

April 30, 2026

**VIA ELECTRONIC SUBMISSION**

Mr. Christopher Kirkpatrick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street NW  
Washington, DC 20581

**Re: Prediction Markets; Advance Notice of Proposed Rulemaking (RIN 3038-AF65)**

The Hyperliquid Policy Center (“HPC”)<sup>1</sup> appreciates the opportunity to provide this comment in response to the Commodity Futures Trading Commission’s (“CFTC” or the “Commission”) Advance Notice of Proposed Rulemaking on Prediction Markets (RIN 3038-AF65) (“ANPRM”). We write to address prediction markets that operate on public, permissionless blockchain infrastructure (“decentralized prediction markets”),<sup>2</sup> and respond to related questions throughout the ANPRM where decentralized market infrastructure is relevant to the Commission's considerations.

Prediction markets extend the Commodity Exchange Act’s (“CEA”) price discovery function to a new class of commodity underliers, converting dispersed private knowledge about real-world events into publicly available price signals. They also give participants a precise instrument to assume and manage economic exposure to discrete, real-world events, rather than approximating that exposure through imperfect proxies. Those functions serve the public interest Congress recognized in enacting the CEA, which identifies among the core purposes of the derivatives markets “discovering prices” and “disseminating pricing information through trading in liquid, fair and financially secure trading facilities.”<sup>3</sup> Public, permissionless blockchain infrastructure is uniquely suited to maximize that function and, as

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<sup>1</sup> HPC is an independent research and advocacy organization dedicated to advancing a clear, regulated path for Americans to access decentralized markets, including decentralized prediction markets. See Hyperliquid Policy Center, About, <https://hyperliquidpolicy.org/about> (last visited Apr. 28, 2026).

<sup>2</sup> The ANPRM uses “prediction market” to refer to markets operated by CFTC-registered designated contract markets (“DCMs”) and swap execution facilities (“SEFs”). See Prediction Markets, 91 Fed. Reg. 12,516, 12,517 (Mar. 16, 2026), <https://www.govinfo.gov/content/pkg/FR-2026-03-16/pdf/2026-05105.pdf> [hereinafter ANPRM]. Decentralized market infrastructure offers structural advantages over centralized alternatives for the operation of derivatives markets, including prediction markets, and the Commission should ensure that its regulatory framework for centralized prediction markets does not foreclose an affirmative path for decentralized prediction markets under CFTC oversight.

<sup>3</sup> 7 U.S.C. § 5(a).

this comment describes, also advances several of the core regulatory objectives that animate the CEA, the Commission's rules, and the questions posed in the ANPRM.

As the Commission develops its regulatory framework for prediction markets, we urge it to: (1) write flexible, function-based rules that do not foreclose decentralized market structures; (2) establish an affirmative path for decentralized prediction markets under CFTC oversight; and (3) promote American leadership in decentralized financial innovation, consistent with the Administration's and the Commission's stated goals.<sup>4</sup>

## I. Background on Hyperliquid

Hyperliquid is a public, permissionless, layer-one blockchain that supports decentralized finance applications operating fully onchain.<sup>5</sup> Hyperliquid integrates an onchain order book and processes all trading activity—every order, fill, cancellation, liquidation, and settlement—with full transparency and cryptographic finality via HyperBFT, a custom consensus mechanism that finalizes blocks in sub-second time.<sup>6</sup>

Hyperliquid will soon support outcome-based markets.<sup>7</sup> Outcome contracts will be fully collateralized instruments that settle to a value within a fixed range based on objective settlement sources, and can be used to enable applications such as decentralized prediction

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<sup>4</sup> See, e.g., Exec. Order No. 14,178, Strengthening American Leadership in Digital Financial Technology, 90 Fed. Reg. 8,647 (Jan. 31, 2025), <https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02123.pdf>; President's Working Group on Digital Asset Markets, *Strengthening American Leadership in Digital Financial Technology* (July 30, 2025), <https://www.whitehouse.gov/wp-content/uploads/2025/07/Digital-Assets-Report-EO14178.pdf>; Press Release, CFTC, Chairman Selig Announces Formation of New Innovation Task Force, Release No. 9201-26 (Mar. 24, 2026), <https://www.cftc.gov/PressRoom/PressReleases/9201-26> (“By establishing a clear regulatory framework for innovators building on the new frontier of finance, we can foster responsible innovation at home and ensure American market participants are not left on the sidelines”).

<sup>5</sup> The description of Hyperliquid in this submission is summary and high level in nature and is based on the current state of Hyperliquid. Additional information regarding Hyperliquid is available in the protocol's public documentation, available at: <https://hyperliquid.gitbook.io/hyperliquid-docs>.

