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secretary

From: Maxim Lott [mclott@wm.edu]
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To: secretary
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COMMENT

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To Whom It May Concern,

I would like to express my support for regulation of event markets. I applaud the CFTC for taking the initiative to consider this and get public input, as clarifying the rules for event markets (especially whether they are even legal in the United States) is very important to all participants.

What public purpose is served in the oversight of these markets?

Regarding the extent of regulation, I think the important role that event markets are beginning to play in providing information to the public should be considered. Their accuracy has been widely studied (and shown to be good) in numerous academic studies. Prediction data from the Intrade.com event market is streamed live on some of the most popular news sites on the web - foxnews.com and realclearpolitics.com to name just a few. Event markets have been featured on ABC News 20/20 and their predictions are often the basis for entire stories in the print media. Based on all this, it is clear that the American public sees some utility in the predictions of event markets. And according to Intrade, a disproportionate number of visitors access the site from the State Department and other agencies. Perhaps the government, too, benefits from market predictions.

I believe that regulations should be carefully crafted so as not to drive away traders who improve the accuracy of these markets. The academic literature has shown that for event markets to be effective, there must be a large and diverse pool of traders.

But CFTC oversight is important. Traders need to be able to trust the exchanges they trade on, and be confident that they will be able to withdraw their money. Government licensing would prevent people from being ripped off, and any clarification of the current law would be an improvement - as it is, U.S. traders can only deal with foreign sites that are unaccountable to the U.S. government.

What differentiates these markets from pure gambling outside the CFTC's jurisdiction?

Gambling implies that the deal is a zero-sum game, where one party in the bet gains only what the other loses. Trading on current events is not, however: in addition to the social benefits of publicly available predictions, there are real opportunities for risk hedging. For instance, if a company expects that a particular presidential candidate would have a negative impact on business, they could short his/her prospects on an event market and reduce the risk to their company. I personally know several bankers who are interested in funds that would take advantage of these possibilities. In short, it gives investors another tool to diversify, which has no downside.

Considering all these positive aspects of current event markets, I think it is clear that they should be subject to relatively minimal regulation aimed primarily at ensuring that participants are not cheated. Trading on online event markets is very different from a for-stakes poker game. Thanks for taking the time to read this, and feel free to contact me for evidence or clarification of anything.

Best,

5/19/2008

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