission should note and observe from the lessons of Trade Reporting Facilities (TRFs) in the securities markets – i.e., there are differences in market quality and preferencing for off-exchange trades reported between the NASDAQ TRF and NYSE

[52] https://ir.cboe.com/news/news-details/2026/Cboe-Introduces-Innovative-Prediction-Markets-Framework-Expanding-Choice-Beyond-Yes-Or-No-Outcomes/default.aspx

TRF. How TRFs handle and preference orders can impact execution quality.[53] A dual DCM-SDR could execute and report instantaneously on a single shared hardware node. For high-velocity prediction or digital asset markets, this near-zero reporting latency provides a major technological advantage over traditional markets. Policy makers should be alerted to this.

Traditional SDRs (e.g., DTCC Data Repository) are built to ingest data fields for complex, institutional, multi-million-dollar derivatives (like interest rate swaps or credit default swaps). Forcing Prediction Markets to map a $1.00 retail binary option on weather or economic indicators into standard SDR fields (such as dynamic variation margin, complex collateral haircuts, or floating rate resets) is a technological mismatch. Unlike TRFs, SDRs use FpML and FIX instead of compressed binary packets over MOLD/UDP. For network protocol, SDRs use TCP/IP and SFTP instead of UDP Multicast. Whether a DCM affiliated SDR can achieve economy of scale to justify its existence or whether to rely on a third-party established SDR is a commercial decision, not a regulatory one.

The CFTC should refrain from involving itself in purely commercial matters. Regulatory focus should be on assessing whether a dual DCM-SDR might hinder competition and avoid public scrutiny where a vertically integrated platform keeps its granular transaction records and internal trading bot/affiliate identification metrics inside its own corporate firewall. Also, shifting data entirely into the futures reporting framework under Part 16 means the raw transaction files are fed directly to the CFTC's internal databases, effectively siloing the information. Prudential bank regulators (the Federal Reserve, OCC, and FDIC) do not have automated, direct pipelines into the CFTC's internal futures surveillance systems. They rely on the independent, open access of SDR data pools to map macro-systemic risks.

By floating a hybrid framework where data is reported to an SDR but structured as a futures contract, the CFTC is attempting to build an administrative compromise that satisfies often contradictory legal and institutional requirements. However, we are afraid this *"Plan B"* alternative to allow the data itself to be formatted under the lighter futures regime has **created more questions than answers**.

(3) *Whether an alternative approach whereby Covered Event Contract data is reported to an SDR, based on the futures and options reporting regime and through a different form and manner of reporting than currently exists for swaps, would be more practical and economically feasible for reporting parties. What would that form and manner of reporting be? What would be the costs and benefits of such alternative reporting to an SDR?*
See our response to Q2.

(4) *Whether the Proposal undermines, or on the other hand, enhances transparency, competition, and market integrity. If so, please explain in detail and provide any examples.*
The proposal is unworkable and undermined competition and market integrity, see earlier sections for our concerns.

## B. § 16.03(b)(2) and § 16.03(b)(3): Market Data and Transaction Data Reporting Requirements for DCMs

The proposed approach attempt may be well-intend, utilizing a hybrid framework where data is reported to a SDR but structured as a futures contract to address a technological mismatch in data reporting. However, a **controversy stems from whether the retail traders are treated as customers or counterparties**. This structural ambiguity leaves **more questions than answers**.

DCMs can fulfill requirements in proposed § 16.03(b) would require DCMs to submit to the Commission daily market data required to be reported pursuant to § 16.01, and daily transaction and supplemental data required to be reported

[53] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3369025

pursuant to § 16.02, as well as report daily information concerning trading volume, open contracts, prices, and critical dates per proposed § 16.01. They should have no problem to be able to include settlement information, such as the time and date the event occurred, and state the source used to determine whether the event occurred. Such information is a necessary component of the settlement price reported by DCMs pursuant to § 16.01(b)(2)(ii).

However, receiving §16.01 and §16.02 data in lieu of part 45 swap data is grossly insufficient for surveillance detection of *insider trading*. It takes concerted efforts between exchanges and the relationship management unit – FCMs, and involving the use of advanced voice surveillance (e.g. NICE Actimize covers emails, chats, voice calls, texts, social media, and unified communications). No meaningful markets and financial surveillance can be carried out if merely relying ONLY on data elements prescribed in this proposal, see later section for further discussion.