<sup>6</sup> See Hyperliquid Labs Pte. Ltd., Comment on Request for Comment on the Trading and Clearing of “Perpetual” Style Derivatives (May 21, 2025), <https://comments.cftc.gov/Handlers/PdfHandler.ashx?id=35635>; Hyperliquid Labs Pte. Ltd., Comment on Request for Comment on Trading and Clearing of Derivatives on a 24/7 Basis (May 21, 2025), <https://comments.cftc.gov/Handlers/PdfHandler.ashx?id=35634>.

<sup>7</sup> See Muyao Shen, *Kalshi, Polymarket Face New Rival in Crypto's Hottest Exchange*, Bloomberg (Apr. 29, 2026), <https://www.bloomberg.com/news/articles/2026-04-29/kalshi-polymarket-face-new-rival-in-crypto-s-hottest-exchange>.

markets and bounded options-like instruments.<sup>8</sup> Outcome markets will be composable with other Hyperliquid primitives, including portfolio margin<sup>9</sup> and HyperEVM,<sup>10</sup> enabling market participants to integrate outcome market positions into broader trading and risk management strategies.

As of the date of this submission, outcome markets on Hyperliquid are in active development and testing. We write to ensure that the Commission's regulatory framework for prediction markets considers the unique benefits of decentralized market structures, including outcome markets on Hyperliquid, and promotes continued innovation in these markets and the ability of U.S. participants to access them.

## **II. Why Prediction Markets Matter, and How Public Blockchains Make Them Better**

The following sections describe how prediction markets advance the CEA's core objectives and why public blockchain infrastructure strengthens their capacity to do so. Prediction markets sit at the intersection of two developments: Congress's century-long effort to evolve the federal derivatives framework to meet the changing needs of the economy and preserve the public pricing benefits generated through regulated markets, and the emergence of public blockchain infrastructure capable of maximizing those benefits.

### **A. Congress Crafted and Expanded the CEA to Support Public Pricing in New Markets**

The history of federal derivatives regulation is, at its core, a history of expansion. Over the past century, Congress has repeatedly expanded the derivatives regulatory framework to encompass the evolving commercial needs of the economy, both by recognizing new derivative types and by broadening the definition of “commodity” to capture the full range of interests to which market participants seek financial exposure. The result is a regulatory framework that enables market-based price discovery to develop for an ever-widening range of commodity underliers. Though prediction markets have existed in various forms for

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<sup>8</sup> See @HyperliquidX, X (Feb. 2, 2026), <https://x.com/HyperliquidX/status/2018327360723202167>.

<sup>9</sup> Portfolio margin unifies a user's spot and perpetual trading positions for greater capital efficiency, allowing spot balances to offset perpetual positions and vice versa. See Hyperliquid Docs, *Portfolio Margin*, <https://hyperliquid.gitbook.io/hyperliquid-docs/trading/portfolio-margin> (last visited Apr. 28, 2026).

<sup>10</sup> HyperCore is Hyperliquid's native onchain order book and trading infrastructure. HyperEVM is a general-purpose smart contract execution environment on the same blockchain, secured by the same HyperBFT consensus. This dual architecture enables applications built on HyperEVM to interact directly with HyperCore's order books and financial primitives. See Hyperliquid Docs, *HyperEVM*, <https://hyperliquid.gitbook.io/hyperliquid-docs/hyperevm> (last visited Apr. 28, 2026).

decades, they have recently demonstrated their value as a uniquely precise instrument for public price discovery. Rather than requiring participants to trade a related asset as a proxy, prediction markets enable participants to express views on discrete events, producing publicly available, continuously updating price signals that are useful in economic decision-making.<sup>11</sup>

When Congress enacted the Grain Futures Act in 1922,<sup>12</sup> it established the foundation of the federal derivatives regulatory framework, bringing federal oversight to futures trading in a handful of grain commodities: wheat, corn, oats, barley, rye, flaxseed, and sorghum.<sup>13</sup> Congress found that grain futures prices “are generally quoted and disseminated throughout the United States and in foreign countries as a basis for determining the prices to the producer and the consumer” and that the transactions themselves are “utilized by shippers, dealers, millers, and others . . . as a means of hedging themselves against possible loss through fluctuations in price.”<sup>14</sup> Those functions, price discovery and risk transfer, gave Congress reason to protect and promote organized grain futures trading through a dedicated federal regulatory framework.

