

08-04

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From: Chris Masse [cfm@midasoracle.com]  
Sent: Monday, July 07, 2008 4:41 AM  
To: secretary  
Subject: Concept Release on the Appropriate Regulatory Treatment of Event Contracts

RECORDS SECTION

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July 6th, 2008

Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st St. NW  
Washington D.C. 20581

Attention:  
Office of the Secretariat- secretary@cftc.gov

Reference:  
Concept Release on the Appropriate Regulatory Treatment of Event Contracts  
73 FR 25669

COMMENT

OFFICE OF THE SECRETARIAT

2008 JUL -7 AM 10:03

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My name is Chris F. Masse, and I'm the publisher of CFM (a vertical portal to prediction markets, which is the only one I know of that lists extensively the URLs of all the world's play-money and real-money prediction exchanges)

<http://www.chrisfmasse.com/>

and Midas Oracle (a group blog on prediction markets, which is the most popular resource on this topic).

<http://www.midasoracle.org/>

I've been covering the prediction market industry since 2003 (when the brouhaha caused by the Policy Analysis Market attracted the attention of many). I would like to give my input to the CFTC on the subject of real-money prediction exchanges.

First of all, let me say that I welcomed:

#1. The CFTC's decision to investigate and approve HedgeStreet's application as a DCM in 2003 and 2004 (in spite of the opposition of the Chicago Mercantile Exchange);

[http://www.hedgestreet.com/abouthedgestreet/pressreleases/pressrelease\\_1.html](http://www.hedgestreet.com/abouthedgestreet/pressreleases/pressrelease_1.html)  
<http://www.hedgestreet.com/faq/>  
<http://www.financial-spread-betting.com/hedgestreet-application.pdf>  
<http://www.cftc.gov/files/submissions/comments/comdcm038cme.pdf>

#2. The CFTC's decision to publish a concept release on "event markets" in May 2008 (73 FR 25669).

<http://www.cftc.gov/lawandregulation/federalregister/proposedrules/2008/e8-9981.html>

Just a technical note, before I give you my thoughts. In the following, I call "prediction market" the specific market where one particular event derivative is traded. (For instance, the "Barack Obama will be elected US President in November 2008" prediction market.) And I call "prediction exchange" the general marketplace where many prediction markets (on political elections and other events) are traded. (Hence, I call HedgeStreet a "prediction exchange").

Please, allow me to give you my thoughts on the subject of real-money prediction exchanges:

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ABOUT DISPERSED INFORMATION PRICED IN EVENT DERIVATIVE MARKETS, EXCLUDED COMMODITIES, DCMS, AND EXTENDING THE COMMENTING PERIOD ON THE CFTC'S CONCEPT RELEASE ON "EVENT MARKETS".

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#1. I fully agree with the point #2 made by professor Vernon Smith in his comment (CL01) to the CFTC.

<http://www.cftc.gov/stellent/groups/public/@lrfederalregister/documents/frcomment/08-004c001.pdf>

The information aggregation mechanism that constitutes the essence of each prediction market (for instance, the "Barack Obama will be elected US President in November 2008" prediction market), and the objective probabilistic predictions generated by all these information aggregation mechanisms, are of high social utility.

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#2. I fully agree with HedgeStreet in their comment to the CFTC (CL12) that political elections qualify as "excluded commodities".

<http://www.cftc.gov/stellent/groups/public/@lrfederalregister/documents/frcomment/08-004c012.pdf>

The point made by HedgeStreet about economic consequences, risk management and hedging is extremely important with regards to:

- the future revenues of the for-profit, commercial companies who would be operating the real-money prediction exchanges on political elections (since hedging-oriented derivative markets experience much more volumes than speculative-only betting markets);
- the financial innovations, which would be created by this process, and whose benefits will, on the long term, spread throughout society (just like what has happened with the traditional derivatives).

However, I notice that HedgeStreet does not state specifically whether the topics other than political elections (mentioned in the CFTC's concept release on "event markets") qualify, too, as "excluded commodities".

This issue is the cornerstone of the discussion on "event markets". In the concept release, the CFTC mention many other prediction markets than those about political elections. I saw only one comment (from Jason Ruspini, CL11) that elaborates in detail about non-political "event markets" ---as of Sunday, July 6th, 2008, one day before the deadline for the commenting period.

<http://www.cftc.gov/stellent/groups/public/@lrfederalregister/documents/frcomment/08-004c011.pdf>

Hence, I believe that the CFTC do not (as of this Sunday) have enough pieces of external opinions about this important issue to make their determination about the regulatory status of "event markets".

I am asking the CFTC to extend the deadline to September 7th, 2008.

I believe that since the most interesting comments (other than Vernon Smith's one, which appeared the first in May 2008) were made the last week preceding the July 7th deadline, there weren't enough time for the previous commenters or some other commenters to agree or disagree with those recent comments.

On top of all that, I understand that some people and organizations might well submit their comment on Sunday, July 6th, 2008 ---the day before the deadline for the closure for the comments. I know that law professor Tom W. Bell will do so. It is rumored that 2 prediction exchanges will do so, too. It will be impossible for other commenters to assess those last comments, and give their opinion about those to the CFTC.

I believe that more people and organizations would come forward in the coming 2 months with interesting opinions about the "excluded commodities versus exempted commodities" debate (or some say, the "jurisdiction vs. exemption" debate), which is, as I understand it, the cornerstone of the CFTC's concept release on "event markets". Indeed, some business media organizations I know of will publish news articles about this debate, after the July 7th deadline. Hence, many more people will be drawn in the conversation about "event markets", and we will all benefit from their input.

As I said, on one hand, the debate needs more external comments from people arguing that non-political events are "excluded commodities".

On the other hand, the debate needs more external comments from people arguing that about the "exempted commodities", "ECMs", or "no-action letter" point of views. The American Enterprise Institute's public petition of May 2008, the concept release of May 2008, and the comments sent to the CFTC published on the CFTC website as this Sunday, do not give many legal details about this side of the argument.

Pushing the deadline to September 7th, 2008 will allow another round of informal and formal discussions between the two sides of this important issue.

Already, one commenter (Jason Ruspini) is on the record publicly saying that, had he read the HedgeStreet's comment to the CFTC, he would have put more emphasis on some of his arguments.

<http://www.midasoracle.org/2008/07/05/my-response-to-the-cftc-on-event-contracts/>

It's for all those reasons that I am asking the CFTC to extend the deadline to September 7th, 2008.

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#3. I fully agree with HedgeStreet in their comment to the CFTC (CL12) that the DCMs (and especially a non-intermediated DCM like HedgeStreet) should be allowed to operate prediction markets on political elections, as discussed by the CFTC's concept release of May 2008.

As I said above, not enough commenters have addressed the specific issue of how the non-political "event markets" should be regulated (or semi regulated, thru the "exemption" way). Hence, I can't see how the CFTC can't reach a wise decision on the issue of which type of "event markets" should be offered by which type of derivative exchanges (DCMs, ECMs, or exchanges that are granted a "no-action" letter).

Again, I am asking the CFTC to extend the deadline to September 7th, 2008.

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Thanks for listening,

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France, European Union

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