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COMMODITY FUTURES TRADING COMMISSION
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DIVISION OF
TRADING AND MARKETS

February 5, 1992

Professor George R. Neumann
Professor of Economics
The University of Iowa
Department of Economics
Iowa City, Iowa 52242

Dear Professor Neumann:

Chairman Gramm has asked me to respond to your letter to the Commodity Futures Trading Commission (the "Commission"), dated December 5, 1991. By your letter, you request, on behalf of the Iowa Presidential Stock Market (the "IPSM"), information regarding whether the operation of the IPSM, as described herein, would bring the IPSM under the regulatory purview of the Commission.

Based upon the representations made in your letter, as supplemented by telephone conversations with Division of Trading and Markets staff, we understand that the facts are as follows. The IPSM is a so-called "political stock market" whose purpose is to determine whether markets can aggregate information and predict election outcomes more accurately than the alternative technology of public opinion polling. The IPSM operates strictly for experimental and academic purposes. It is sponsored and operated by faculty of the University of Iowa. Neither the IPSM nor the University of Iowa charges commissions or receives a return in connection with its operation.

To date, nine political stock markets have been operated, covering the 1988 U.S. Presidential election, the 1990 Iowa and Illinois Senatorial elections, the 1990 German Parliamentary elections (operated in Bonn, Frankfurt, and Leipzig), and the 1991 Dutch, Danish and Turkish elections. The results of these prior studies reveal that these political stock markets appear to reflect more accurately outcomes of political elections than public opinion polls.

In the continued interest of academic research, the University of Iowa intends to operate the IPSM to cover the 1992 presidential election. It also intends to run a market on the 1992 democratic party nomination (collectively, the 1992 presidential election market and the 1992 democratic party nomination market will be referred to as the "1992 Markets").

You anticipate that, for the 1992 election year, approximately 20 universities will become involved with the 1992 election year Markets, including the University of California, Los Angeles, the California Institute of Technology, Northwestern University, the

University of Indiana, the University of Arizona and the University of Virginia. The number of traders participating will total fewer than 1000.^{1/} Participants in the 1992 Markets will purchase a portfolio of shares in political candidates. Individual investors will invest their own money to participate, and payoffs will be determined by the share of the popular vote won by each candidate. The maximum investment by any single participant is five hundred dollars, but typically, participants invest no more than twenty-five dollars and some invest as little as ten dollars.^{2/}

You describe the interest issued to 1992 Market investors as one more closely resembling a futures contract than a stock. In the past, you have conducted the United States markets solely in Iowa, and the Iowa Attorney General's office has given you assurances that these markets are not in violation of Iowa state law. In 1992, however, you plan to allow traders from anywhere in the United States to participate. Consequently, you are concerned that the operation of the 1992 Markets may fall within the regulatory purview of the Commodity Exchange Act (the "Act")^{3/} and the regulations promulgated thereunder.^{4/}

The 1992 Markets will be operated by four professors on the faculty at the University of Iowa (the "Operators"). As noted, you represent that none of the Operators will receive any compensation or other payment, directly or indirectly, for operating the market. You also represent that none of the Operators is otherwise required to register with the Commission nor is any of the Operators a business affiliate of any person required to register with the Commission. In addition, none of the Operators or any other person involved with the 1992 Markets will engage in any advertising in connection therewith. Participants primarily will be students and faculty at the various universities.

Based upon your representations concerning the purposes and manner of operation of the IPSM and the 1992 Markets, we do not believe that the operation of the 1992 Markets without seeking designation as a contract market or otherwise complying with the

^{1/} Past Markets at the University of Iowa have had approximately 200 traders.

^{2/} To date, all investments have been significantly less than five hundred dollars.

^{3/} 7 U.S.C. § 1 et seq. (1988)

^{4/} Commission rules and regulations referred to herein are found at 17 C.F.R. Ch. I (1991).

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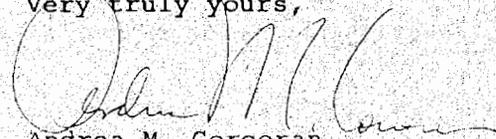
Commodity Exchange Act and the regulations promulgated thereunder, or without the registration of the Operators, would be contrary to the public interest. Our conclusion is based upon the facts that, among others, its operation is limited solely to academic and experimental purposes and the Operators receive no compensation. Consequently, based upon your representations, the Division of Trading and Markets will not recommend that the Commission take any enforcement action in connection with the operation of the 1992 Markets based solely upon the Operators not seeking designation as a contract market, registering under the Act or otherwise complying with the Act or Commission regulations.

We do not render any opinion as to whether the operation of the 1992 Markets violates the provisions of any state law nor does our position excuse non-compliance with any such law. You must independently confirm whether or not the participation by institutions in other states is permitted.

This letter is based upon the information that has been provided to us and is subject to the conditions stated above. Any different, changed or omitted facts or conditions might require us to reach a different conclusion. In this regard, we request that you notify us immediately in the event that the operations of the IPSM or the 1992 Markets change in any way from those as represented to us. Finally, this position is that of the Division of Trading and Markets only and does not necessarily represent the views of the Commission or any other office or division of the Commission.

If you have any questions concerning this correspondence, please contact me or Tina Paraskevas Shea, an attorney on my staff, at (202) 254-8955.

Very truly yours,



Andrea M. Corcoran
Director

TPS/mbm

cc: Daniel A. Driscoll, National Futures Association