Polymarket US

Submitted Electronically

October 5, 2026

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

Re: Comment Letter on CFTC Notice of Proposed Rulemaking: Conflicts and Affiliations (RIN: 3038-AF76)

Dear Mr. Kirkpatrick:

QCX LLC[1] and QC Clearing LLC[2] (together, ***Polymarket US***) respectfully submit this comment letter in response to the Commodity Futures Trading Commission's (***CFTC*** or ***Commission***) Notice of Proposed Rulemaking (***NPRM***)[3] regarding conflicts and affiliations.

Polymarket US supports the NPRM's core objective of establishing a consistent, durable regulatory framework for managing conflicts of interest arising from affiliated market structures. Polymarket US agrees with the Commission that such a framework should "reinforce—rather than displace—the practices registered entities have adopted."[4]

We write to support the NPRM's core findings:

- *First*, affiliations between entities in CFTC-regulated markets provide important benefits and serve a useful function. As the Commission recognizes, affiliated market structures, including longstanding affiliations between designated contract markets (***DCMs***) and derivatives clearing organizations (***DCOs***), can provide efficiencies and competitive benefits. The final rule should preserve and strengthen those benefits.

- *Second,* Polymarket US supports principles-based guardrails to address potential conflicts of interest between affiliated entities. Polymarket US supports the proposed bar on a self-regulatory organization (***SRO***) serving as the designated self-regulatory organization (***DSRO***) for its affiliate futures commission merchant (***FCM***), the codification of existing governance standards, and heightened safeguards for affiliated proprietary trading.

[1] A designated contract market d/b/a Polymarket US.

[2] A derivatives clearing organization d/b/a Polymarket Clearing.

[3] Conflicts and Affiliations, 91 Fed. Reg. 50926 (Aug. 6, 2026), *available at* https://www.federalregister.gov/documents/2026/08/06/2026-15948/conflicts-and-affiliations.

[4] *Id.* at 50932.

We also offer recommendations to ensure that the final rule remains faithful to the CFTC's principles-based regulatory approach. Specifically, Polymarket US recommends that the Commission:

- adopt a more targeted approach to managing conflicts between DCMs/DCOs and their affiliates;
- clarify the definition of "affiliate market participant"; and
- adopt a gross negligence-based standard of liability for the use of third-party SROs.

I. Affiliations Between Entities in CFTC-Regulated Markets Provide Important Benefits and Are Best Managed Through a Principles-Based Approach

As the NPRM acknowledges, affiliations can provide "benefits to [] derivatives markets and market participants," including by promoting competition and facilitating efficiencies.[5] Affiliate relationships between DCMs and DCOs are particularly important in CFTC-regulated markets, and as the Commission correctly notes in the NPRM, these relationships are longstanding.[6] Integrated DCM-DCO structures provide important risk management and operational benefits to market participants; as the Commission recognizes, effective risk and default management depends on a DCO having "a complete understanding of the risks" of the products it clears.[7]

In light of the benefits that affiliate relationships can provide, Polymarket US supports adopting a principles-based approach to conflicts management. Such an approach can protect against conflicts that may arise while preserving the benefits of affiliated structures. A principles-based approach is also best suited to build on the Commission's existing conflicts regulations. For example, DCM Core Principle 16 and DCO Core Principle P require that DCMs and DCOs establish and enforce rules to minimize conflicts of interest in their decision-making process and establish a process for resolving them.[8] A principles-based approach, together with the existing Core Principles, will ensure that affiliate relationships continue to thrive in CFTC-regulated markets, subject to appropriate conflict management. As detailed below, we support and appreciate that the Commission took a principles-based approach to a number of the provisions in the NPRM.

II. Polymarket US Supports the NPRM's Principles-Based Guardrails That Address Potential Conflicts of Interest Between Affiliated Entities

a. Polymarket US Supports the Bar on SROs Serving as DSRO for an Affiliate FCM

Polymarket US supports the Commission's proposal to bar SROs from serving as DSROs for an affiliate FCM.[9] Conflicts are heightened in the self-regulatory context and, as the Commission notes, under existing practice, no DCM currently acts as DSRO for an affiliate.[10] Codifying this practice is a sensible approach to conflicts management.