Then, in 1936, the CEA extended federal oversight beyond grains to a broader list of enumerated agricultural products,<sup>15</sup> and Congress continued adding to that list over the following decades.<sup>16</sup> The CFTC Act of 1974 replaced the enumerated approach entirely, extending the CEA to cover “all other goods and articles . . . and all services, rights, and

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<sup>11</sup> For example, a market participant with a view on whether a particular drug will receive FDA approval could buy or sell the pharmaceutical company's stock, but that stock price reflects dozens of variables beyond the approval decision. An event contract on the approval itself isolates the question, allowing the participant to assume or transfer that specific risk directly while producing a transparent, real-time price that reflects the market's perceived likelihood of approval.

<sup>12</sup> The Future Trading Act of 1921, a predecessor to the Grain Futures Act and Congress's first attempt at establishing a comprehensive federal derivatives framework, was struck down by the Supreme Court as an improper exercise of Congress's taxing power. *See Hill v. Wallace*, 259 U.S. 44 (1922). Congress responded by enacting the Grain Futures Act under its Commerce Clause authority the following year, which the Supreme Court upheld in *Board of Trade of City of Chicago v. Olsen*, 262 U.S. 1 (1923).

<sup>13</sup> Grain Futures Act § 2(a), 42 Stat. 998 (1922).

<sup>14</sup> *Id.* § 3.

<sup>15</sup> Commodity Exchange Act, Pub. L. No. 74-675, 49 Stat. 1491 (1936) (butter, cotton, eggs, Irish potatoes, mill feeds, and rice).

<sup>16</sup> *See, e.g.*, Commodity Exchange Act Amendment of 1938, Pub. L. No. 75-471, 52 Stat. 205 (1938) (wool tops); Commodity Exchange Act Amendment of 1940, Pub. L. No. 76-818, 54 Stat. 1059 (1940) (cottonseed, cottonseed meal, fats, oils, peanuts, soybeans, and soybean meal); Commodity Exchange Act Amendment of 1954, 68 Stat. 913 (1954) (wool); Commodity Exchange Act Amendment of 1968, Pub. L. No. 90-258, 82 Stat. 26 (1968) (livestock and livestock products); Act of July 23, 1968, Pub. L. No. 90-418, 82 Stat. 413 (1968) (frozen concentrated orange juice).

interests in which contracts for future delivery are presently or in the future dealt in,” bringing energy, metals, and all other previously unregulated commodities transactions under CFTC jurisdiction for the first time.<sup>17</sup> By 2000, the Commodity Futures Modernization Act formally recognized “excluded commodities” as a distinct commodity type, encompassing interest rates, exchange rates, currencies, credit risk measures, occurrences, contingencies, and other intangible references.<sup>18</sup> The breadth of the commodity definition today would be unrecognizable to the drafters of the Grain Futures Act, but its evolution reflects Congress’s consistent judgment that the regulatory framework should expand to meet the changing needs of the American economy.

Each expansion brought an economically significant commodity that lacked broadly accessible, market-based pricing within the CEA’s framework, and deepened the nation’s capacity to discover and disseminate pricing information for the commodities on which American industry depended. In less than a century, the derivatives markets evolved from a handful of grain contracts to a system capable of pricing virtually any economic exposure.

## **B. Prediction Markets Deliver Precise Pricing and Targeted Exposure for Real-World Events**

Prediction markets are a natural application of the price discovery function at the heart of the CEA. Their precision in defining narrow, event-based underliers provides market participants a tool to express views directly on specific events, rather than seeking exposure to those events indirectly through other financial instruments that the event may influence. The market has recognized and validated that utility, leading to the creation of event contracts on a wide range of discrete real-world events, such as elections, policy outcomes, economic indicators, scientific and technological milestones, that participants previously could price only through imprecise proxies. The result is real-time, public pricing for events that have not previously been subject to dedicated market pricing, with immediate value for businesses, investors, and policymakers alike.

The informational power of prediction markets has long been recognized. Companies including Google, Hewlett-Packard, and Intel operated internal prediction markets to improve corporate forecasting, with research finding that these markets repeatedly outperformed

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<sup>17</sup> Commodity Futures Trading Commission Act of 1974, Pub. L. No. 93-463, 88 Stat. 1389 (1974). See 7 U.S.C. § 1a(9).

<sup>18</sup> Commodity Futures Modernization Act of 2000, Pub. L. No. 106-554, 114 Stat. 2763 (2000). See *CFTC v. Trade Exch. Network Ltd.*, 117 F. Supp. 3d 29, 38 (D.D.C. 2015) (explaining that the “excluded commodity” definition “serves as further proof of the scope of the definition of commodity under the CEA”).

expert forecasts.<sup>19</sup> Commission staff recognized the research value of prediction markets as early as the 1990s, having granted no-action relief to academic prediction markets operated by the University of Iowa and, later, to the Victoria University of Wellington to facilitate research into their forecasting capabilities.<sup>20</sup> Each early implementation recognized the insight that market mechanisms aggregate information held across many participants more effectively than top-down alternatives.<sup>21</sup>

