Re: File No. S7-2026-24 – Request for Comment on Novel ETFs

August 28, 2026
U.S. Securities and Exchange Commission
Re: File No. S7-2026-24 – Request for Comment on Novel ETFs

To the Chair and Commissioners of the U.S. Securities and Exchange Commission,

Adjacent Markets, Inc. appreciates the opportunity to comment on the U.S. Securities and Exchange Commission's Request for Comment on Novel ETFs. We support the SEC's stated goal to facilitate ETF innovation while protecting investors and maintaining fair, orderly, and efficient markets. In particular, we support novel ETFs that seek exposure to event contracts. We encourage the SEC to introduce pathways that permit event-contract ETFs that satisfy clearly defined investor protections and market integrity criteria.

At Adjacent Markets, Inc., we consolidate event contracts into thoughtfully weighted index products. Our perspective is distinct from ETF issuers, event-contract exchanges, liquidity providers, and traders because we are a neutral third-party index provider. Our indices and reference rates provide the infrastructure necessary for novel event-contract ETFs. They transform raw prediction market data and implied probabilities into IOSCO-informed, structured financial products.

The Commission's framework will directly shape whether an index layer for the asset class can develop in a responsible and institutionally credible way. Novel event-contract ETFs must be transparent and verifiable in the same way equity, bond, and crypto ETFs are. Index and reference rate products will help address these considerations. They will improve investor protections and help solidify market integrity.

Why event-contract index products matter for novel ETFs

Novel event-contract ETFs empower investors with new ways to hedge and express their trading views. They provide diversified exposure to information, support improved price discovery and risk management, and ultimately turn fragmented event-contract markets into investable benchmarks.

It is critical that such products employ transparent, rules-based methodologies that objectively account for market eligibility criteria (e.g., liquidity, quote quality controls), resolution criteria, and market disruptions (e.g., suspended, voided, or delisted contracts).

Concerning Rule 6c-11 requirements, event-contract index products assist ETF issuers and investors with the following:

- Listing standards
- Transparency, auditability, and disclosures
- Pricing and fair value
- Concentration controls
- Objective resolution and rolling rules
- Compliance alerting
- Creation/redemption mechanics
- Arbitrage
- Cost efficiency
- NAV calculations
- Backtesting
- Exchange surveillance and anomaly detection
- Portfolio construction and diversification

Event-contract index products from neutral third parties in particular mitigate risks associated with conflicts of interest that have historically been problematic (e.g., the "AlphaSector" ETF backtest fabrication and the LIBOR scandal). For instance, index methodologies and products from Adjacent Markets, Inc. are transparent, easily recalculated, and subject to governance procedures and oversight controls that help protect investors. We discuss governance further below.

How to make event-contract ETFs compatible with ETF principles

Index providers have a role to play in making event-contract ETFs compatible with ETF principles, but not all event-contract ETFs should be treated identically.

The underlying event contracts vary greatly by venue, liquidity, resolution source, regulatory status, duration, and manipulation risk. It is important that SEC rules distinguish between event-contract ETF exposures that are transparent, diversified, CFTC-regulated, clearly resolvable, and liquid, and those that are opaque, concentrated, unregulated, illiquid, and subjectively resolvable. Neutral third-party event-contract index providers account for these considerations today.

It is also important to highlight that an ETF tracking a rules-based event-contract index can help mitigate investor risk. Such an instrument can administer eligibility, diversification, rebalancing, pricing, and fallback standards that can reduce single-market risk.

Disclosures are also critical. Investors require clear explanations regarding contract resolution risks, market disruptions, rolling mechanics, and risks of market manipulation. This transparency is also important when it comes to NAV calculations. Event-contract index providers can assist ETF issuers with the market knowledge necessary to account for bid/ask spread and market-depth policies, stale-price handling, suspended markets, outlier quotes, volume calculation discrepancies, and event resolution precedents.

The exchange venue whose contracts are used in ETFs also matters. The CFTC's Designated Contract Market (DCM) framework is helpful when it comes to market integrity and surveillance. This framework further supplements methodology-level controls, disclosures, and transparency that can all be used to make event-contract ETFs compatible with ETF principles.

