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intrade
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July 4th 2008

The Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581
U.S.A.

COMMENT

Attention: Office of the Secretariat

RE: "Concept Release on the Appropriate Regulatory Treatment of Event Contracts"

To Whom it May Concern:

It is an honour for me as Chief Executive Officer of Intrade the Prediction Market Limited ("Intrade") to provide price discovery information on thousands of event markets free of charge to notable institutions such as yourselves at the U.S. Commodity Futures Trading Commission, the U.S. Navy, the Federal Reserve Banks of New York, Richmond, and Chicago, the European Central Bank, the Bank of Japan, the American Enterprise Institute – Brookings Joint Centre, CATO Institute, and the Bank of England. We have similarly supplied our price discovery event market information to political organisations, students and staff at every Ivy League College, and students and staff at over 50 universities worldwide.

We estimate that over 300 global media businesses such as The New York Times[1], The Wall Street Journal[2], The Washington Post, The Financial Times, The Los Angles Times, Chicago Tribune, Economist, Bloomberg, Reuters, Forbes, Time[3], Fortune[4], CNN, CNBC, Fox, ABC and others have used Intrade event market information.

Investment firms on Wall Street, and the other major financial centres of the world, have solicited and been provided with Intrade price discovery event market information. The above lists are not exhaustive.

Further, Intrade provides free real-time transparent price discovery event market information to millions of people from the general public. While Intrade serves a global community and has registered members from 162 countries, our 82,000 plus membership are predominantly[5] resident in the United States. The predictive probability information on event markets that we supply to the general public is both intuitive and readily and rapidly assimilated[6] without the necessity for paid subscriptions or a financial education.

Intrade has been transparent and industrious, as have others, in nurturing the development of the event market industry. Intrade as a profit-maximizing business does of course expect to significantly benefit from its dedicated employment. However the benefits to society at large will be equivalently great from Intrade's focus on event markets.

While U.S. institutions and society benefit from Intrade's services it is perversely unclear as to whether Intrade, and indeed myself, are considered persona gratis by the United States. However, we are more optimistic than ever that Intrade as the *de facto* leader in the event market industry sector will soon have the ability to stand on a firm, transparent and appropriate regulatory footing thanks to the process that the CFTC has accelerated through their request for comments on how to regulate event markets.

Not since the Industrial Revolution have the risks and their commensurate opportunities of dealing with great uncertainty and rapid change that we all face been so high. Much of this change and uncertainty is technology driven, with most countries, organizations and households accepting, in theory at least, that they must change.

The recent implosion of credit markets is just one example of the great uncertainty and potential for events impacting citizens of the United States and further afield.

To adapt to a changing world in an orderly and optimal manner requires access to information, robust decision-making processes and the courage and determination to grasp the opportunities that a dynamic

world offers. The CFTC and indeed the United States itself has access to the information, the decision-making expertise, and a historical track record of determination and accomplishment.

But the relentless change that we all face will be best dealt with if we have the best information, in real time, to reduce uncertainty, risk and stress[7]. Event market information can and has increased the quality and timeliness of decision-making. Event markets can act as a democratic mechanism that gives voice to the broadest range of event stakeholders and, in so doing, aggregates a peerless information set. By encouraging the aggregation, distribution, validation and appropriate use of the best event market information, society will benefit even more than it does today from event markets. To do otherwise than to encourage event market development would be a societal travesty.

The dynamic nature of the world that we live in, where the pace and systematic impact of change seem to be increasing, will be greatly aided if event markets are given a certain regulatory footing in the United States and other jurisdictions. This, coupled with the fact that markets excel in aggregating information and estimating the value of a product or the likelihood of an event occurring, testifies to the logic that the price discovery that event markets produce should now be encouraged by the CFTC.

The CFTC by clarifying the status of event markets now will be of great service to Americans. In this regard the CFTC has an important opportunity and one that the CFTC seem very positively biased to grasp in light of its statements, such as…

> The CFTC state on their website that they have "An Important Mission in the Ever-Changing World of Finance."
>
> "The CFTC assures the economic utility of the futures markets by encouraging their competitiveness and efficiency."
>
> "The CFTC is also mandated to enable futures markets to serve the important function of providing a means for price discovery and offsetting price risk."