Today's prediction markets apply that insight at scale. In the 2024 election cycle alone, prediction market platforms processed billions of dollars in trading volume on political outcomes,<sup>22</sup> and prediction market data has since been integrated into the Bloomberg Terminal<sup>23</sup> and embedded in the live broadcast and digital coverage of CNBC, CNN, Fox News, and the Wall Street Journal, among others.<sup>24</sup>

Prediction markets have demonstrated their accuracy across globally significant events in real-world settings. In the 2024 presidential election, prediction market prices tracked the actual outcome more accurately than the polling aggregates and pundit

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<sup>19</sup> See Robin Hanson et al., *The Promise of Prediction Markets*, 320 *Science* 877 (2008), <https://mason.gmu.edu/~rhanson/PromisePredMkt.pdf>; Bo Cowgill & Eric Zitzewitz, *Corporate Prediction Markets: Evidence from Google, Ford, and Firm X*, 82 *Rev. Econ. Stud.* 1309 (2015), <https://funginstitute.berkeley.edu/wp-content/uploads/2014/04/CorporatePredictionMarkets.pdf>.

<sup>20</sup> See CFTC Staff Letter No. 93-66 (June 18, 1993) (no-action position issued to the University of Iowa permitting operation of the Iowa Electronic Markets for academic purposes); CFTC Staff Letter No. 14-130 (Oct. 29, 2014) (extending similar relief to Victoria University of Wellington).

<sup>21</sup> See Friedrich A. Hayek, *The Use of Knowledge in Society*, 35 *Am. Econ. Rev.* 519 (1945).

<sup>22</sup> See Bruna Horvath, *Billions Were Bet on Election Odds Using Online Markets*, NBC News (Nov. 9, 2024), <https://www.nbcnews.com/tech/tech-news/billions-bet-election-odds-using-online-markets-rcna179195>.

<sup>23</sup> See Samuel Haig, *Bloomberg Terminal Integrates Polymarket Election Data*, The Defiant (Sept. 4, 2024), <https://thedefiant.io/news/defi/bloomberg-terminal-integrates-polymarket-election-data>.

<sup>24</sup> See Press Release, Fox Corp., FOX to Integrate Kalshi Forecasts Across FOX News Media and FOX One Platforms (Apr. 7, 2026), <https://www.foxcorporation.com/news/business/2026/fox-to-integrate-kalshi-forecasts-across-fox-news-media-and-fox-one-platforms/>; Press Release, Polymarket & Dow Jones, Polymarket and Dow Jones, Publisher of The Wall Street Journal, Announce Exclusive Prediction Market Partnership (Jan. 7, 2026), <https://www.businesswire.com/news/home/20260107511213/en/Polymarket-and-Dow-Jones-Publisher-of-The-Wall-Street-Journal-Announce-Exclusive-Prediction-Market-Partnership>; Press Release, Kalshi, Kalshi to Become CNN's Official Prediction Market Partner (Dec. 2, 2025), <https://news.kalshi.com/p/kalshi-cnn-prediction-market-partnership>.

commentary that had dominated public discourse for months.<sup>25</sup> A recent Federal Reserve Board discussion paper found that prediction market forecasts of federal funds rate decisions matched the accuracy of the Federal Reserve Bank of New York's Survey of Professional Forecasters at longer horizons, while offering the advantage of continuously updating probability distributions that the survey's periodic snapshots cannot provide.<sup>26</sup> Similar markets now price, and provide a means to obtain targeted economic exposure to, AI capability benchmarks, drug approval timelines, and semiconductor output capacity, among other consequential economic, commercial, and financial events. The more events that are subject to that market-based pricing, and the more participants who can access those markets, the greater the public benefit.

### **C. Public Blockchains are the Optimal Infrastructure for Prediction Markets**

Decentralized prediction markets built on public, permissionless blockchains have inherent structural advantages over centrally operated platforms. The public good that prediction markets generate in the form of market pricing is a function of who can participate, how transparently the market operates, and how resilient the underlying infrastructure is. Decentralized market infrastructure improves on each of these dimensions, and those improvements map directly onto the regulatory objectives that animate the CEA, the Commission's rules, and several of the specific questions posed by the Commission in the ANPRM.<sup>27</sup>

**Permissionless access broadens participation and improves the accuracy of prediction market pricing.** The Commission asks in Question 2(a) what aspects of prediction markets affect how a DCM provides impartial access.<sup>28</sup> Permissionless infrastructure provides a straightforward answer: every participant operates under the same

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<sup>25</sup> See Allison Morrow, *How Prediction Markets Saw Something the Polls and Pundits Didn't*, CNN (Nov. 8, 2024), <https://www.cnn.com/2024/11/08/business/polymarket-election-trump-nightcap>; Laurie E. Cutting et al., *Are Betting Markets Better than Polling in Predicting Political Elections?* (July 7, 2025), <https://arxiv.org/pdf/2507.08921> (finding that decentralized prediction market data outperformed national polling data in predicting the 2024 presidential election outcome).

