

From: Overseas Trader

Organization(s):

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Comment Text:

In broad terms, event contracts on the outcome of elections have existed in the UK for over a century and been mainstream for over 50 years, with over \$50m traded with bookmakers as far back as the 1966 UK General election.

Exchange-based event contracts such as the ones proposed by Kalshi have been available for nearly two decades, and in 2020 over 2 billion dollars were traded on a UK-based exchange on the outcomes of the 2020 elections.

There is thus a wealth of empirical evidence on the potential impact election contracts may have on election integrity. There have been no discernible negative effects from the existence of these contracts on the integrity of UK elections and no opposition from the public.

Out of the 17 questions for public comment the CFTC has raised, questions 12 to 17 are concerned with the potential impact the proposed election contracts might have on the political system. These are fundamentally empirical questions that can be decisively answered by referring to the evidence from over 5 decades of election contracts in the United Kingdom.

13. Could the trading of these or other political control or election-based contracts affect the integrity of elections or elections within the chamber of Congress? Could it affect the perception of the integrity of elections within the chamber of Congress?

To reiterate the point above, in over 50 years there have been no complaints from either side of the political divide about the existence of elections contracts in the United Kingdom. There is a bipartisan acceptance of such contracts, and UK elections are generally considered to be free and fair. Indeed, the integrity of the electoral system is not a topic of widespread concern in the UK, so at least by that metric the situation there is better than in the United States. The same is true of other jurisdictions that have allowed election contracts, such as Australia.

14. Could the contracts facilitate violations of, or otherwise undermine, federal campaign finance laws or regulations? For example, could the contracts make it easier to sidestep prohibitions governing coordination between candidate campaign committees and political action committees?

It is unclear to me what the specific concern is here.

In terms of coordinating financial transactions between campaign committees and PACs, the proposed contracts do not provide an instrument meaningfully different from any other asset traded on an exchange. The topic of the contract being an election doesn't make it a better way to evade campaign finance laws. On the contrary, I would hope that the higher level of oversight would make these contracts the most hostile assets for any potential attempt to break campaign finance laws

If the question is about operational coordination instead of financial coordination the answer is very much the same. The only information available on these public exchanges is pricing information, and the pricing information is robust against manipulation. A PAC would struggle to manipulate prices in an efficient market, as any attempt to artificially move prices would cause participants to take the other side of the market. And even if they were able to manipulate the market (which to be abundantly clear, they wouldn't) it is not clear how that signal could be used for coordinating operations.

At any rate, after several decades of existence there has been no evidence election contracts having been used to circumvent campaign finance laws and regulations in the United Kingdom. This empirical evidence is the most important piece of information the commission could look at.

15. Do the contracts present any special considerations with respect to susceptibility to manipulation or surveillance requirements? For example, could candidate campaign committees or political action committees manipulate the contracts by trading on internal, non-public polling data?

This question conflates two unrelated concerns: market manipulation and trading on non-public data. The questions must be addressed separately.

People involved in political campaigns have access to non-public data which can give them a significant advantage when trading election contracts. This is analogous in nature to how public servants who compile economic statistics on monthly inflation would have a significant advantage in trading traditional financial assets such as stocks, bonds and currencies, or how officers of a publicly traded company would have a significant advantage in trading that company's stock, or how members of congress would have a significant advantage in trading almost anything given their unparalleled access to non-public information. The degree to which individuals must be barred from participating in election markets depending on their professional occupations is a difficult question, but not a new one - it is a question that must be addressed for any financial asset traded on any public exchange.

Trading on non-public information is a serious concern, but it is not in any way market manipulation. Even though the data may not be public, it is real, and the objective from such trading would be to profit from having a better understanding of the event in question, rather than manipulating the market to create a false impression of the event. Market manipulation would be spending money to artificially alter the market price for an event in order to change public perception around it. This is much less of a problem. Event contracts incentivize efficient price discovery. Any attempt by a user to artificially move the price one way or another would be met by a surplus of traders willing to take the other side of the contract, returning the event to its original price. Once again returning to the empirical experience of election contracts in the United Kingdom, pricing had been extremely efficient, with no evidence of market manipulation. Market prices react extremely quickly to news, such as public polling, interviews, debates, and speeches, and are generally stable in the absence of noteworthy campaign-related events.

16. Should campaign committees, political action committees, candidates for the House and Senate, and other entities involved in political fundraising and expenditures or likely to hold non-public information, or subject to Federal Election Commission oversight, be prohibited from participating in the contracts?

Yes.

Would such a prohibition help address federal campaign law or manipulation and

surveillance concerns?

Yes. In my view, it would fully address those concerns.

How would such restrictions impact the Commission's determination of whether the contracts are contrary to the public interest?

Implementing said restrictions would address the only major concern that might make these contracts contrary to the public interest.

17. What other factors should the Commission consider in determining whether these contracts are "contrary to the public interest?"

It is my belief that the Commission should look at the relevant experiences in other countries when making its determination. Foremost amongst those is the United Kingdom, where election contracts are not only allowed but have been mainstream for many decades. After all these decades, neither the UK government nor the UK public have ever shown opposition to these elections contracts. This is the highest possible standard that can be met. It is remarkable that during a time of ever stronger political disagreement, the existence of these contracts seems to be unanimously accepted by all political parties and all factions in the United Kingdom. This evidence leads me to believe the same would be true for the United States, and I would strongly recommend the Commission to follow this example safe in the knowledge that election contracts have been thoroughly tested elsewhere and found not to be "contrary to the public interest"