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October 5, 2026

VIA ELECTRONIC SUBMISSION

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

Re: Comment Letter on Notice of Proposed Rulemaking Relating to Conflicts and Affiliations (RIN 3038–AF76)[1]

Dear Secretary Kirkpatrick:

Robinhood Derivatives, LLC ("Robinhood Derivatives") submits these comments in response to the Commodity Futures Trading Commission's (the "Commission" or "CFTC") Notice of Proposed Rulemaking on Conflicts and Affiliations (the "Proposal"), RIN 3038–AF76. Robinhood Derivatives supports the Commission's overarching goal in the Proposal of facilitating market structure innovation and competition, subject to appropriate safeguards, in furtherance of the Commission's mission of promoting the integrity, resilience, and vibrancy of the U.S. derivatives markets.

Robinhood Derivatives comments narrowly, on a single piece of the Proposal: the conditions proposed for an affiliate market maker trading on a designated contract market ("DCM") under proposed Commission Regulation 38.852(c). Where this letter refers to other parts of the Proposal, it does so only to show how they bear on those conditions.

Robinhood Derivatives recommends that the Commission decline to adopt order-priority subordination, a volume- or value-based cap, or a prohibition on affiliate principal trading. Each of these mechanisms disadvantages a class of quoter based on its affiliation status rather than the price, size, or quality of its quote, and each produces the customer-facing harm the Proposal is designed to prevent: a thinner, less competitively quoted market. The existing Core Principle

[1] Conflicts and Affiliations, 91 Fed. Reg. 50926 (proposed Aug. 6, 2026) (to be codified at 17 CFR pts. 1, 37, 38, 39).

framework — Core Principles 2, 9, 12, and 16, each of which the Commission itself invokes as authority for the proposed conditions — already addresses the conflict the Commission has identified.

I. Introduction and Interest of Robinhood Derivatives

Robinhood Derivatives is a registered futures commission merchant ("FCM") and a member of the National Futures Association ("NFA"). Robinhood Derivatives is a wholly owned subsidiary of Robinhood Markets, Inc. ("Robinhood") and provides Robinhood Financial LLC's ("Robinhood Financial") self-directed retail customers access to prediction markets and other CFTC-regulated derivatives.[2]

Robinhood Derivatives' customers execute on CFTC-regulated exchanges that have, or may develop, an affiliate market maker, including newer prediction-market venues where an affiliate may be the primary source of two-sided quoting when the venue first begins trading. Robinhood Derivatives writes as the intermediary between those customers and those markets. Our interest is in the depth, tightness, and competitiveness of the pricing our customers receive, not in the commercial position of any particular exchange or market maker.

II. The Existing Core Principle Framework Already Addresses the Conflict the Commission Has Identified

The governing question in Section III.B of the Proposal is not whether a DCM's affiliation with a market maker can create a conflict of interest — it can. The question is whether that conflict requires new, prescriptive conditions such as those in proposed Commission Regulation 38.852(c), or whether the Core Principle framework the Commission already applies to every other category of affiliate market participant is sufficient.[3] We believe it is.

Core Principles 2, 9, 12, and 16, each of which the Commission cites as authority for the proposed conditions, already prohibit a DCM from structuring its matching-engine logic, data access, access latency, or fee incentives to unfairly advantage one participant over another. Core Principle 2's impartial access requirement is agnostic to the identity of the disadvantaged party: it prohibits a DCM from structurally disadvantaging any class of quoter, not only unaffiliated ones. The Commission's reliance on that requirement as authority for order-priority subordination necessarily reads it to reach how a DCM treats members' orders after access is