<sup>26</sup> See Anthony M. Diercks, Jared D. Katz & Jonathan H. Wright, *Kalshi and the Rise of Macro Markets*, FEDS 2026-010 (Feb. 12, 2026), <https://doi.org/10.17016/FEDS.2026.010>.

<sup>27</sup> The Commission asks in Question 2(h) what factors it should consider with respect to blockchain-based prediction markets, whether there are challenges or advantages in applying existing regulations to such markets, and which areas would benefit from Commission guidance or rule amendments. See ANPRM at 12,519–20. The subsections that follow respond to that question by identifying how decentralized market infrastructure addresses several of the Commission's specific inquiries.

<sup>28</sup> See ANPRM at 12,519.

rules, the same execution logic, and the same terms of access. There are no discriminatory admission criteria, and access is determined by the participant's ability to meet a protocol's technical requirements, rather than by net worth thresholds, institutional status, or other factors that are inconsistent with impartial access.<sup>29</sup>

Prediction markets price events whose relevant knowledge base is inherently dispersed. For example, a meteorologist or weather enthusiast may bring a sharper analytical lens to weather conditions affecting a rocket launch than a satellite operator hedging its commercial exposure to the launch outcome. Similarly, a local business owner with firsthand exposure to economic conditions in a swing state may assess an election outcome differently than a macro fund managing broad political risk across a diversified portfolio. In each case, restricting access by net worth or institutional credentials narrows the pool of available information and, with it, the accuracy of the resulting price signal.

The Commission should consider how permissionless access to decentralized prediction markets can structurally improve upon existing, centralized access models by yielding more informed and liquid markets, and how its framework for prediction market regulation can support U.S. market participants' access to decentralized prediction markets that satisfy impartial access requirements by design.

**Deterministic resolution ensures settlement integrity for contracts with natively onchain settlement data.** The Commission asks in Question 2(b) about resolution criteria and dispute resolution procedures for event contracts, including how a DCM should handle disputes regarding whether an event underlying a contract has occurred.<sup>30</sup> For certain categories of contracts on decentralized infrastructure, the resolution source itself substantially narrows that concern. Where the settlement value is natively available onchain, such as the current spot price of a digital asset resolved against onchain order book data, market resolution can be fully deterministic, transparent, and verifiable by any participant against the same public data without discretionary third-party intervention.

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<sup>29</sup> The impartial access requirement is designed to prevent DCMs from using discriminatory access requirements as a competitive tool against certain participants and to ensure that access is based on financial and operational soundness rather than discriminatory or other improper motives. The Commission has recognized that granting impartial access to participants enhances the liquidity and overall transparency of the derivatives markets. See Core Principles and Other Requirements for Designated Contract Markets, 75 Fed. Reg. 80,572, 80,579 (proposed Dec. 22, 2010), <https://www.federalregister.gov/documents/2010/12/22/2010-31458/core-principles-and-other-requirements-for-designated-contract-markets>. See also Dan M. Berkovitz, Comm'r, CFTC, Statement Related to Review of ErisX Certification of NFL Futures Contracts (Apr. 7, 2021), <https://www.cftc.gov/PressRoom/SpeechesTestimony/berkovitzstatement040721> (discussing the origins of DCM Core Principle 2's impartial access requirement).

<sup>30</sup> See ANPRM at 12,519.

Deterministic resolution is not available for every type of event contract, and contracts requiring external data inputs to confirm their occurrence rely on a variety of oracle-based resolution mechanisms, each with their own design tradeoffs. But where deterministic settlement is available, it removes operator discretion from the resolution process, substantially reduces the surface area for disputes, and gives participants verifiable assurance that the contract will settle exactly as its terms specify.

The Commission should consider how decentralized prediction markets that incorporate deterministic resolution mechanisms can obviate the need for centrally enforced resolution determinations, and how its framework can accommodate these mechanisms as a recognized alternative to registrant-administered settlement and dispute resolution procedures.

**Onchain transparency enhances public access to trading data.** The Commission asks in Question 5(a) about making transaction and pricing data available to the public to enhance price discovery, including whether aspects of event contract swaps facilitate their reporting to a swap data repository and how such reporting and data availability relate to that objective.<sup>31</sup> On public blockchains such as Hyperliquid, every order, fill, cancellation, liquidation, and settlement is executed and recorded directly onchain, with no offchain matching engine or data reconciliation. Publicly available blockchain explorers allow market participants and regulators to verify and view all onchain activity,<sup>32</sup> and anyone can run a validating or non-validating node to connect directly to the network and verify all transactions in real time.