Opportunities for standardization

There are also opportunities to standardize event contracts to facilitate ETF innovation, drive market efficiency, and protect investors. The 2024 U.S. presidential election markets on Kalshi and Polymarket are good examples of why event-contract standards should require clear and comparable resolution criteria.

Polymarket's 2024 U.S. presidential-winner market was resolved after the Associated Press, Fox News, and NBC all called the race. Kalshi's resolution criteria, on the other hand, was tied to the inauguration on January 20, 2025. The contracts appeared to investors to address the same event. However, they actually carried materially different settlement timing, sourcing, and risk profiles. Standardization around disclosures, resolution triggers, source hierarchy, and anticipated settlement timing would help investors assess distinctions in similar contracts listed on different venues. It would also help with the construction of event-contract ETFs as it would improve NAV reliability and facilitate transparent diversification across venues.

Standardization around event-contract volume disclosures is another meaningful opportunity to advance ETF innovation and protect investors. Today, volume disclosures across Kalshi and Polymarket are not comparable. Kalshi reports volume in contracts traded, whereas Polymarket reports dollar-denominated trading volume. This can make rules-based event-contract ETFs and index products more complex and challenging for investors to understand. A standardized framework requiring consistent conventions for trading volume, open interest, bid/ask spreads, and market depth would enable ETF issuers and index providers to apply objective, cross-exchange eligibility criteria. Doing so would protect investors against misleading liquidity comparisons, streamline ETF product innovation, and strengthen governance controls and oversight.

Governance controls and conflicts of interest

Conflicts of interest are always a potential risk with any ETF product. Neutral third-party index providers help mitigate this risk. They are best equipped to institute the systems, processes, and tools necessary to construct robust methodologies that are rules-based and transparent.

For instance, index governance can establish fallback procedures that protect event-contract ETF investors from contract suspensions, exchange halts, outages, subjective resolution criteria, and settlement disputes. It can also provide assurances regarding NAV calculation and backtesting.

However, not every event-contract ETF should be eligible for a defined pathway. Approvals should be conditional on risks and utility. Neutral third-party index providers like Adjacent Markets, Inc. can assist with this as they optimize for neutrality, transparency, and trust. These attributes are necessary to construct novel ETFs that mitigate inherent event-contract risks and conflicts of interest. At the same time, they help unlock innovation that introduces real utility for investors.

Preserving the predictable and defined Rule 485 process

Given the utility that event-contract ETFs provide investors, including improved price discovery, risk management, and access to investable benchmarks derived from fragmented markets, the SEC should preserve a well-defined and predictable Rule 485 pathway.

Core risks can be mitigated by neutral third-party event-contract index providers. We encourage the SEC to avoid overbroad delay mechanisms that would slow meaningful innovation. We would instead advocate for pre-filing consultations and confidential draft review processes. Neutral third-party index providers can help streamline these processes and expedite innovation while also mitigating investor risks.

Conclusion

It is possible to make event-contract ETFs compatible with ETF principles. Neutral third-party index providers can help with their rules-based methodologies, transparent disclosures, and robust governance controls, all of which will help mitigate investor risk.

There are also opportunities to standardize event contracts in support of facilitating ETF innovation. Doing so will improve price discovery and drive market efficiency. Standardization around disclosures, resolution triggers, source hierarchy, and anticipated settlement timing will help investors assess distinctions in similar contracts listed on different venues. Standardization will also improve NAV reliability, facilitate transparent diversification across venues, protect investors from misleading liquidity comparisons, streamline ETF innovation, and strengthen governance controls and oversight.

Conflicts of interest are a real potential risk we have seen historically with any ETF product. Neutral third-party index providers help mitigate this risk.

Not every event-contract ETF should be eligible for a defined pathway. Approvals should be conditional on risks and utility. When evaluating all event-contract ETFs, it is our position that the SEC should preserve its well-defined Rule 485 process and avoid overbroad delay mechanisms that may slow innovation.

Adjacent Markets, Inc. is grateful for the opportunity to comment on the Request for Comment on Novel ETFs. Event-contract ETFs can provide investors with new utility, including diversified

exposure, price discovery, and risk-management tools. Adjacent therefore supports a clear, durable, and innovation-compatible SEC framework.



Douglas Crescenzi
Chief Operating Officer
Adjacent Markets, Inc.
doug@adjacentresearch.xyz