## C. § 16.03(b)(1), § 16.03(c), § 17.00(j) and § 17.01(f): Large Trader Reporting Requirements for DCMs, Futures Commission Merchants, Clearing Members, and Foreign Brokers

*(5) Whether adopting proposed § 17.00(j) and § 17.01(f) to require DCMs to provide part 17 reporting for direct clearing members, and intermediaries to provide part 17 reporting for their customers would create operational challenges for DCMs or intermediaries participating in those contract markets where there exists both direct and intermediated clearing.*

The short answer is YES. It should be noted that adopting proposed §16.03, §17.00(j), and §17.01(f) in a hybrid environment where direct and intermediated clearing coexist creates severe operational and systemic risks. Bifurcating Large Trader Reporting responsibilities between DCMs (for direct members) and FCMs (for intermediated clients) fundamentally fragments the Commission's surveillance data pools. If a large participant utilizes both access methodologies simultaneously, neither the exchange nor the intermediary can compile a cohesive Form 102 identity mapping. Rather than ensuring interoperability, this dual-track reporting structure creates a mechanical blind spot where a trader's true consolidated position is obscured across differing software pipelines, completely undermining the core intent of Large Trader surveillance. The proposal creates more questions than answers.

*(6) Whether proposed § 17.00(j) and § 17.01(f) are sufficiently narrow to capture only retail traders and not institutional or other traders that may be better equipped to submit routine large trader reporting on their own behalf.*

The short answer is NO. By allocating the reporting burden based entirely on the vertically integrated platform access methodology rather than participant classification, the rule creates a severe market distortion. Under the current draft, sophisticated institutional hedge funds and high-frequency market makers operating as Direct Clearing Members are granted an unearned compliance subsidy, shifting their reporting obligations onto the DCM. These institutional actors possess the technical infrastructure to submit routine large trader data independently. Concurrently, routing the data of advanced retail participants through intermediated pipelines saddled with institutional burdens will stifle broker innovation. We are not sure how the Commission can implement a bright-line **Entity Classification Test** and/or leverage the standard Eligible Contract Participant (ECP) definitions to ensure any institutional or proprietary trading entity that cross reporting thresholds file reports on their own behalf. To preserve its neutrality, a DCM should not be managing the reporting track to govern strictly non-ECP, natural retail persons in the first place.

## D. § 16.03(d): Reports by Traders

The CFTC's use of § 16.03(d) to issue a Form 40 Special Call is the derivatives market equivalent of a federal regulatory agency summoning audit trail information via the Electronic Blue Sheet (EBS) system in the securities markets. While the

intent is identical to an EBS pull, the operational burden shifts onto the participant in a much more aggressive way due to the direct-clearing model. While we acknowledge the Commission's attempt to mitigate an administrative disaster by raising the volume reporting threshold from 50 to 125,000 contracts, by forcing retail participants – who connect directly to a DCM without a broker buffer – to complete an institutional-grade Form 40 disclosure under the threat of a Special Call creates substantial burden. Average Retail Traders lack the legal counsel and compliance tech-stacks required to navigate Form 40's complex corporate-control and hedging disclosures. If a retail trader inadvertently misreports their control structure or algorithmic ties on a mandatory Form 40, they face severe statutory penalties under Part 18.

## E. § 16.03(e): Reporting Levels

*(7) Whether the reporting levels in proposed § 16.03(e) are appropriate for Covered Event Contracts or, if not, what reporting levels would be appropriate.*

With respect to liquid contracts, the Commission *"typically calibrates § 15.03 reporting levels with the goal of ensuring that the aggregate of positions reported to the Commission represents approximately 70 to 90 percent of the open interest in any given contract."* The Commission proposes that a flat reporting level of 125,000 contracts with an equivalent contract size of $1 will cover a representative population of open interest. It is not wrong for §16.03(e) to depend on a volume-based trigger, instead of position-based reporting, given many of the of the most popular event contracts (macroeconomic metrics, weekly election polls, or climate readings) are ultra-short-term, expiring daily or weekly. We do have concerns with direct-clearing platforms frequently use of portfolio compression cycles to tear up and delete offsetting, redundant trades to shrink their reported risk, see earlier sections. Also, there are concerns are about Form 40 Special Call burden on retail traders, who lacks the sophistication of ECPs, FCMs, IBs, see Section D.

*(8) Whether the Commission should publish reporting levels that vary by sub-category of Covered Event Contracts contract (for example, "Weather," "Government Statistics," "Economic Indicators") rather than the uniform reporting level in proposed § 16.03(e).*

No, it would be a nightmare if CFTC steps in to deal with the taxonomy of different *sub-categories*.