This stands in contrast to centralized market infrastructure, where the location and movement of funds, the execution and settlement of transactions, and the underlying audit trail are often proprietary, opaque, or subject to reporting delays. Transparent onchain infrastructure can simplify or enhance traditional data reporting mechanisms by making the underlying transaction data publicly accessible as it occurs. The same information that market participants would otherwise be required to report to a swap data repository is already recorded on the public ledger and observable by the Commission, market participants, and the public simultaneously.

The Commission should consider how the data transparency inherent in public blockchain infrastructure can satisfy or supplement compliance with existing reporting requirements under Part 43 and Part 45 of the Commission's regulations, and how

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<sup>31</sup> *Id.* at 12,520.

<sup>32</sup> See, e.g., HypurrScan, <https://hypurrscan.io/> (last visited Apr. 28, 2026).

continuous public access to onchain transaction data advances the objective of CEA Section 2(a)(13)(B) to enhance price discovery.<sup>33</sup>

**Onchain market data enhances market surveillance capabilities.** The Commission asks in Question 2(d) about the capacity of prediction markets to prevent manipulation, price distortion, and disruptions of the settlement process through market surveillance, compliance, and enforcement practices and procedures.<sup>34</sup> As noted above, transactions recorded on public blockchains are immutable and accessible to all market participants on equal terms. Unlike centralized platforms, where detection of suspicious activity depends on the exchange operator's proprietary surveillance systems, on a public blockchain the same dataset is available to everyone, and the quality of surveillance improves as more observers apply their own analytical methods to it.

Market participants in existing decentralized markets have already developed sophisticated methods for identifying suspicious trading activity using publicly available onchain data, including wallet creation patterns, funding sources, and cross-protocol asset movements, often flagging potentially manipulative activity well before a centralized compliance function would have detected it.<sup>35</sup>

The Commission also poses a series of questions regarding the challenges that inside information and asymmetric information advantages pose for prediction markets.<sup>36</sup> Onchain transparency does not eliminate these risks, but it makes such activity substantially more visible, creating a deterrent effect and providing a richer dataset from which to identify bad actors.<sup>37</sup> These surveillance advantages, however, do not fully address the compliance and

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<sup>33</sup> See 17 C.F.R. pts. 43, 45; 7 U.S.C. § 2(a)(13)(B).

<sup>34</sup> See ANPRM at 12,519.

<sup>35</sup> See, e.g., Ece Yildirim, *Tracking Insider Trading on Polymarket is Turning into a Business of Its Own*, Gizmodo (Jan. 12, 2026), <https://gizmodo.com/tracking-insider-trading-on-polymarket-is-turning-into-a-business-of-its-own-2000709286>; Polysights, <https://www.polysights.xyz/> (last visited Apr. 28, 2026) (decentralized prediction market intelligence platform); Pselamy, Polymarket Insider Tracker, GitHub, <https://github.com/pselamy/polymarket-insider-tracker> (last visited Apr. 28, 2026) (publicly available tool for tracking and identifying potential insider trading activity using onchain data).

<sup>36</sup> See ANPRM at 12,522–23.

<sup>37</sup> See, e.g., Press Release, CFTC, CFTC Charges U.S. Service Member with Insider Trading in Nicolás Maduro-Related Event Contracts, Release No. 9217-26 (Apr. 23, 2026), <https://www.cftc.gov/PressRoom/PressReleases/9217-26>.

enforcement dimensions of Core Principle 4.<sup>38</sup> Decentralized markets lack the single point of compliance authority that centralized platforms provide, and the Commission should consider how its rules can recognize and promote functional equivalents for decentralized markets that preserve the benefits of decentralized infrastructure while satisfying the Commission's market integrity objectives.

**Non-custodial trading infrastructure mitigates intermediary risk and strengthens the protection of customer funds.** The Commission asks in Question 2(f) about the financial integrity of prediction market transactions,<sup>39</sup> with reference to Core Principle 11's requirement that a DCM ensure the financial integrity of intermediaries and the protection of customer funds.<sup>40</sup> Decentralized prediction markets inherently address that concern. Users post collateral from self-custodial wallets directly to the protocol, where collateral never passes through an exchange omnibus account, and no custodial intermediary holds or has access to participant funds at any point in the transaction.

