Comment on the CFTC's Proposed Rule to Prohibit Election Event Contracts
I am writing to express my deep concern and strong opposition to the Commodity Futures Trading Commission's (CFTC) proposed rule to prohibit election event contracts. This proposal represents a significant overreach of the CFTC's regulatory authority and demonstrates a fundamental misunderstanding of the valuable role these markets play in our financial ecosystem and democratic process. I urge the Commission to reject this proposal and instead engage in a more thoughtful, collaborative approach with industry stakeholders to address any concerns while preserving the numerous benefits these markets provide.

Regulatory Overreach and Misinterpretation of Authority

The CFTC's proposal to ban election event contracts goes far beyond its Congressional mandate and represents a troubling expansion of regulatory power. The Commission's attempt to classify these contracts as mere "gaming" ignores their legitimate economic purpose and contradicts the CFTC's own previous positions on event contracts.
The Commodity Exchange Act (CEA) grants the CFTC authority to regulate derivatives markets to ensure their integrity and protect market participants. However, it does not give the Commission carte blanche to prohibit entire classes of contracts that serve valid economic functions. By proposing this ban, the CFTC is effectively rewriting its mandate without Congressional approval, setting a dangerous precedent for future regulatory overreach.

The Economic Value of Election Markets

Risk Management and Hedging

Election outcomes have far-reaching economic consequences, affecting everything from tax policy to regulatory environments across various industries. Election event contracts provide a crucial tool for businesses and individuals to hedge against these political risks. For instance:

1. A renewable energy company might use these contracts to hedge against the risk of policy changes that could affect subsidies or regulations.
2. An international business could use them to manage currency risk related to potential trade policy shifts.
3. Investors could use these contracts to protect their portfolios against market volatility associated with electoral uncertainty.

By banning these contracts, the CFTC would be eliminating an important risk management tool, potentially increasing systemic risk in the financial system.

Price Discovery and Information Aggregation

Election event markets serve a vital function in aggregating diverse information and providing accurate forecasts. These markets have consistently outperformed traditional polling methods in predicting electoral outcomes. The prices in these markets reflect the collective wisdom of participants, offering real-time insights into public sentiment and electoral probabilities.
This information is invaluable not only to market participants but also to:

- Policymakers who rely on accurate forecasts to make informed decisions
- Journalists and researchers studying political trends and public opinion
- The general public seeking to understand the likely outcomes of democratic processes

By prohibiting these markets, the CFTC would be removing a powerful tool for enhancing the transparency and efficiency of our democratic system.

The Need for Stakeholder Engagement

The CFTC's proposal has been met with significant criticism from industry participants, academic researchers, and even some within the Commission itself. This backlash underscores the need for a more collaborative approach to regulation.
Instead of imposing a unilateral ban, the CFTC should:

1. Engage in meaningful dialogue with market operators, participants, and academic experts to fully understand the benefits and potential risks of election event contracts.
2. Explore alternative regulatory frameworks that address any legitimate concerns while preserving the valuable functions of these markets.
3. Consider the potential unintended consequences of a ban, such as driving trading activity to unregulated offshore markets, which could pose greater risks to U.S. market participants and reduce transparency.

Conclusion and Call to Action

The CFTC's proposed ban on election event contracts is an unnecessary and potentially harmful overreach that fails to recognize the significant economic and social benefits these markets provide. These contracts serve crucial functions in risk management, price discovery, and information aggregation, enhancing both our financial markets and our democratic processes.

I strongly urge the Commission to:

1. Vote against this misguided proposal
2. Engage in a thorough, transparent process of stakeholder consultation
3. Develop a balanced regulatory framework that preserves the benefits of election event contracts while addressing any legitimate concerns

By taking this more measured approach, the CFTC can fulfill its regulatory mandate while fostering innovation and preserving valuable market tools that contribute to both economic stability and democratic transparency.

Thank you for your consideration of these comments.

Respectfully submitted,