[2] In November 2025, Robinhood formed a joint venture with a wholly owned subsidiary of Susquehanna International Group ("SIG"). In January 2026, the joint venture (of which Robinhood owns 50%) acquired 90% of the equity of MIAXdx (a DCM, derivatives clearing organization, and dormant swap execution facility now known as Rothera Exchange & Clearing LLC ("Rothera")), to deliver innovative products to customers interested in prediction markets. See Robinhood, Robinhood Extends its Prediction Markets Offering through New Joint Venture and Partnership with Susquehanna to Operate CFTC-Licensed Exchange (Jan. 16, 2026), https://robinhood.com/us/en/newsroom/robinhood-prediction-markets-joint-venture/. This letter is submitted in Robinhood Derivatives' capacity as an FCM serving self-directed retail customers, and reflects the interest of those customers in the depth and competitiveness of the markets on which they trade.

[3] Proposal, Request for Comment Question 39.

granted, not merely the criteria for granting access. A rule that required unaffiliated market makers to be filled last at every price level would be irreconcilable with that reading. That the disadvantaged party under the Proposal is instead the affiliate does not make the same structural disadvantage consistent with the Core Principle. The Commission should not mandate against an affiliate participant a practice that its own reading of Core Principle 2 would not permit a DCM to apply to an unaffiliated participant.

A non-discrimination requirement (for example, that no DCM may configure matching-engine tie-break logic, data access, access latency, or fee schedules to favor or disfavor a participant on the basis of affiliation status) is fully administrable through existing examination practice under Core Principles 2 and 9. It requires no new rule text, and it reaches the conflict the Commission has identified without introducing the harms discussed in Sections III through VI below.

The Commission's stated rationale for displacing principles-based discretion here is that a DCM's aligned commercial incentives with its own affiliate defeat the self-regulatory review upon which the Core Principles otherwise rely.[4] That rationale is not unique to affiliate market makers. It would, if credited, justify displacing principles-based discretion for any commercially significant participant a DCM examines. The Commission has not adopted that broader displacement elsewhere in the Proposal, including in the Proposal's Section III.A treatment of affiliate market participants generally. The Commission should not adopt it here either.

Separately, proposed Commission Regulation 38.852(b)(1) establishes a principles-based conflicts-of-interest procedures requirement for every category of affiliate market participant, including affiliate market makers. Proposed Commission Regulation 38.852(c) then layers a second, mechanically prescriptive regime onto the identical relationship. The Commission has not explained why an affiliate market maker warrants both the general procedures requirement and a distinct, more restrictive structural regime, when no other category of affiliate market participant is subject to a categorical prohibition on trading, conditioned on a structurally prescriptive exception, the way affiliate principal trading firms are under proposed Regulation 38.852(c).

Nor does the record support the additional regime. We are not aware of a documented instance of an affiliate market maker exploiting its position on an affiliated DCM to the detriment of customers or unaffiliated participants. That is unsurprising. An affiliate's returns include its interest in the venue itself, which gives it reason to invest in liquidity and customer experience over the long term, even at some cost to near-term market-making revenue, as the Proposal itself recognizes in permitting the exception.[5] The Commission's approach to the market maker

[4] Proposal, Section III.B (discussion of the Commission's concerns regarding affiliate principal trading); *id.*, Section III.B(v), Alternative 1 (Permitting Affiliate Principal Trading Firms Subject Only to Conflicts Procedures and Disclosure).

[5] *See* Proposal, Section III.B (discussing the alignment of an affiliate's interests with the venue's success); *id.*, Section VII.C (Consideration of Costs and Benefits), Request for Comment Question 12 (asking about the trading motives of affiliate principal trading firms).

conflict is, on this record, prophylactic rather than remedial — a reason to rely on the existing examination-based framework, not to depart from it.

