

Dear CFTC Commissioners,

I am writing to express my strong opposition to the CFTC's recent proposal to ban election contracts. While I understand the importance of maintaining market integrity, I believe this proposal overlooks the essential benefits that election contracts offer and is based on a flawed process with an overly broad definition of "gaming." I urge the CFTC to reconsider its approach and address several key concerns regarding this proposal.

1. Hedging Value of Election Contracts

Election contracts serve a critical function in providing hedging opportunities for market participants. Political events, particularly elections, introduce significant uncertainty and volatility into financial markets. Businesses and investors face potential adverse impacts from sudden policy shifts or regulatory changes resulting from elections. Election contracts offer a mechanism to manage this uncertainty effectively.

For example, multinational corporations operating in diverse political environments can use these contracts to mitigate risks associated with policy changes following elections. Investors concerned about market volatility due to electoral outcomes also benefit from the ability to stabilize their portfolios. Banning these contracts would remove a valuable tool for risk management and could lead to increased market instability.

2. Price Basing Value: Forecasts and Data

Election contracts also provide crucial information through their pricing, which reflects aggregated market expectations and sentiment about electoral outcomes. This price-based information complements traditional opinion polls and forecasts, offering a more dynamic view of electoral trends.

The transparency and predictive value of election markets enhance the robustness of political forecasts, providing media, analysts, and policymakers with valuable insights.

By banning election contracts, the CFTC risks depriving the public and decision-makers of an important data source that aids in more accurate forecasting and understanding of electoral dynamics.

3. Flawed Process and Overly Broad Definitions

The process leading to the proposal's formulation raises significant concerns. The decision to ban election contracts appears to have been made without a comprehensive examination of the empirical evidence regarding their impact and utility. There has been inadequate engagement with stakeholders who rely on these contracts for legitimate purposes, and the analysis supporting the proposal lacks depth.

Furthermore, the definition of "gaming" used in the proposal is overly broad and conflates different types of market activities. This broad definition undermines a nuanced understanding of market dynamics and fails to recognize the positive roles that election contracts can play.

Questions for the CFTC to Address:

1. Empirical Evidence and Analysis:

- What specific empirical evidence and data did the CFTC rely on to support the decision to propose banning election contracts?
- Can the CFTC provide detailed statistics or case studies demonstrating the negative impacts of election contracts on market integrity or participants?

2. Stakeholder Consultation:

- What steps has the CFTC taken to consult with stakeholders who use or rely on election contracts for hedging or informational purposes?
- How does the CFTC plan to incorporate feedback from stakeholders into its final decision-making process?

3. Hedging and Risk Management:

- How does the CFTC assess the value of election contracts for hedging purposes? Can you provide examples where these contracts have played a crucial role in risk management for businesses or investors?
- What alternative mechanisms does the CFTC propose for market participants who currently use election contracts for hedging against political uncertainty?

4. Price Discovery and Forecasting:

- What is the CFTC's evaluation of the role that election contracts play in providing price-based information and enhancing political forecasts?
- How does the CFTC propose to replace or supplement the predictive value offered by election contracts if they are banned?

5. Definition of "Gaming":

- Can the CFTC clarify the specific criteria used to define "gaming" in the context of election contracts? How does this definition align with the actual activities observed in these markets?
- How does the CFTC differentiate between speculative activities that are considered problematic and those that are legitimate and beneficial?

6. Regulatory Impact Assessment:

- Has the CFTC conducted a thorough assessment of the potential economic and informational impacts of banning election contracts on markets and market participants?
- What are the anticipated consequences for market efficiency, transparency, and stakeholder interests if the proposal is enacted?

7. Alternative Regulatory Approaches:

- What other regulatory approaches or modifications has the CFTC considered that could address any identified risks associated with election contracts without implementing a complete ban?
- Is the CFTC open to exploring regulatory frameworks that allow for the continuation of election contracts under stricter oversight or modified conditions?

8. Transparency and Process:

- How does the CFTC ensure that its rulemaking process is transparent and adequately considers all relevant viewpoints and evidence?
- What mechanisms are in place for ongoing review and adjustment of regulations related to election contracts to ensure they adapt to evolving market dynamics and stakeholder needs?

In conclusion, I urge the CFTC to reconsider its proposal to ban election contracts. These contracts offer essential hedging tools, provide valuable price-based information, and support market stability. The flawed process and overly broad definitions used in the proposal detract from a balanced and well-informed regulatory approach. A more nuanced examination of the role and impact of election contracts, combined with stakeholder engagement and empirical analysis, is necessary to develop a regulatory framework that protects market integrity while allowing beneficial market activities to thrive.

Thank you for considering my perspective and addressing these critical questions.

Sincerely,