The risks that custodial intermediation introduces—insolvency, misappropriation, conflicts of interest—are risks that prediction market participants need not bear, and that non-custodial architecture natively solves for. For a market structure whose informational value depends on attracting the broadest possible base of participants, removing the requirement to entrust funds to a third party whose solvency and conduct participants cannot independently verify lowers the cost of participation in a way that directly benefits market quality.

The Commission should consider how non-custodial settlement models can satisfy the financial integrity and customer protection objectives of Core Principle 11 through structural properties rather than through prescriptive rules tailored to intermediated market structures.

**Distributed consensus mechanisms enhance operational resilience and reduce systemic risk.** The Commission asks in Question 2(g) about sources of operational risk

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<sup>38</sup> See 7 U.S.C. § 7(d)(4); 17 C.F.R. § 38.250 (requiring DCMs to have the capacity to prevent manipulation through market surveillance, compliance, and enforcement, including real-time monitoring and trade reconstruction capabilities).

<sup>39</sup> See ANPRM at 12,519.

<sup>40</sup> Core Principle 11 requires, among other things, DCMs to establish and maintain (i) minimum financial standards for their members and direct (non-intermediated) participants, including minimum capital requirements; and (ii) rules to protect customer funds that address segregation of customer and proprietary funds, custody of customer funds, investment standards for customer funds, intermediary default procedures and recordkeeping. See 17 C.F.R. §§ 38.602–.604; Core Principles and Other Requirements for Designated Contract Markets, 75 Fed. Reg. 80,572, 80,595 (proposed Dec. 22, 2010).

related to prediction markets, with reference to Core Principle 20's requirement that a DCM establish and maintain a program of risk analysis and oversight to ensure its systems are reliable, secure, and have adequate scalable capacity.<sup>41</sup> Core Principle 20 exists in large part because centralized market infrastructure concentrates operational risk in a single operator's systems, a vulnerability that decentralized infrastructure is designed to eliminate.<sup>42</sup>

Public blockchain infrastructure distributes the functioning of a protocol across a network of independent validators rather than concentrating it in a single point of failure. On Hyperliquid, the HyperBFT consensus mechanism maintains continuous operation as long as a sufficient number of validators are online, and no single actor or system failure can take the market offline as data is replicated across all validators in real time. The code is designed to run deterministically and does not require manual intervention or operations personnel to be staffed around the clock. As an additional layer of safety, different validators independently run monitoring scripts that receive continuous alerts for block time, price-feed variance, and other abnormalities, flagging potential problems in seconds.<sup>43</sup> Any regulator or independent auditor can run a node that streams live data continuously and is provably tamper-resistant.<sup>44</sup>

The Commission should consider how decentralized prediction markets operating on distributed consensus architectures can satisfy the operational resilience objectives of Core Principle 20, and how decentralized market structures can reduce the concentration of operational risk that the Core Principle was designed to mitigate.

**Decentralized market deployment creates a competitive marketplace that expands the range of events subject to public pricing.** The Commission asks in Question 11 how it should fulfill the CEA Section 3(b) purpose of promoting “responsible innovation and fair competition,”<sup>45</sup> and in Question 39 about taking “the least anticompetitive means” of achieving the CEA's objectives.<sup>46</sup> On centralized platforms, listing decisions reflect a single operator's assessment of market demand, shaped in part by the composition of the operator's own user base. Events that the operator does not expect to generate sufficient volume may go unpriced regardless of their informational value, and economically significant

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<sup>41</sup> See ANPRM at 12,519.

<sup>42</sup> See Core Principles and Other Requirements for Designated Contract Markets, 75 Fed. Reg. 80,572, 80,601 (proposed Dec. 22, 2010).

<sup>43</sup> See Hyperliquid Labs Pte. Ltd., Comment on Request for Comment on Trading and Clearing of Derivatives on a 24/7 Basis, at 5–7 (May 21, 2025).

<sup>44</sup> *Id.* These measures are also consistent with National Institute of Standards and Technology (“NIST”) Special Publication 800-53 IR-4 (Incident Handling).

<sup>45</sup> See ANPRM at 12,521.

<sup>46</sup> *Id.* at 12,523.

categories of events may lack a market simply because no single platform's participants have demonstrated sufficient demand for them.

Decentralized prediction markets can distribute the listing function across a competitive marketplace of deployers, each applying their own judgment about which events are worth creating markets for. The long tail of informationally valuable events is far more likely to be priced when many participants can deploy markets, and market participants gain access to a broader range of instruments through which to express views and manage risk. A competitive, distributed market deployment model advances both the Commission's innovation and competition objectives.

The Commission should consider how its framework can accommodate market listings by deployers on decentralized prediction markets who possess sufficient information and capability to comply with Commission-imposed listing standards, even if they may not themselves be CFTC registrants. Enabling competitive market creation subject to consistent oversight would expand the reach of prediction market pricing without sacrificing the Commission's oversight objectives.

