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secretary

From: Michael Strong [michael@flowidealism.org]
Sent: Wednesday, June 04, 2008 3:36 PM
To: secretary
Subject: Public Input on Possible Regulation of "Event Contracts"

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**Received CFTC
 Records Section**
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Dear Commissioners and Secretary,

From my perspective, the most urgent need is to create a clear presumption of legality, with minimal or no regulation, for low stakes event markets (with limits of, say, \$5,000 or less) and regulation that minimizes barriers to entry of new markets at higher levels.

I see event markets as potentially one of the most powerful tools for improving the human condition to have been invented in the past twenty years - arguably more powerful than advances in IT, biotech, medicine, and other fields. The reason for this perspective is a recognition of the potential benefits to be derived from more deeply informed policy perspectives. There are reasons to believe that event markets could improve our knowledge of proposed and existing policy outcomes more effectively than has been the case with the entire field of academic social science for the past century.

Effective event markets could have predicted, and prevented, the policy outcomes associated with issues as diverse as the subprime mortgage crises, the global catastrophe of communism, or numerous misguided public school reforms. In each case, there were numerous individuals in a position to foresee accurately certain outcomes, but who were not in a position of power and recognition to have their opinions influence policy. In a monetized prediction market, such individuals would be sought out by investors in such markets and thus key information would have been transmitted to a broader public far earlier than was the case. In some cases numerous intermediary events may need to be subject to event markets; here again, we need to allow event market entrepreneurs the freedom to determine in an ongoing discovery process which intermediary events need to be identified in an event market in order to elicit the most urgently needed information at the highest levels. But if the system is open enough, such entrepreneurs will create such markets.

But in order for such outcomes to become a reality, we need to open up the field to a vast, entrepreneurial prediction markets sector with very low barriers to entry. There is already software available that would allow almost anyone to set up an event market on-line quickly and easily. In order to discover the most effective species of event markets, we need to allow tens of thousands of entrepreneurs to experiment with various types of markets. Many of those will serve no social purpose. But a few will, and the ones that do are most effective at discovering new information that is valuable will flourish.

My understanding is that the possibility of prosecution under anti-gambling laws has prevented the spontaneous creation of a monetized events market industry in the U.S. A formal statement by the CFTC that events markets below some dollar threshold would be considered legal would allow the creation of a new dynamic research sector for the U.S. economy that might, at some point, benefit the U.S. economy and society as much as, say, universities do today.

In order to differentiate these markets from gambling, the presumption of legality could be limited to those markets in which the events to be predicted have an impact beyond the fact of the outcome alone.

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Thus, for instance, an event market in real estate sales prices creates information that is useful to the entire real estate industry; an event market in school test scores creates advance information on the outcomes of various innovations in educational policy; an event market in international economic freedom rankings provides advance information on the prospective economic growth rates of various nations. By contrast, an "event market" in the outcome of a horse race or boxing match does not have an obvious impact beyond the realm of horse racing or boxing, respectively. There may be a period in which these boundaries are refined; from my perspective the most important goal would be to create a clear presumption of legality for those unambiguously valuable event markets.

I've written a number of speculative pieces on prospective event market applications; see

"Prediction Markets and World Peace,"

<http://www.flowidealism.org/Downloads/Prediction-Mkts%20&%20Peace.pdf>

"Put Your Money Where Your Theory Is,"

<http://www.tcsdaily.com/article.aspx?id=030106E>

"How to Avoid Wasting \$60 Billion in K-12 Philanthropy,"

<http://www.tcsdaily.com/article.aspx?id=030106E>

My point has nothing to do with these particular examples; it is that if we create an event markets industry with minimal barriers to entry and clear legality, thousands of people will create innovative applications of monetized event markets that none of us can imagine. Some small fraction of those will be far more imaginative and socially valuable than the applications devoted to world peace, social science research, and educational philanthropy that I've sketched out.

On the other hand, if event markets are regulated such that only entities with the resources of a Goldman Sachs or CBOT can participate due to the cost of meeting regulatory requirements, then the vast majority of valuable event market innovations will never see the light of day.

I would be happy to elaborate on these issues in greater depth.

Best regards,

Michael Strong
CEO, FLOW
1510 Falcon Ledge Drive
Austin, TX 78746

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Michael Strong
CEO and Chief Visionary Officer
FLOW, Inc.
www.flowidealism.org

Liberating the Entrepreneurial Spirit for Good

Links to my articles:

<http://www.flowproject.org/michael.html>

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When once you have tasted flight, you will forever walk the earth with your eyes turned skyward, for there you have been, and there you will always long to return.?

Leonardo Da Vinci