## F. § 16.03(e): Reportable Trading Volume Level

*(9) Whether the reportable trading volume level in proposed § 15.04(b) is appropriate for Covered Event Contracts or, if not, what reportable trading volume level would be appropriate. Please provide reasoning and data to support comments in response to this request for comment.*

We have no objection to the reportable trading volume level under proposed §15.04(b). We are not sure how frequently the Commission would re-calibrate the related threshold. The bigger concerns are the effectiveness of Form 40 and Form 71 and other nuances, see Section D, our response to Q7 and Q12.

## G. § 16.03(f): Real-Time Dissemination of Market Data

*(10) Whether DCMs listing Covered Event Contracts for trade should be required to publish any additional transaction data elements beyond execution timestamp, contract ticker symbol, trade quantity, and price.*

We are okay with the real-Time dissemination of market data as soon as technologically practicable, and to make transaction data publicly available with at least 1 year of historical data, where execution timestamp is based on UTC time. However, we **strongly oppose** the provision in this CFTC proposal that explicitly permits *"contract ticker symbol"* be the ***UIC*** (*Unique Instrument Code*) for purposes of part 17 reporting.

UIC is NOT the same as **UPI** (Unique Product Identifier used globally for regulatory OTC derivatives reporting) or **ISIN** (International Securities Identification Number). How can a localized UIC, deployed only "*where practicable*", fulfill the

CFTC's claim that "*disseminated data will be interoperable across different DCMs*" given the absence of a mandatory requirement for all SROs to utilize a uniform, authoritative identifier like the **UPI**?!

Data Boiler as member of the **Data Expert Group** (DEG) appointed by the European Commission (EC) with in depth experience with reference and market data, and myself being a professional in Public Key Infrastructure (PKI) [54] and distributed ledger technology, we can testify that by forcing thousands of nodes to reach consensus on a blockchain for every single swap created would clog market plumbing in the present reality.

The primary mandate behind the creation of the **UPI** – driven by the **Financial Stability Board** (**FSB**) and the **Bank for International Settlements** (**BIS**) – is to solve the problem of fragmented data reporting.[55] Macro-prudential supervisors – such as the **Federal Reserve**, the **European Central Bank** (ECB), and the **Bank of England** (BoE) rely on the **UPI** to *track concentration risk*, *detect interdependence and systemic contagion*, and *prevent Regulatory Arbitrage*. The CFTC proposal deviates from Prudential Regulators' standards and practices about the **UPI**, which could be viewed as a deliberate attempt to **bypass global macro-prudential risk tracking** for covered event contracts.

## H. § 16.03(g): Requirement That DCMs Obtain Trader-Identifying Information

*(11) What burdens, if any, would be imposed on DCMs, intermediaries, traders, or others by proposed § 16.03(g)?*

The proposed §16.03 would require that the DCM listing a Covered Event Contract obtain from all customers data that identifies each trader, by name, physical address, email address, phone number, occupation, and employer. Also, if persons guarantee the trading accounts of the trader or have a financial interest of 10 percent or more in the reporting trader or the trading accounts of the reporting trader, they would be required to obtain the names of such persons, for each transaction or order for the Covered Event Contract.

The proposed § 16.03(g) imposes a highly intrusive, data collection mandate that fundamentally alters the onboarding mechanics of prediction markets, amid the Commission states that, *"because trading is funneled through clearing members, who are already subject to separate large trader reporting rules, DCMs are not required to act as the primary source for identifying detailed trader information."*

This provision forces DCMs to explicitly collect and maintain comprehensive, non-anonymous Trader-Identifying Information (TII) for all market participants – including name, physical address, email, phone number, occupation, employer name, and the identities of any third parties holding a financial interest of 10% or more in the account. To remain compliant under Section 16 data integrity rules, DCMs must build algorithmic verification prompts to track changes in a trader's employment status over time. Forcing a DCM to discover and document any entity holding a 10% or greater financial interest in a retail account requires building complex beneficial-ownership disclosure interfaces. This shifts the operational burden of corporate due diligence entirely onto the exchange infrastructure.

DCMs' core function in the derivatives value chain is to operate a neutral exchange, not relationships management. CAT has set a bad precedent.[30] By requiring a centralized database of names, physical addresses, emails, phone numbers, and workplaces, the CFTC is forcing retail event exchanges to construct a massive data privacy honeypot. We recommend the Commission shift away from centralized data collection and adopt a federated approach to build the intelligent analytical layer. Have a dedicated focus on volatility-event forensics and market-access risk controls.