III. Order-Priority Subordination Should Be Rejected as Structurally Anticompetitive and Harmful to Customer Pricing

This section, together with Section IV below, responds to Request for Comment Question 45, which asks whether order-priority subordination should be required, replaced by a volume- or value-based cap, or supplemented by such a cap; Robinhood Derivatives' answer is that the Commission should adopt none of the above. Order-priority subordination does not neutralize an advantage — it manufactures a disadvantage. Under proposed Commission Regulation 38.852(c)(1)(i), a DCM's trade-matching system must fill the bid or offer of any unaffiliated member before the bid or offer of the affiliate market maker at the same price, without regard to time priority, once any unaffiliated quote appears at that price. The affiliate is filled last at every price level for a reason unrelated to the price, size, or timing of its quote.

That mechanism is the mirror image of a rule requiring a DCM to fill an *unaffiliated* market maker's orders last. Both rules would withdraw a willing, competitively priced quoter's fill priority for a reason unrelated to the quality of its quote. Because both rules would remove a market maker's incentive to keep quoting with tight spreads and sufficient depth exactly when doing so matters most — as competing liquidity arrives and price discovery intensifies — both would produce identical customer-facing harm: a thinner, less aggressively quoted order book. The label attached to the disadvantaged quoter does not change the mechanism or the result. Just as a rule mandating last-priority treatment for unaffiliated market makers would be inconsistent with Core Principle 2 and harmful to customers, so too would be a mirror-image rule where last-priority treatment falls on affiliate market makers. The customer would experience the same degraded pricing either way.

The Commission's premise is that a DCM's common control with its affiliate gives the DCM a commercial incentive to favor that affiliate that the DCM lacks with respect to any unaffiliated participant, and that subordination offsets that incentive. That premise is correctly identified but wrongly remedied. A non-discrimination standard enforceable under Core Principles 2 and 9, prohibiting the DCM from configuring matching-engine logic, data access, or fees to favor its affiliate, addresses the same incentive directly, at its source, without requiring the DCM to disadvantage the affiliate's quotes as a category regardless of price or timing. Subordination corrects for a DCM-level incentive by imposing a participant-level penalty; the mismatch between where the incentive problem originates and where the rule's cost falls is itself the flaw the Commission should address.

The underlying problem with conditioning treatment of orders on affiliation status rather than on conduct or quote quality is that the harm the Proposal seeks to prevent (i.e., a DCM advantaging one class of quoter over another) is the same harm the Proposal would create (by disadvantaging a different class of quoter). Only a rule that is neutral as to affiliation status, not one that inverts the direction of favoritism, avoids the potential pricing harm the Commission is seeking to address.

Subordination would also harm customer pricing by reducing the number of market makers effectively competing on price at any given level. Subordination blunts a quoter's incentive to post its most aggressive price by degrading its fill quality regardless of how competitively that price is set. Fewer quoters with an incentive to compete on price at a given level produce a wider natural spread. The Commission may respond that subordination's guarantee of priority is itself designed to draw additional unaffiliated quoters into the book over time, offsetting that effect. But that response assumes the coordination problem the Proposal itself identifies — that unaffiliated market makers are reluctant to commit capital to an unproven venue — resolves faster than the affiliate's incentive to quote aggressively erodes, an empirical claim the record does not support.

Further, subordination carries a specific adverse-selection cost. Because the affiliate is filled only after unaffiliated liquidity at the best price is exhausted, its fills concentrate in the flow most likely to be informed and trading against a resting quote. This adverse-selection cost is exacerbated exactly as a market matures and attracts competing liquidity — the moment the Commission's own market-structure rationale expects competition, and price discovery, to intensify. Subordination, therefore, most strongly undermines the affiliate's incentive to maintain quoting depth precisely when the Commission wants competing quoters to be most active. This cuts directly against Core Principle 9's price-discovery and execution-quality objectives: customers benefit from the deepest, tightest-quoted market available at a given moment, not from a rule that removes one competing quoter's incentive to remain aggressive.