CFTC Acting Chairman Walt Lukken, when announcing the execution of a memorandum of understanding with the SEC on March 11, 2008, stated: "The regulatory structure that oversees the

U.S. financial markets embrace innovation, growth and competition in the global marketplace, without compromising market integrity, customer protection and the public good."

The above statements, in addition to the Concept Release by the CFTC, are very encouraging. It is specifically this price discovery and risk management mandate that justify the CFTC's embrace of event markets, should justification be needed.

Intrade has listed 211,607[8] individual event markets and aggregated and distributed predictive event market information on subjects such as Arctic Oil Drilling, Climate Change, Commodities, Company Earnings, Constitutional Referenda, Currencies, Disease Outbreaks, Earthquakes, Economic Numbers, Entertainment Awards and Earnings, Indices, Euro Adoption, Federal Reserve Announcements, Gas Prices, Gasoline Tax, Geo Political Events, Homeland Security in the U.S., Mergers & Acquisitions, Social Security Reform. and U.S. Taxes. This list is far from exhaustive.

No other platform has listed more event markets than Intrade. To the best of our knowledge and belief the event market leadership position that is often ascribed to Intrade[9] is wholly justified from a review of the breadth of the event markets listed and information we have aggregated and distributed. Information, as noted above, that is used by governmental agencies, businesses, academics, and the general public to reduce uncertainty and in so doing increase the speed and quality of decisions being made.

While the obvious benefits to the general public in terms of price discovery and decision-making of some Intrade event markets will be more obvious than others, we can make robust arguments that all have the potential to serve the dual purpose of price discovery and a mechanism for offsetting price risk.

The CFTC by clarifying its position on event markets will give all event market stakeholders valuable direction on market and participant eligibility. Whether used at the federal government level or by the individual citizen, event markets provide a magnificent opportunity to use price discovery information in managing economic risk. Here are just a few examples from the 211,607 event markets we have listed.

Intrade has listed markets on the probability of the Homeland Security alert level being above or below a certain level at a certain date. "The United States spends roughly $100 billion per year on homeland security" according to the White House[10]. The costs of migrating from a threat level of "Guarded" to a threat level of "Elevated" have very significant costs for the government, business, and society[11]. By utilizing event market price discovery information on the probability that the alert level will be at a certain threshold on a given date, the economic consequences of the threat level can be managed in a more insightful way.

Jason Ruspini has suggested markets to Intrade on whether the marginal personal income tax rate for single U.S. filers will be equal to or greater than a range of specified percentages for tax years 2009, 2010 and 2011. Having spoken directly to a number of tax paying citizens from the United States, the transparency of this information undoubtedly serves a public good. Is there a Unites States resident taxpayer who will read this comment who is not interested in the taxes she or he will pay next year?

On a more macro level, Intrade has listed a market on whether the cold fusion experiment of Dr Yoshiaki Arata will be replicated in a peer-reviewed scientific journal before 31 December 2009. The possible impact of such a development to our energy needs little hyperbolae. The fact that President Bush requested $25 billion for the U.S. Department of Energy's 2009 Budget[12] speaks to the importance of maximum transparency in such matters. It may also be interesting to note that $493 million of the $25 billion was allocated to Fusion Energy Services. Does transparency to such price discovery information serve positively the United States and others? Absolutely!

Professor Koleman Strumpf suggested that Intrade list a market on whether Blu-Ray Disc sales will outnumber HD-DVD disc sales in the United States in 2008. If an organisation's employees or profits are potentially influenced by the outcome of this event, as were Toshiba's, the main supporter of HD-DVD, then access to such information is both valuable and gives opportunity for welfare maximisation

Intrade has also listed, at the request of University of Westminster Business School, markets on whether the number of violent crimes committed in 2010 will be lower than those committed in 2007. Intrade has additionally listed at the request of a United States resident member of our platform a market on the impact of U.S. Government debt if a non-Democrat is elected president of the United States in 2008.

Professor Eric Zitzewitz, Professor Robin Hanson[13], Professor Justin Wolfers[14] and others at the forefront of event market academia have all suggested event markets to Intrade in the past that have been listed and which provided event market information both for academic study and business and general public use.

Imagine if you were a resident of a state such as Florida that is frequently exposed to severe storms and how crucial information on the likelihood of a storm hitting your state can be if your business, family and friends are likely to be impacted by such an occurrence. Intrade lists event markets on such eventualities.