[54] https://grcoutlook.com/improving-trust-amid-race-in-technologies/
[55] https://www.anna-dsb.com/2024/03/27/as-upi-regulatory-reporting-goes-live-in-u-s-there-are-opportunities-for-european-otc-derivative-markets/ ; https://www.fsb.org/uploads/P091019.pdf

Also, a retail trader may only engage in less than $200 in covered event contract trades through the year. They may choose to transact at unregulated platforms or online betting to bypass the bureaucracy. Collecting massive data about individuals and requiring continuous tracking of changes in employment status is totally out of proportion, wasting scarce economic resources that society could have otherwise deploy. Unless suspicious activities are already identified and the TII is being summoned through proper process, otherwise recordkeeping is unnecessary if SROs and regulators can use authorized agentic AI to access raw logs originated from spun-off FCMs.

*(12) What additional trader-identifying information, if any, should DCMs collect to support surveillance programs?*

As mentioned in Section B, receiving §16.01 and §16.02 data in lieu of part 45 swap data is grossly insufficient for surveillance detection of *inside-trading*. It takes concerted efforts between exchanges and the relationship management unit – FCMs, and involving the use of advanced voice surveillance (e.g. NICE Actimize covers emails, chats, voice calls, texts, social media, and unified communications).

Pursuant to SEC Rule 17a-4(b)(4), broker-dealers must preserve all communications relating to their *"business as such"* for a minimum of three years. To comply with SEC Rule 17a-4 and FINRA Rule 3110 while permitting "Bring Your Own Device" (BYOD) personal cell phone use, broker-dealers utilize containerized work apps, eSIM/Dual SIM virtual numbers, or network-level carrier mirroring to isolate, record, and extract business communications **without intruding upon privacy**. Crucially, the scope of this assessment must evaluate both what constitutes Material Non-Public Information (MNPI) and which individuals possesses it. However, the current proposal lacks the necessary data quality and granularity to effectively perform this function.

Nevertheless, whistleblower programs are critical components in the fight against insider trading, market manipulation and other fraud or deceptive trading practices. Virtu agreed to settle with SEC concerning customer data in December 2025 which indeed leveraged the help of a whistleblower. To some extent, Prediction Markets are like running these whistleblower programs by monetizing private information to uncover hidden corporate or financial truths, though they differ fundamentally in execution, legal framework, and reward mechanics. Both systems operate on the principle that crowds or insiders possess vital data that traditional oversight fails to capture.

Whistleblowers receive bounties, while traders in prediction markets profit by backing accurate outcomes. Both mechanisms bypass traditional corporate hierarchies. They source critical, uncompromised data directly from frontline actors or observers. Both concepts aim to lower data asymmetry. They force hidden corporate malfeasance or true organizational risks to reflect in public realities. Differences between whistleblower programs and prediction markets are the wagering of bets, anonymity protections, the payout source and legal framework (e.g. anti-retaliation), etc.

Policy makers may use this Whistleblowers analogy to consider where to draw the line(s) for Prediction Markets:

(a) **Pricing Corporate Fraud:** Corporate employees can short their company's stock or buy "fraud occurred" binary contracts on decentralized prediction markets. This action drives down the market price, signaling internal distress to external regulators before formal investigations launch.

(b) **Eliminating Bureaucratic Friction:** Whistleblower programs require lengthy agency investigations, formal vetting, and multi-year legal proceedings. Prediction markets bypass this regulatory timeline by providing immediate financial payouts the moment a contract settles based on verifiable public data.

(c) **The Insider Information Paradox:** While whistleblower programs actively encourage insiders to step forward, prediction markets face severe legal hurdles regarding insider trading. Trading on material, non-public information on a regulated market can lead to direct enforcement action by the SEC or CFTC rather than a financial reward.

The key policy considerations therefore are:

**Permissible Activities: Aggregating Divergent Insights**

- **Expertise-Driven Analysis:** Trading based on specialized knowledge, such as an epidemiologist predicting FDA trial timelines using public filings, or a supply-chain expert predicting semiconductor shortages.
- **Aggregating Fragmented Public Data:** Collecting, synthesizing, and trading on information that is technically public but scattered across localized reports, foreign-language feeds, or court dockets.
- **Corporate Macro Betting:** Allowing external analysts or competitors to trade on general corporate health, industry distress, or broader sector-wide compliance trends.