The Proposal's own justification for permitting an affiliate market maker exception to its proposed prohibition on affiliate principal trading is that a new exchange faces a coordination problem: unaffiliated market makers are reluctant to commit capital until a market demonstrates sufficient volume, and an affiliate aligned with the venue's success can supply liquidity that unaffiliated firms will not.[6] Subordination is not well suited to that purpose. Because subordination gives an unaffiliated quoter priority over the affiliate at the same price regardless of time priority, an unaffiliated market maker need not arrive first, or improve on the affiliate's price, to capture the fill — matching the affiliate's price is sufficient. That removes the unaffiliated firm's ordinary incentive to post its quote early or tighten its price beyond the affiliate's, because matching alone secures priority the moment its quote is present.

A less liquid venue does not burden all participants equally. The Commission's own cost-benefit discussion relies on reporting that liquidity on existing prediction-market venues is already "too thin" for institutional use.[7] Institutional participants and market makers can respond to thin liquidity on a CFTC-regulated venue by trading the same exposure through other channels, including other execution venues, direct or bilateral arrangements, or otherwise, when a given venue's book is too thin to execute efficiently. Retail customers generally have no comparable alternative: they trade only through the CFTC-regulated venues their broker makes available. A

[6] *See* Proposal, Section III.B (discussing the coordination problem facing a new exchange and the rationale for a bona fide affiliate market maker exception).
[7] *See* Proposal, Section VII.C (Consideration of Costs and Benefits), n.352.

rule that further discourages market-maker entry, and thereby further thins liquidity on regulated venues, therefore does not fall equally on all participants — it falls on the retail customers who have nowhere else to go, in the form of wider spreads and worse execution.

Finally, the Commission's cost-benefit analysis quantifies the cost of subordination to the affiliate and the resulting loss of DCM revenue, but it does not quantify the cost to customers of a thinner, less competitive book.[8] We request that the Commission account for that omission directly before finalizing any rule. The Commission applied its Kyle's-lambda methodology — using an external price-impact estimate for Kalshi markets together with the Commission's own net-taker order-flow data — to derive an estimated cost of subordination to the affiliate of approximately $750 per day in one market (the 15-minute Bitcoin prediction market) over one three-and-a-half-month window, assuming continuous quoting and predominantly informed order flow. The Commission itself describes this as a coarse estimate. Coarse as it is, the Commission does not explain why the same net-taker order-flow data, having been used to inform an estimate of the cost to the affiliate, could not equally inform an estimate of the customer-facing costs — wider spreads and reduced depth — that the same mechanism produces. Section 15(a) of the CEA (7 U.S.C. 19(a)) requires the Commission to consider the costs and benefits of the Proposal against five enumerated factors, including the protection of market participants and the public, the efficiency and competitiveness of derivatives markets, and price discovery. A cost-benefit discussion that quantifies the cost to the regulated affiliate while leaving the customer-facing cost (which bears directly on each of those three factors) entirely unquantified has failed to consider an important aspect of the problem the Proposal itself identifies.[9]

The Commission notes that at least one DCM already subordinates its affiliate principal trading firm.[10] Before finalizing a rule that would mandate that practice industry-wide, the Commission should place that DCM's actual liquidity, spread, and quoting-depth experience under subordination into the record, so that the costs and benefits identified in this comment can be tested against observed data rather than estimated in the abstract.

IV. A Volume- or Value-Based Cap Is Not a Superior Alternative and Should Also Be Rejected

A cap is not a compromise position, and the Commission should not adopt one in place of, or in addition to, subordination. A volume- or value-based cap is itself a form of DCM-mandated favoritism toward unaffiliated participants because it limits how much of customer order flow a quoter may fill based on affiliation status, not on the price or quality of the quote offered. This similarly violates Core Principle 2, for the same reasons discussed in Section II. Customer pricing is a function of the number and depth of competing quotes, not the affiliation status of the quoter providing them. A cap that constrains a well-capitalized, active market maker for reasons

[8] *See* Proposal, Section VII.C (Consideration of Costs and Benefits), Request for Comment Question 13 ("Does the Commission's methodology accurately capture the order-priority subordination cost of affiliate principal trading firms complying with the conditions of proposed Commission Regulation 38.852(c)(1)?").
[9] *See Motor Vehicle Mfrs. Ass'n of U.S., Inc. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983).
[10] Proposal, Section VII.C (Consideration of Costs and Benefits), n.358.

unrelated to quote competitiveness directly reduces the competitive pressure that produces tight spreads — the opposite outcome the Proposal is designed to achieve.