The event markets listed on Intrade provide price discovery information on whether an earthquake measuring 9.0 or more on the Richter Scale will happen anywhere in the world in 2008; whether Avian Flu H5N1 is confirmed in the United States in 2008; whether the U.S. carries out an overt attack on North Korea; or even whether Robert Mugabe departs his presidency in 2008. These significant events are highly relevant to millions of people in the United States and elsewhere.

President Bush stated[15] in an address on global climate change that: "This is a challenge that requires a 100 percent effort; ours, and the rest of the world's." It seems to us impossible to make a "100 percent effort" to address the challenge of climate change without using event markets to aggregate information, such as that provided by Intrade's market on whether 2008 will be one of the warmest years ever recorded.

All of the markets cited above give information on the probability of the event occurring. Some of the information aggregated and distributed by Intrade has been more predictive than other. The predictive accuracy of Intrade's event markets and event markets generally have been cited and studied extensively by academics and others including, but not limited to Professor Robin Hanson, Professor Charles Noussair, Professor David Paton, Professor Leighton Vaughan Williams, Dr. David Pennock, Professor Eric Zitzewitz, Professor Mark Perry[16], Professor Erik Snowberg, Professor Marco Ottaviani, Professor Justin Wolfers, Professor Koleman Strumpf, and Professor Paul Tetlock.

Nearly all leading academics, not known for their attraction to unanimity, have publicly supported event markets. A great majority of these academics have been supplied with Intrade market data in the past, a service that Intrade intends to continue, for all study leads to an increase in transparency and understanding of event markets. It seems that the leading event market academics make no distinction between the benefits derived from academic owned markets like Iowa Electronic Markets and commercial market platforms like Intrade.

Yet many academics, with some notable exceptions, do temper their policy prescription to suggest a "safe harbor" for academic sites where research might be more generally available. As noted above Intrade has gladly supplied its event market data, typically free of charge to most of the leading prediction market academics and their students, and we are committed to encouraging the future study of event markets by continuing to supply our event market data free of charge or at very deep discounts. The academics that study event markets do a great service in developing our understanding of the strengths and weaknesses of event markets. Some commentators suggest that market liquidity and breadth typically benefit all event market stakeholders. Thus far commercial platforms like Intrade seem to be providing the greatest depth and breadth in event markets.

As Intrade has been a staunch supporter of event market academic study, and supplies greater depth and liquidity in its event markets than any other platform, it seems strange not to be a preferred purveyor. Perhaps the predominant reason many academics have held back from advocating and treating all event markets alike is a sense that initiatives to clarify or unwind the legislation restraining the optimal development of event markets is unlikely to be achievable. It seems many academics and commentators suggest a slow bureaucratic and pragmatic caution rather than focus on the optimal result. While the optimal result may be more challenging to achieve, for consistency, for better price discovery for the benefit of all, as well as for the development of Intrade, we encourage CFTC to apply common goals, objectives and standards for all participants.

While some evidence and event markets have highlighted that event markets do not always provide robust predictive information, the preponderance of the research suggests that event markets have both the ability and track record of providing the best available information upon which decisions may be based or optimised. Of course the uncertain status of event markets constrains the development of liquidity, price discovery and by logical extension societal benefits.

Intrade has received testimonials from numerous U.S. regulated businesses and private citizens which state they would like to trade on certain event markets but are unable due to the regulatory uncertainty. Therefore, unless and until event markets are given a certain status they will not develop to their full potential.

Based on the above and comments by many others, some of whom have been mentioned by name in this comment, the price discovery mandate that the CFTC has can only be served if event markets are embraced.

In terms of offsetting price risk and the opportunity for hedging, the overwhelming majority of markets listed by Intrade can easily be seen to have underlying economic implications and risks. For example, U.S. tax rate changes, a negative geopolitical event, an increase in the threat level to homeland security and the associated costs of a higher threat level, or indeed Social Security reform all have massive economic justifications across society.

As with the CFTC's price discovery mandate, it is impossible for us to imagine how risks can be optimally assessed and managed without the status of event markets being clarified.

