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COMMENT

May 28, 2008

Commodity Futures Trading Commission
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Washington, DC 20581
Attn: Office of the Secretariat
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**Concept Release on the Appropriate Regulatory Treatment of Event Contracts 6351-01**

"The CFTC is soliciting comment on the appropriate regulatory treatments of financial agreements offered by markets commonly referred to as event, prediction, or information markets."

My name is John Blank. I hold a PhD. from M.I.T. in economics earned in 1995. My relevant event futures experience comes from two plus years at the Chicago Mercantile Exchange as an economist. I wrote a twice-a-month briefing for the exchange community called "Fundamental Business Drivers", and I worked on event futures in business development activities. In the past year, I have continued to work on event futures.

**The core of my arguments supporting event markets is as follows:**

(1) More or less, the CFTC was born into an economy that was rural and farm-based. The relevance of the institution and it regulatory powers continue to need to evolve along with the underlying structure of the economy. Today's economy has been heavily dependent on information and services for some time now.

(2) The wide distribution of personal computers (PCs) allows easy and cheap access to information markets, and participation in them. This is adding to the ability of event markets to be utilized as a cheap and readily available source of economic information, and, therefore, PCs are raising the social value of event markets. PC shipment trends are likely to continue to raise the social value of event markets into the foreseeable future.

(3) The commodity futures and options business has always relied on pit trading to build futures and options trader's skills. These are now largely a thing of the past. So cheaper, screen-based event trading may become a key entry point for all commodity futures and options trading, going forward. Event futures contracts can be traded at small notional values, on single events that require less up-front investment in formal analysis and training, so event markets become particularly relevant in this context.

**Public Interest**

The traditional public policy imperatives enunciated by Congress in the Commodity Exchange Act (CEA) for commodity futures markets include price discovery, a venue to permit the hedging of risks, and the promotion of responsible innovation.

*What public interests are served by event contracts?*

Information aggregation is a costly exercise for a private individuals, small businesses, large businesses, government entities, and policy makers operating without the benefit of public, transparent information. Critical information is provided by market transactions that are disseminated. So, matching trades for the purpose of information aggregation in event markets, when it is done in the public market context, is far more preferable than having this information available only to those who can pay for it; or who undertake a large enough, and constant enough, and varied enough, number of the relevant commercial transactions themselves.

Event market information can be a core driver behind commodity prices. For example, to have the geo-political risk information disaggregated from the current oil market would be a huge benefit to the nation today. Traders, governments, or businesses could then parse out supply and demand fundamentals driving the market price from political risk measures (such as instability in Nigeria, Venezuela or Iran). This allows agreements in the market to be made with a clearer sense of the underpinnings of overall prices. From there, a proper hedging of the amount of political risk can be undertaken, and more innovative agreements between oil suppliers and oil users can be written.

In the entertainment provision context, as a consumer, it would be much more valuable to know the future box office expectations for a set of films showing in the coming weekend; than to walk into a theatre with the benefit of only advertisements, and past personal experiences, and the box office reviews done by movie critics. Furthermore, movie event futures contracts would allow the financial cost of 'dogs' to be ameliorated. A movie producer and movie financer who are selling futures in the movie futures market would receive supplementary income when box office numbers came in below their expectations. The risk of 'blockbusters' from a content distributor's perspective could be ameliorated too, by being on the long side of the futures market. Movie distributors must pay more for blockbusters, while their revenues from final consumers do not change based on box office numbers.

*What calculations, analyses, variables, and factors could be used to objectively determine the social value of information to the general public that may be discovered through trading in event contracts?*

I think it boils down to these types of thought experiments.

(1) What does a private individual, business, or government policymaker do when making decisions in the absence of public aggregated information versus when relying upon the outcomes in event markets? Does the absence of event market information limit the private individual, business, or government's ability to discern value from published costs, or underlying components of prices, in a meaningful way?

(2) Does a private individual, business, or policymaker adjust his/her opinions on transactions in a beneficial way when faced with the outcomes of event markets?

**Are event contracts within the Commission's jurisdiction?**

*What traits are common to event contracts, and how do they differ from customary commodity futures and options contracts.*

Yes, event contracts are within the CFTC's jurisdiction. Using an example I have already mentioned, are movie event contracts within the CFTC's jurisdiction? Section 1a(4) defines goods, services, rights or interests, "in which contracts for future delivery are presently or in the future dealt in". We believe "presently", slate contract deals are made between major film studios and major banks for the finance of future film productions. "In the future", the workings of an exchange futures market would assist the price discovery and hedging of the substantial unforeseen demand risk associated with producing and distributing movies. And from here, furthering the needed openness and transparency in financing activities in this industry can foster a wave of much needed financial innovation. Both match the criteria in Section 1a(4) on the CFTC's jurisdiction.

So a motion picture derivatives exchange's proposed financial instruments can benefit global entertainment commerce by facilitating the hedging of the substantial commercial risks and assist in the discovery of reliable prices for movies. I believe the nearly all event contracts are likely to fall into this jurisdiction than under the other description within Section 1a(4) as an enumerated commodity.

Furthermore, the definition of an "excluded commodity" in Section 1a(13) of the CEA, includes, among other things: "an occurrence, extent of an occurrence or contingency beyond the control of the parties and associated with a financial, commercial or economic consequence." Thus, the CEA's definition of commodity includes a possibility or probability of an event, associated with an outcome that has an economic effect. That should open the door to contracts based on a wide variety of corporate, political, social, natural, and entertainment events that have an economic consequence.

*How should the Commission address the potential gaming aspects of some event contracts and the possible pre-emption of state gaming laws?*

Let's take the example of poker: It is a known game played on the internet. There is no relevant commercial activity associated with the information aggregated by a poker web site. However, poker playing skills may make for better traders in commodity markets.

In the CFTC example, the Iowa Electronic Market is used as an appropriate event market. Better predictions of the outcome of presidential elections can be of direct benefit to the public view of future tax and fiscal policies, and to the functioning of existing financial markets, and to commercial institutions regulated by the Federal government.

So the difference, using these two examples, between gaming and an appropriate CFTC regulated event market is that gaming just generates better skills at gaming. Event markets 'throw off' important relevant information to the public, to traders, to existing financial markets, and to commercial institutions that function by embedding this information into the prices of their transactions.

From a public policy perspective, isn't it better to have the CFTC exercise jurisdiction over such contracts and have them traded in a transparent and regulated environment? In this manner, the regulatory system can protect the public from fraud and market manipulation.

**Legal Implementation**

*Is it appropriate for the Commission to direct certain or all event contracts onto markets that are regulated differently from and perhaps less stringently than DCMs?*

I would think it would be appropriate. I think the core distinction between the two is that the less regulated have no 'real' money involved versus those event markets that require monetary transactions. Monetary transactions need clearing functions, and regulatory oversight and surveillance to protect against market manipulation.

**Market Participants**

*What unique protections and prophylactic measures are appropriate to protect retail users?*

The same measures that currently protect retail market participants on a designated contract market.

*Are there types of traders that should be limited?*

The same criteria as currently apply to market participants on a designated contract market.