**Prohibited Activities: Market Manipulation and Theft**

- **Misappropriation of Non-Public Data:** Trading on precise corporate metrics before they are public, such as an accountant betting on the miss of corporate earnings or an engineer betting on a product delay.
- **Incentivized Sabotage:** Banning trades where the participant has the power to directly cause the outcome, they bet on (i.e. *"Gaming"* is the game itself, and we applaud the Commission on the Definition of Gaming).
- **Bypassing the Regulatory Sequence:** Prohibiting individuals from trading on government actions before they are announced, such as a clerk betting on a supreme court verdict or a regulator betting on an enforcement action.[56]

**Create an "Enforcement Safe Harbor"**

If an insider discovers corporate fraud, they should be legally barred from profiting by shorting or betting against the company on a prediction market. Instead, policymakers should require them to route the tip through the SEC/CFTC whistleblower programs. This channels corporate truth-seeking into structured legal remedies rather than chaotic, anonymous market sell-offs.

## I. § 16.03(h): Recordkeeping Obligations

*"Proposed § 16.03(h) would require that DCMs and DCOs reporting Covered Event Contracts comply with the recordkeeping requirements applicable to futures and options rather than the recordkeeping requirements applicable to swaps, as it would allow the Commission to conduct an efficient review of the Covered Event Contracts markets, if necessary. Specifically, proposed §16.03(h)(1) would require that, in connection with any Covered Event Contract, the listing DCM and the DCO clearing the Covered Event Contract shall comply with all applicable swap reporting and recordkeeping requirements of the CEA and Commission regulations, other than recordkeeping requirements contained in Regulation 38.8, Regulation 38.10, Regulation 38.951 (only to the extent Regulation 38.951 requires compliance with part 45), Regulation 39.20(b)(2), part 43, and part 45. Proposed § 16.03(h)(2) would also require DCMs and DCOs to keep required records open to inspection upon request by the Commission, the United States Department of Justice, or the Securities and Exchange Commission, or by any representative of a prudential regulator as authorized by the Commission."*

Thank you for mentioning that Prudential Regulators, the SEC, and DOJ do have rights of inspection. Please refer to earlier sections for related discussions about FSOC and the Macro-prudential paradox of the direct-clearing model. That being said, policy makers should keep in mind the context, where retail traders may choose to transact on unregulated platforms or online betting to bypass the bureaucracy. Collecting massive data about individuals and requiring continuous tracking of changes in employment status are totally out of proportion, wasting scarce economic resources that society could have otherwise deploy, see our response to Q11, Q12, and our June 2026 comment letter to the SEC and cc: the CFTC.[30]

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[56] https://www.marketplace.org/story/2026/04/07/could-trading-places-help-regulate-prediction-markets

## Other remarks and Conclusions

The CFTC's approach to legitimizing direct retail clearing creates an illusion of innovation that masks structural vulnerabilities. By conflating the legal boundaries between clients and counterparties, the proposal strips away time-tested bankruptcy protections, transforms unprotected retail balances into institutional shock absorbers, and leaves systemic risk trackers blind to cross-border capital concentrations via localized data silos.

The primary reason the US does not simply adopt the EU/UK's MTF model is **the statutory separation mandated by the CEA**. Our analysis concludes that this proposal, as well as the entire *"Parts 15–18 Routing Approach"* designed to legitimize the direct-clearing DCO model, is unworkable, or at the least **creates more questions than answers**. While we support the Commission establishing a programmatic **"Fully Collateralized Tech-Clearing" Safe Harbor** to *exempt* 100% pre-funded, non-intermediated clearing utilities from traditional *mutualized banking default funds* – replacing manual paperwork with rigorous mathematical code **audits** of underlying smart contracts, liquidation scripts, and oracle price feeds to defend ***against flash-loan vulnerabilities*** – **a formal update to Part 39 remains inevitable**.

To balance market integrity, FinTech innovation, and the US's prominent market position, we encourage the Commission to work in unison with prudential regulators to mandate a uniform data taxonomy and require vertically integrated platforms to **spin off** their retail business units. Under this framework, these spun-off retail units would be **exempt from mutualized insurance requirements**, operating under an *"opt-in risk"* regime where users are explicitly notified that they are not covered by the collective safety net in the event of a platform loss.

Feel free to contact us with any questions and please keep us posted where our expertise might be helpful.

Sincerely,

***Kelvin To***

Founder and President

**Data Boiler Technologies, LLC**

This letter is also available at: https://www.DataBoiler.com/index_htm_files/DataBoiler%20CFTC%20ReportEC%2020260731.pdf

CC: **Commodity Futures Trading Commission (CFTC)**
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Mr. Duncan Henes, Director, Market Participants Division / Acting Director, Division of Market Oversight
Mr. Richard Haynes, Acting Director of the Division of Clearing and Risk
Mr. Owen Kopon, Associate Director, Division of Market Oversight
Mr. Paul Chaffin, Special Counsel, Division of Market Oversight
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