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[5] *Id.* at 50927, 50947.
[6] *Id.* at 50927.
[7] *Id.* at 50960.
[8] *See* 7 U.S.C. § 7(d)(16); 7 U.S.C. § 7a-1(c)(2)(P).
[9] NPRM at 50936.
[10] *Id.* at 50932.

b. The NPRM Appropriately Codifies Existing DCM Governance Practices

Polymarket US supports the NPRM's codification of DCM governance standards for public directors, regulatory oversight committees, and disciplinary panels.[11] As the Commission notes, compliance with these practices is already common across DCMs, and codification promotes consistency and certainty without imposing significant new costs.[12]

c. Polymarket US Supports Heightened Safeguards for Affiliated Proprietary Trading

Polymarket US also supports the NPRM's efforts to address the conflicts that arise from affiliates engaging in proprietary trading on a DCM. Polymarket US, unlike some competitors, does not currently have an affiliated firm engaging in market making or proprietary trading on its DCM. The NPRM correctly recognizes the heightened conflicts of interest that can arise in the affiliated proprietary trading context and the need for additional safeguards.[13]

III. Polymarket US Recommends Targeted Amendments and Clarifications to the Proposed Rule to Improve Its Clarity and Workability

a. Polymarket US Recommends a More Principles-Based Approach to Managing Conflicts Between DCMs/DCOs and Their Affiliates

The NPRM proposes several measures to address conflicts between DCMs and affiliates participating on the DCM and between DCOs and affiliate clearing members.[14] Polymarket US supports the proposal to require documentation of conflicts and their resolution, and to require disclosure of affiliations. Documentation and disclosure are effective measures that can address potential conflicts—or concerns about the appearance of conflicts—while preserving the benefits of affiliations.

Polymarket US respectfully recommends amendments to the NPRM's other proposed conflicts mitigants which, as drafted, are overly broad and would prevent the full realization of the benefits of affiliations.

The NPRM proposes to prevent the sharing of non-public information between DCMs and affiliate market participants and between DCOs and affiliate clearing members.[15] The NPRM's definition of non-public information is overbroad and unworkable. As proposed, "non-public information" is defined as "information which has not been disseminated in a manner which makes it generally available to the trading public."[16] The definition contains no materiality qualifier or other limitation, and the prohibition on sharing is only subject to carve-outs for information shared with all market participants or relating solely to the affiliate or its customers.[17] The NPRM thus would effectively

[11] *Id.* at 50955-56.
[12] *Id.* at 50956.
[13] *Id.* at 50948-49.
[14] *Id.* at 50946-47, 50959-60.
[15] *Id.*
[16] *Id.* at 50993, 50994. Polymarket US notes that "non-public information" is not defined in the proposed Part 38 or Part 39 regulations themselves; rather, it is defined in the proposed guidance to those regulations.
[17] *Id.*

prevent almost any information sharing between the covered affiliates, foreclosing ordinary-course communications and cooperation.

Polymarket US respectfully requests that, consistent with DCM Core Principle 16 and DCO Core Principle P, the Commission instead adopt a principles-based standard that bans the sharing of information based upon the presence of actual conflicts of interest rather than a prescriptive rule. Specifically, the final rule should prohibit the sharing of material non-public information about unaffiliated market participants (i) concerning those participants' trading activity or (ii) obtained through a DCM's or DCO's regulatory or supervisory functions. This approach would address potential conflicts in a targeted manner while still preserving the benefits of affiliations.