**Composability extends the utility of prediction market pricing into the broader financial ecosystem.** The Commission asks in Question 10 what role event contracts play in “managing and assuming price risks, discovering prices, or disseminating pricing information” as contemplated by CEA Section 3(a), including how event contracts are used in hedging.<sup>47</sup> The composable nature of decentralized prediction markets enables precisely those functions. On a public blockchain, prediction market pricing data can be consumed by other onchain financial primitives to support hedging, risk management, and capital efficiency applications that siloed, centralized platforms cannot.

On centralized platforms, prediction market data lives within proprietary systems. Other applications can access it only to the extent the operator makes it available, and integration depends on bilateral arrangements that limit who can incorporate that data into downstream applications. Decentralized prediction market data is natively interoperable with other onchain financial primitives, and any application can consume it without a central operator's permission or involvement. For example:

- Portfolio margin systems can recognize natural hedges between prediction market positions and correlated spot and derivatives positions, improving capital efficiency by reducing total collateral requirements for traders managing multi-instrument portfolios.

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<sup>47</sup> *Id.* at 12,521.

- Lending protocols can enable traders to borrow against open prediction market positions, unlocking capital that would otherwise sit idle until the contract resolves.
- Onchain derivatives platforms can list leveraged perpetual contracts that reference prediction market pricing as their underlying oracle, creating entirely new derivative instruments on top of existing prediction market price feeds.
- Applications built in EVM-compatible smart contract environments can read prediction market pricing data directly from onchain order books and incorporate it into lending protocols, risk management systems, and structured products.

Permissionless, onchain environments are uniquely conducive to this kind of innovation. The Commission should consider how its regulatory framework can encourage that dynamic. Decentralized prediction markets as they exist today are just one application that public blockchain-based infrastructure unlocks. The financial products and risk management tools that can be built on top of decentralized prediction markets, from portfolio margining to structured hedging instruments and other applications not yet conceived, represent a new frontier of financial innovation that the Commission can, and should, facilitate and promote in the United States.

### III. Recommendations for the Commission

The ANPRM is principally concerned with the Commission's regulation of prediction markets operating as registered DCMs and SEFs, which is a necessary and welcome first step to provide clear, workable rules for centralized prediction markets.

Decentralized prediction markets, however, are built on infrastructure that advances several of the CEA's core regulatory objectives more directly than the centralized model assumed by the existing framework. Rulemaking designed for centralized market structures should not further embed assumptions about the role of a single exchange operator, the necessity of custodial intermediation, the mechanics of surveillance and settlement, or any other operational or regulatory function that would make it difficult to accommodate decentralized prediction markets in the future.

The Commission can avoid that outcome by writing rules with sufficient flexibility to accommodate technologically different approaches to achieving the same regulatory objectives. With these principles in mind, we respectfully urge the Commission to:

1. **Write flexible, function-based rules that do not foreclose decentralized market structures.** Rules designed around a single centralized operator may not translate to decentralized architectures where listing, execution, surveillance, and settlement are performed by protocol logic, distributed participants, or both. Where decentralized,

onchain mechanisms achieve the objectives of the CEA and the applicable Core Principles relevant to the function performed, the Commission should recognize them as valid alternatives to centralized compliance functions.

2. **Establish an affirmative path for U.S. market participants to access decentralized prediction markets.** The Commission should use its existing authorities to develop a tailored framework for decentralized markets, including decentralized prediction markets, that preserves the benefits of decentralized financial innovation while serving market integrity and investor protection objectives. That framework should not force reintermediation where decentralized infrastructure has obviated the need for centralized actors.
3. **Promote American leadership in decentralized financial innovation.** The Administration and the Commission have each recognized that the United States should lead in the development of digital asset markets and decentralized financial infrastructure. Decentralized prediction markets are one application of that infrastructure, alongside other novel derivative types such as perpetual contracts that are already trading at scale on decentralized platforms globally. The Commission should ensure that its regulatory framework encourages, rather than constrains, the development of these markets and applications in the United States.

The Commission has a unique opportunity to shape the regulatory environment for an emerging class of markets at a moment when the technology is mature, market demand is strong, and the United States is positioned to lead.

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#### **IV. Conclusion**

We appreciate the opportunity to comment on the ANPRM, and commend the Commission for taking a proactive approach to establishing clear, workable rules that allow prediction markets to flourish in the United States. We welcome the opportunity to engage further with the Commission and its staff on these questions, and stand ready to provide technical assistance, data, legal analysis, or other helpful materials as the Commission develops its approach to decentralized prediction markets.

Sincerely,

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/s/ Brad Bourque  
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