

## secretary

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**From:** NoReply@cftc.gov  
**Sent:** Tuesday, January 31, 2012 11:45 AM  
**To:** secretary  
**Subject:** CFTC Public Comment on IF 12-003

A comment has been submitted on IF 12-003

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Submitter comment: I have been studying prediction markets for over 20 years and I have seen first-hand their potential to help in decision-making and forecasting. The CFTC has asked for public comment with respect to the proposal by Nadex to list political contracts. The CFTC included a list of questions in its request for public comment. Political prediction markets have existed for hundreds of years and, indeed, currently exist in various forms in the United States, including the academically-oriented Iowa Electronic Market. A fully regulated, real-money prediction market on political events can provide and expand upon the IEM's "potential benefits to the public" recognized by the CFTC in its Concept Release on Event Markets in 2008. Political contracts unlike betting on sporting outcomes are events that involve a very long campaign and election process and have ramifications that extend far beyond the candidates themselves. In addition, Nadex's contracts have a value of \$100. As a result, Nadex's 2,500-lot position limits restrict the hedging utility of these contracts because the maximum position that any one trader can hold in any contract equates to a maximum value at expiration of \$250,000. That said, an individual could hedge a perceived exposure to higher taxes, health care costs, employment costs, etc. due to a particular candidate's victory. Say Candidate A is trading at \$23 and the trader perceives his taxes may go up by \$50,000 per year for the next 4 years if A wins the election. The trader can buy 2500 contracts for Candidate A to win for a cost of \$57,500. If Candidate A does win, the projected increase in taxes of \$200,000 over 4 years can be offset in part by the profits on that contract of \$192,500. If Candidate A doesn't win, the trader loses the \$57,500 cost of the contracts but doesn't have to pay the significantly higher taxes. Thus, these contracts can provide valuable price information and can allow for efficiency risk-sharing. My research into price manipulation in prediction markets has found little evidence that it is successful in disrupting information aggregation properties as well as risk-sharing benefits of these markets. I think Nadex's proposal is a sensible start into introducing prediction markets into expanding the benefits of such markets to the public. Submitter IP Address: -----