The Commission's own alternatives analysis preliminarily concludes that a volume- or value-based cap, as opposed to order-priority subordination, may not attract unaffiliated market makers, may be difficult to set across varied markets, and may "eventually hurt overall liquidity and harm price discovery and potential hedging."[11] Robinhood Derivatives agrees with those concerns. They apply with greater force if a cap is added to subordination, as Question 45 contemplates, because the two constraints would compound on the same quoter. And, as Section III explains, subordination itself carries the same liquidity and price-discovery costs, so the Commission's concern about a cap is not a reason to prefer subordination.

A phased or sunset cap does not cure this defect; it only delays it. A phase-in schedule introduces additional line-drawing (for example, where to set the initial threshold, how quickly to tighten it, what triggers the tightening) without addressing the core flaw that the limitation is keyed to affiliation status rather than to conduct or quote quality. Each additional design parameter is a further point where the rule can misfire and harm the functioning of the markets the Commission is tasked with protecting: set the threshold too high and it is not triggered; set it too low and it excludes the affiliate from a product it is the only firm willing to quote.

V. Neither Subordination Nor a Cap Accounts for Sole- or Limited-Liquidity Markets

Sections III and IV addressed subordination and the cap on the assumption that unaffiliated market makers are actively competing for the same order flow as the affiliate. That assumption does not always hold. Neither mechanism is calibrated to markets outside the two-sided-competition scenario the Proposal assumes.

Where the affiliate is the sole source of liquidity in a product, subordination is inoperative by the Commission's own design. The Commission describes the condition as a "self-adjusting limit" under which the affiliate supplies liquidity where none competes and cedes priority as unaffiliated liquidity develops.[12] That is not itself a defect: the Commission built subordination to have no effect in the absence of a competing quote, and any resulting cost to customers arises only once unaffiliated quoters arrive and the harms described in Section III begin to apply. With respect to Request for Comment Question 46, the Proposal states that in the sole-source case "the remaining conditions in proposed Commission Regulation 38.852(c)(1) are the operative protections."[13] Those include the requirements in proposed Regulation 38.852(c)(1)(ii) that the affiliate maintain continuous two-sided quotations, meet minimum quoting-hour obligations, and quote within specified bid-ask spread limits.[14] Those are conduct-based performance standards of the kind some exchanges already apply to designated market makers,[15] and they address execution quality where the affiliate is the only quoter without ranking its orders by its status.

[11] Proposal, Section VII.C (Consideration of Costs and Benefits), Alternatives, item (3).
[12] Proposal, Section III.B (discussion of proposed Regulation 38.852(c)(1)(i)).
[13] *Id.*
[14] Proposed Regulation 38.852(c)(1)(ii)(A)–(C).
[15] Proposal, Section VII.C (Consideration of Costs and Benefits), n.359 and accompanying text.

That is the distinction this letter draws: treatment should be based on how a market maker quotes, not who it is. Subordination adds nothing in the sole-source case; its entire burden falls on the affiliate in the competitive case, where the harms described in Section III arise.

A cap performs no better in this scenario, and arguably worse. A cap requires a denominator — a measure of expected or addressable volume against which to set the limit — that does not exist for a newly listed product with no trading history. Set at launch, that number is necessarily a guess. If it is triggered before any unaffiliated liquidity has arrived, the effect is to throttle the sole source of pricing available to customers in that product. That is a materially worse customer outcome than the potential harm itself, and it is the opposite of what a customer-protection rule should produce.