Polymarket US also recommends that the Commission adopt a principles-based approach to the NPRM's separate personnel and separate office space requirements.[18] As drafted, the NPRM would prevent the sharing of almost all staff and office space, without consideration of whether such sharing results in conflicts between affiliates. Rather than adopting prescriptive rules and guidance, the Commission should require DCMs and DCOs to establish personnel and office space procedures to address potential conflicts between the DCMs/DCOs and affiliates, recognizing that the appropriate measures will vary depending upon a specific entity's circumstances.

b. Polymarket US Supports the Control-Based Definition of "Affiliate Market Participant" but Requests Clarification on the Scope of "Otherwise Facilitates"

Polymarket US supports the control-based definition of "affiliate market participant."[19] However, one aspect of the proposed definition of "affiliate market participant" in the NPRM is unclear and potentially overbroad. The definition establishes a two-part requirement: any person that (i) directly or indirectly executes, introduces, or otherwise facilitates trades on or subject to the rules of the DCM, and (ii) directly or indirectly controls, is controlled by, or is under common control with the DCM.[20] Polymarket US believes the phrase "otherwise facilitates" could unnecessarily sweep in affiliations the Commission likely did not intend to include.

For example, DCM and DCO affiliations are longstanding and do not present the same issues as other affiliations, yet as currently drafted, an affiliated DCO could fall within the scope of the definition. Polymarket US respectfully requests that the Commission clarify that DCOs are excluded from the definition of "affiliate market participant" for purposes of the NPRM. This clarification would be consistent with the description of "affiliate market participant" in proposed Appendix B to Part 38, which reads "affiliate market participant (*i.e.*, an affiliate futures commission merchant or an affiliate principal trading firm)."[21]

c. Polymarket US Recommends a Gross Negligence-Based Standard for an SRO's Liability for a Third-Party SRO's Performance on Its Behalf

Proposed Commission Regulation 1.52(c)(1)(i)(C) would require an SRO that has an affiliate FCM to designate an independent third-party SRO to conduct the surveillance of the affiliate FCM that is

[18] *Id.* at 50946-47, 50959-60.

[19] *Id.* at 50946.

[20] *Id.* Polymarket US notes that the proposed rule text, *id.* at 50991, omits the second prong of this definition, which should be added to conform with the NPRM preamble text and similar definitions elsewhere in the NPRM.

[21] *Id.* at 50993.

otherwise required of the SRO under existing Commission Regulation 1.52(c).[22] The designating SRO would at all times remain responsible for compliance with its obligations under the Commodity Exchange Act and the Commission's regulations, and for the third-party SRO's performance on its behalf.[23] The Commission requests comment on whether it is appropriate for the designating SRO to be responsible for the third party's performance on its behalf where such designation is mandatory as opposed to voluntary.[24] The Commission also requests comment on the appropriate liability standard for the designating SRO, including whether the designating SRO should be strictly liable for any examination failure of the third-party SRO or, alternatively, liable only if it is negligent in selecting the third-party SRO.[25]

Polymarket US believes it is not reasonable to require an SRO to outsource oversight while retaining full liability under a strict liability standard for the conduct of a third party that is outside its control. Doing so would defeat the purpose of the rule: if an SRO faces strict liability for a mandatory delegation to an independent SRO, it has no mechanism for managing that liability other than attempting to re-involve itself in the surveillance function, which is what the rule seeks to prohibit. Polymarket US therefore recommends a standard under which the designating SRO would face liability only if it acted with gross negligence in selecting the third-party SRO or monitoring its performance. This standard would preserve the SRO's incentive to select a capable provider and to act on known deficiencies while placing responsibility for the conduct of surveillance on the independent SRO engaged in the actual surveillance.

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Polymarket US appreciates the Commission's careful consideration of affiliated market structures and potential conflicts of interest in the NPRM and supports the Commission's effort to establish a consistent, durable baseline for managing the conflicts that may arise. Polymarket US respectfully requests that the Commission modify the NPRM as described above and in keeping with the Commission's principles-based approach to regulation.

Respectfully submitted,

/s/ Matthew Lischin

Matthew Lischin

General Counsel
Polymarket US

[22] *Id.* at 50936.
[23] *Id.*
[24] *Id.*
[25] *Id.* at 50939.