

## [Securities Regulation Daily Wrap Up, EXCHANGES AND MARKET REGULATION—CFTC tells PredictIt to wind down non-compliant political betting markets, \(Aug. 8, 2022\)](#)

Securities Regulation Daily Wrap Up

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By [Lene Powell, J.D.](#)

The CFTC did not specify how exactly the political prediction market went astray, but the regulator has acted to restrict event markets in the past.

The CFTC withdrew no-action relief relating to PredictIt, an online event market focusing on U.S. political betting. According to the CFTC, the market platform is not being operated in compliance with the terms of the no-action relief granted in 2014. As a result, the CFTC says the market should close out contracts and positions by February 15, 2023 ([CFTC Letter No. 22-08 \[Re: Withdrawal of CFTC Letter No. 14-130\]](#), August 4, 2022).

In an [announcement](#), PredictIt maintained that all open markets are within the terms of the no-action relief, but stated it will honor all withdrawal requests. As of the time of writing, the market said it is halting the addition of new markets but will continue to accept deposits and new signups.

**Market based on no-action relief.** In 2014, the CFTC granted no-action relief allowing Victoria University of Wellington, New Zealand to operate a not-for-profit market for the trading of event contracts, and to offer the contracts to U.S. persons.

The university proposed to create a small-scale, not-for-profit, online market for event contracts in the U.S. for educational purposes using the [Iowa Electronic Markets](#) as a model. The proposal described a trading platform that would offer binary options contracts using real money and featured a submarket of contracts on political outcomes, including which presidential nominee would win the party's primary, the general election popular vote, and the Electoral College.

The CFTC granted the relief in [CFTC Letter No. 14-130](#). The relief was based on the university's representations regarding the purpose and manner of operation of the market, including that the market would be small-scale and non-profit, that it would be overseen by university faculty without separate compensation, and that only necessary fees would be charged. Other representations included assurances as to contract size, lack of brokerage service and commissions, know-your-customer (KYC) provisions, and limits on advertising.

**No-action relief withdrawn.** In its letter withdrawing the relief, the Division of Market Oversight [said](#) it had determined that Victoria University has not operated its market in compliance with the terms of the letter. The CFTC did not specify which terms were not complied with.

The CFTC directed that "to the extent that Victoria University is operating any contract market in a manner consistent with each of the terms and conditions provided in CFTC Letter 14-130, all related and remaining listed contracts and positions comprising all associated open interest in such market should be closed out and/or liquidated no later than 11:59 p.m. (EDT) on February 15, 2023."

**PredictIt statement.** In its announcement, PredictIt said the "security of trader funds" is not affected by the action. The platform stated that no determination has been made on how markets with end dates after February 15 will be settled.

PredictIt invited market participants to "respectfully comment" on the action to the CFTC.

**Other prediction markets.** PredictIt is not the only event contracts market to run afoul of the CFTC.

In 2012, the CFTC issued an [order](#) prohibiting the North American Derivatives Exchange (Nadex) from listing or making available for clearing or trading a set of self-certified political event derivatives contracts. The contracts were binary option contracts that were to pay out based upon the results of various U.S federal elections to be held in 2012. The CFTC found that the contracts involved “gaming” contrary to the public interest under the Commodity Exchange Act and CFTC regulations adopted pursuant to the Dodd-Frank Act. The CFTC indicated that political event contracts lack an economic purpose and could potentially be used in ways that would have an adverse effect on the integrity of elections.

In January 2022, the CFTC [settled charges](#) against Blockratize, Inc. d/b/a Polymarket, for operating an unregistered facility for event-based binary options online trading contracts. The CFTC found that Polymarket had offered more than 900 separate event markets on a variety of contract types, including cryptocurrency movements (“Will \$ETH ((Ethereum)) be above \$2,500 on July 22?”) and U.S. politics (“Will Trump win the 2020 presidential election?”). Polymarket deployed smart contracts hosted on a blockchain to operate the markets. Here, the CFTC’s findings focused on Polymarket’s offering of off-exchange binary options and failure to obtain registration or designation of its facility.

Whether under the “gaming” prohibition or registration requirements, the CFTC has regulated prediction markets in the past, and may be keeping an especially close watch in this U.S. election year.

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