Between the two extremes of a fully competitive, two-sided market and a sole affiliated quoter lies a case the Proposal does not resolve: a DCM where the affiliate is the primary liquidity source across most listed products, and a nominal unaffiliated market maker is active only in a narrow subset, quoting a small number of products, in limited size, or only intermittently. Request for Comment Question 41 asks whether the requirements should instead be limited by a measure of the affiliate's significance in a product. A uniform, DCM-level rule applies the identical constraint whether or not genuine competing liquidity exists in the specific product a customer is trying to trade. Subordination against a single, one-lot, once-a-day unaffiliated quote is not the same as subordination against a continuously quoting competitor, but the Proposal treats them identically.

This gap demonstrates that conditioning treatment on affiliation status, rather than on demonstrated market power or conduct in the specific product at issue, is the wrong mechanism from the outset. A rule keyed to a DCM's overall affiliation structure cannot account for the product-by-product reality of where genuine competing liquidity actually exists.

VI. A Flat Prohibition on Affiliate Principal Trading Would Not Improve on the Proposal's Approach

This section responds to Request for Comment Question 40, which asks whether the Commission should instead prohibit affiliate principal trading altogether with no market-maker exception. A categorical prohibition on affiliate principal trading eliminates a legitimate, competitively priced source of liquidity regardless of quote quality. This is the same affiliation-based logic that animates subordination and the cap, taken to its most severe form.

The Commission's own preliminary view, in declining to propose a flat ban, is instructive: a prohibition "would also be the most disruptive to existing market structure," and a bona fide affiliate market maker "can supply liquidity that unaffiliated firms may not," particularly given the "broad and continually refreshed contract universes characteristic of prediction markets."[16] Robinhood Derivatives agrees with that assessment, and the same reasoning counsels against

[16] Proposal, Section III.B(v), Alternative 2 (Prohibiting Affiliate Principal Trading With No Exception for Market Makers).

not only a flat prohibition, but the subordination and volume- or value-based cap proposals discussed above, which embed the same defect.

VII. Recommendation

The Commission should decline to adopt order-priority subordination, a volume- or value-based cap in any form, and a prohibition on affiliate principal trading. Instead, the Commission should confirm (in the preamble to a final rule or in guidance) that a non-discrimination standard is enforceable under existing Core Principles 2, 9, 12, and 16: no DCM may structure matching-engine logic, data access, access latency, or fee incentives to advantage or disadvantage a participant on the basis of affiliation status.

The governance-level safeguards the Proposal separately requires (including Regulatory Oversight Committee oversight, and the information-barrier and conflicts-of-interest procedures already required under Core Principle 16 and proposed Commission Regulation 38.852(b)(1)) are the appropriate mechanism for the governance conflicts the Proposal identifies, and are consistent with the framework the Commission already applies to affiliated intermediaries generally. That framework does not need a second, market-maker-specific layer to be effective.

VIII. Conclusion

Robinhood Derivatives appreciates the Commission's effort to address conflicts of interest arising from the growing number of affiliated relationships across CFTC-regulated markets, and agrees that a DCM's affiliation with a market maker warrants a clear regulatory approach. The Proposal's answer for affiliate market makers, however, would produce the customer-facing harm it is designed to prevent: a thinner, less competitively quoted market on Commission-regulated exchanges, with no corresponding gain in market integrity that the existing Core Principle framework does not already deliver.

Robinhood Derivatives recommends that the Commission decline to adopt order-priority subordination, a volume- or value-based cap, or a prohibition on affiliate principal trading, and instead confirm that a non-discrimination standard is enforceable under Core Principles 2, 9, 12, and 16.

Robinhood Derivatives appreciates the opportunity to comment. Please contact Lucas Moskowitz (lucas.moskowitz@robinhood.com) or Jon DeBord (jon.debord@robinhood.com) with any questions.

Respectfully submitted,



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