The CFTC are also sensitive to retaining the competitiveness of futures markets and retaining "competition in the global marketplace". There has been much written[17] about the United States losing its edge in global financial markets. Often cited is that burdensome and inflexible regulations, most notably the Sarbanes-Oxley legislation passed by Congress in 2002, are driving business to London, Hong Kong, Frankfurt and elsewhere. In this regard, the CFTC has an opportunity to be a world first and embrace event markets. In so doing the CFTC will ensure the United States' leadership position is encouraged for the important and growing event market industry.

The greatest challenge in bringing about an appropriate and successful embrace of event markets by the CFTC is unlikely to be identifying and agreeing that the public good will be served, or that risks may be better managed. The challenge for the CFTC may well be the uncertainties relating to legal and jurisdiction issues. In these matters there are experts far better versed then Intrade to opine.

The financial events of the last six months in which virtually the entire world financial system stopped functioning to a greater or lesser extent has highlighted what can happen when many of the world's largest financial institutions make concurrent similar mistakes. Such systemic contagion has led commentators[18] to suggest a more fundamental approach to how and what we regulate. Where event markets are concerned we are hopeful that this is the case and that the level of regulation is such that the evolving stage of the event market industry is not stifled.

We are proud to be at the forefront of the development of the event market industry. We are determined to continue providing the best information on relevant event markets to the widest audience. We wish to solidify our regulatory position in the U.S. and elsewhere.

We strongly encourage the CFTC to clarify the situation with regard to event markets for the benefit of all, even if there are costs to Intrade. We are highly optimistic that the CFTC will grasp this opportunity to benefit all society and we wish to serve our own most important role in an industry niche that we have been privileged to help shape.

Respectfully Submitted on behalf of the entire Intrade Team by

John Delaney
Chief Executive Officer

CC to Fax 202.418.5521 and e-mail: secretary@cftc.gov.

[1] "Intrade... isn't just an entertaining Web site. It is the latest iteration of one of the most important economic developments of modern times." David Leonhardt, Economics Reporter, The New York Times, February 14, 2007

[2] Costs of regulation are high in the U.S., "that's a key reason the leading commercial prediction market, Intrade, is based in Ireland" Prof Paul Tetlock, Wall Street Journal, May 11th 2007

[3] "On Dec. 11, 2003, Intrade's contract on Saddam Hussein's capture suddenly began to move. ... Two days later, Saddam was in custody." Bill Saporito, Time Magazine, October 24, 2005

[4] "At FORTUNE we often write about the latest hot company, but it's rare that we get a chance to introduce you to an entirely new market... Intrade is the only efficient market system around for investing in, well, almost anything" Andy Serwer, Managing Editor, Fortune, August 8, 2005

[5] 78% of traffic to Intrade.com in the period 1 January to 30 June was from the U.S.

[6] "Intrade futures market ~ the greatest time-saving invention of this century." John Tierney The New York Times

[7] The Uncertainty Stress Scale: its development and psychometric properties. Can J Nurs Res. 1994 Fall;26(3):15-30, PMID: 7889446

[8] As of June 30 2008

[9] For many people, Intrade is the king of the prediction markets." Stephen Dubner, Freakonomics, The New York Times July 5 2007

[10] http://www.whitehouse.gov/homeland/book/sect5.pdf.

[11] http://feedroom.businessweek.com/?fr_story=5a3aa8086dbd52b35ae21c7f5abe94f85fa0a8ab&rf=sitemap.

[12] http://www.energy.gov/news/5920.htm

[13] "Want straight answers on what will happen in politics and current events? Answers without partisan bias or wishful thinking? You can't do much better than the prices at Intrade." Professor Robin Hanson, Professor of Economics, George Mason University

[14] "My forecast? Prediction markets will become ever more important to business and public policy. And Intrade are running the most interesting markets around." Professor Justin Wolfers

[15] http://www.whitehouse.gov/news/releases/2001/06/20010611-2.html

[16] "Analysts can debate about a recession as much as they want, but talk is cheap. It's great to have [Intrade] futures trade where people put money behind their beliefs!" Professor Mark J. Perry, University of Michigan-Flint

[17] http://www.international-economy.com/TIE_Sp07_Baker.pdf and http://knowledge.emory.edu/article.cfm?articleid=1015

[18] "Regulatory Underkill," Arthur Levitt Jr., Wall Street Journal, March 21, 2008