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Organization(s):
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Comment Text:
Hello,

I am a private citizen and prediction market trader writing in favor of the proposed election contracts by Kalshi. I will answer some of the CFTC questions by number.

4. In determining whether any of these contracts involves an activity that is unlawful under
any State or Federal law, should the Commission be influenced by whether state laws
permit betting on the outcome of elections or other political outcomes and/or by the
prohibition of interstate betting under Federal law?

The CFTC should exercise its full authority and permit trading across the US.

6. Do the contracts serve a hedging function? Are the economic consequences of
congressional control predictable enough for a contract based on that control to serve a
hedging function? Please provide tangible examples of commercial activity that can be
hedged directly by the contracts or economic analysis that demonstrates the hedging
utility of the contracts.

Yes, the contracts serve a hedging function. The two parties in the US have tangible and straightforward economic policies – Republicans tend to cut government spending and taxes, while Democrats prefer to increase government benefits and spending by raising taxes on the wealthy and corporations. As a result, individuals and corporations can hedge easily using congressional control contracts.

For example, people with chronic, expensive health conditions could buy shares for Republicans winning Congress, so that in the event Republicans cut Affordable Care Act protections for pre-existing conditions or ACA individual marketplace subsidies they would not go bankrupt due to increases in health care prices. The same goes for individuals on food stamps, people in unions concerned about decreased bargaining power and government spending on their industries, and people in states with high taxes worried about cuts to tax deductions such as the state and local tax deduction (capped in 2017 by the GOP).

Similarly, large corporations, wealthy individuals, oil companies, companies worried about unions slowing their business, etc. could hedge with shares for Democrats winning.

7. Are there unique economic risks tied to the outcome of congressional control that cannot
be hedged via derivative products on equities, debt, interest rates, tax rates, asset values,
and other commodity prices?

I am not aware of any products for retail consumers that allow people to hedge on healthcare law, food stamps, or union policy. Other Kalshi contracts on specific legislation (such as whether the gas tax holiday bill becomes law) are not adequate, because the results of the control of Congress are predictable in a broad strokes sense, but not specifically. If you want to hedge prior to an election, there won't be contracts for specific legislation that gets proposed, such as income tax hikes or cuts, or Build Back Better, or the Inflation Reduction Act, because parties do not yet know the number of seats they have, which will control the scope of the legislation they can pass.

8. What standard should the Commission use in reviewing the contact's hedging function?
Is it sufficient that a contract could theoretically be used for hedging or, should an exchange provide evidence of demonstrated need by likely hedgers in the market? How
often must a contract be used for hedging or what percentage of market participants or
open interest must represent hedging use?

The Commission should not require contracts to have hedging functions, as even without them political event contracts are incredibly useful for academic research and prediction purposes. Some studies show political prediction markets are more accurate than the top forecasting models for elections, such as FiveThirtyEight (https://researchers.one/articles/18.11.00005, https://researchers.one/articles/20.10.00004).

However, if the Commission requires a hedging function, it should be sufficient that such a contract could theoretically be used for hedging. Businesses, unions, and interest groups spend billions of dollars to influence the outcome of elections because there are clear economic consequences that will either benefit or harm them depending on which party controls Congress (https://www.opensecrets.org/industries/). Therefore, election markets could and would be used by these groups to hedge their losses in the event the party they want loses control of Congress.

Questions about the proportion of market participants or volume used for hedging are counterproductive. This proportion will vary over time, so requirements based on this proportion will decrease market stability and make hedgers less likely to use the markets because they fear the loss of their funds due to regulators closing the market. Additionally, how would regulators determine whether retail customers are using a market to hedge or trade?

Even if hedgers decide not to buy shares in a market, knowing the odds based on the market for the control of Congress or other events is extremely useful information to investors, politicians, journalists, and researchers.

Political markets should cover a wide variety of outcomes, from control of Congress to races for individual states, to primaries, to cabinet and vice-presidential selection, and more. All these contracts will have different hedging utilities – control of Congress offers hedges for macroeconomic policy, whereas individual state markets and primaries will allow local businesses with specific contracts, earmarks, or other functions tied to the whims of a particular Senator, Representative, or Governor to hedge. Cabinet selection markets offer hedges to firms more concerned with specific regulations proposed, so that a firm worried about more environmental regulation, for example, could hedge against an anti-fossil fuel cabinet member's selection.

9. Should the Commission consider contract and position sizes and the exchange's intended customer base to help assess whether a product is likely to be used for hedging in at least some cases? Are very small dollar value contracts

targeted at individual retail customers likely to have hedging utility for such customers when the contracts offer positions on macro level national political events? Does whether contracts are margined or fully collateralized affect this analysis?

Retail consumers will be able to use small dollar value contracts to hedge as mentioned previously, but to get full utility for large scale institutional investors, maximum bet amounts should be gradually increased over time.

10. Should the Commission consider the contract design and payout when trying to assess the
economic utility of the contract? For example, are binary contracts useful for hedging
nonbinary economic events?

Yes, the Commission should consider contract design and payout when assessing the economic utility of the contracts. Binary contracts can be used for hedging nonbinary economic events by setting up a separate binary contract for each outcome (for example, will Don Bolduc win the 2022 New Hampshire GOP Senate nomination, will Chuck Morse do the same, etc.), but the Commission should create regulatory structures for nonbinary event contracts so that hedgers can see all the information about an event clearly in one contract and hedge for each outcome of the event in the same place.

11. Do the contracts serve a price-basing function? For example, could they form the basis
of pricing a commercial transaction in a physical commodity, financial asset, or service?

Yes, the contracts serve a price-basing function. Political event markets provide accurate prices for elections and other events. Accurate prices on elections would be beneficial to business transactions that are affected by regulatory, tax, and spend policy. Accurate information on whether Democrats will win Congress could influence prices for healthcare companies, as the policies they propose such as public options, caps on pharmaceutical prices, and Medicare for All could decrease revenues for medicines, pharmaceutical companies, and medical services. The same principle applies for pricing financial services, oil and gas, renewable energy, and much, much more.

12. Are the proposed contracts contrary to the public interest? Why or why not?

Election markets are beneficial to the public interest, because citizens have a vested interest in the outcome of the next election. In forecasting, a single forecast is often not the most accurate source of information, because each individual forecast contains errors, biases, and methodological flaws. However, by averaging multiple forecasts into a consensus forecast, the public gains more accurate information (https://www.focus-economics.com/blog/the-wisdom-of-the-crowds-and-the-consensus-forecast). Election markets are the very definition of a consensus forecast, gathering many different participants with different strategies, models, and information in order to predict the future. The public can gain further accuracy by combining the odds of election markets with those of professional political forecasters such as FiveThirtyEight.

Previous results on non-election issues such as inflation shows that markets are one of the most powerful tools available to forecast events. Kalshi markets beat economist predictions on inflation 6/7 times, accurately predicting that inflation would remain elevated for a long period of time (https://kalshi.com/blog/inflation-forecasting-kalshi-markets-vs-economists). Event contracts are integral to the most accurate forecasts for elections and politics.

Prediction markets are beneficial to the public interest. If the CFTC rejects Kalshi's application for election markets, future competitors in this area will realize the legal, regulated route is fruitless. Elections markets and traders will continue to operate offshore or illegally, without the benefit of CFTC regulation or know your customer (KYC) authentications. American businesses, voters, and politicians deserve the best information. Elections markets will provide that. The CFTC should approve these markets to provide hedging ability, better information, and regulation to this new and growing industry.

Thanks for your consideration.