Hyperliquid Policy Center

Multicoin Capital

July 27, 2026

VIA ELECTRONIC SUBMISSION

Mr. Christopher J. Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

Re: Prediction Markets; Public Interest Determinations (RIN 3038-AF65)

Dear Mr. Kirkpatrick:

The Hyperliquid Policy Center ("HPC") and Multicoin Capital Management, LLC ("Multicoin Capital") appreciate the opportunity to provide this comment letter in response to the Commodity Futures Trading Commission's ("CFTC" or the "Commission") Notice of Proposed Rulemaking on Prediction Markets (RIN 3038-AF65) (the "Proposal").[1]

HPC is an independent research and advocacy organization dedicated to advancing a clear, regulated path for Americans to access onchain markets, including those available on the Hyperliquid blockchain ("Hyperliquid"). HPC engages directly with lawmakers and regulators, produces rigorous technical research, and champions practical regulatory frameworks for onchain markets, with a focus on perpetual derivatives and onchain financial infrastructure.[2]

Multicoin Capital is an SEC-registered investment adviser to private funds that make long-term, high-conviction investments in category-defining crypto companies and protocols across public and private markets, on behalf of sophisticated and institutional investors.

We commend the Commission for developing a clear and well-reasoned framework that would provide durable, codified standards for prediction markets. We agree that these markets fall within the Commission's exclusive jurisdiction under the Commodity Exchange Act ("CEA") and support the Proposal's approach. We also believe event contracts on prediction markets present commercial and epistemic value, and serve a key informational role for the broader public, including the press.[3]

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1 *See* Prediction Markets; Public Interest Determinations, 91 Fed. Reg. 35,806 (June 12, 2026).

2 *See* Hyperliquid Policy Center, About, https://hyperliquidpolicy.org/about.

3 *See, e.g.,* Multicoin Capital, Comment to Advance Notice of Proposed Rulemaking on Prediction Markets, 91 Fed. Reg. 12,516 (RIN 3038-AF65) (Apr. 30, 2026), at 3-5.

To strengthen the final rule, we offer two targeted recommendations: that the Commission (i) adopt its settlement-based interpretation of "involve" in the final rule and provide additional illustrative examples, and (ii) require publication of its supporting analysis whenever it concludes a review under CFTC Regulation 40.11, including where it declines to determine that a contract is contrary to the public interest.

I. About Hyperliquid

Hyperliquid is a public, permissionless, general-purpose layer-one blockchain that supports markets and applications that operate fully onchain, meaning that all transactions are verified and recorded on the blockchain itself. Two native components of Hyperliquid are relevant here: HyperBFT, a high-throughput consensus mechanism that finalizes blocks in sub-second time; and HyperCore, the blockchain's native execution environment, which maintains fully onchain central limit order books while providing trade execution, margining, and settlement functionality directly within the Hyperliquid blockchain's state-transition logic. Every order, fill, cancellation, liquidation, and settlement is processed with full transparency and cryptographic finality.[4]

Among the financial products that Hyperliquid supports are "outcome" contracts, enabled via a standardized financial primitive under Hyperliquid Improvement Proposal 4 ("HIP-4"). Outcome contracts are 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 onchain prediction markets and bounded options-like instruments. Because positions are fully collateralized, outcome markets operate without leverage or liquidations. Outcome markets are quoted and settled in USDC, a U.S. dollar-pegged stablecoin. Outcome contracts also compose with HyperCore's other native functions, including portfolio margining, which enables users to manage collateral efficiently across positions on a single ledger.

II. The Proposal Facilitates Innovation and Provides Regulatory Clarity

We support the Commission's effort to advance a clear framework that would establish transparent rules for market participants. The Proposal's settlement-based approach and explicit public interest factors provide market participants with a predictable basis for designing new products while safeguarding market integrity. By establishing codified, well-defined standards, the Proposal facilitates responsible innovation in these emerging markets and future-proofs this regulatory regime for the next wave of advanced products and services.

A. The Proposal Faithfully Implements Congress's Decision to Vest Exclusive Jurisdiction Over Prediction Markets in the Commission

The Proposal makes clear that prediction markets are properly situated within the Commission's exclusive jurisdiction under the CEA.

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[4] The description of Hyperliquid in this letter 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.

The Special Rule's (defined below) inclusion in the CEA confirms that Congress envisioned a single federal regulator for event contract markets. As the Commission has noted, certain types of event contracts "have long been traded uncontroversially on CFTC-registered [Designated Contract Markets]."[5] In the wake of the 2008 financial crisis, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which adopted CEA Section 5c(c)(5)(C) (the "Special Rule"). Under the Special Rule, the Commission may prohibit registered entities from listing or making available for trading or clearing particular types of event contracts, provided that the Commission determines that such event contracts involve enumerated activities and are contrary to the public interest.[6] Accordingly, Congress recognized in 2010 that some event contracts may raise public interest concerns, and it addressed that possibility by granting the Commission—and only the Commission—the authority to review and prohibit particular event contracts through a specific review process.

Congress placed that authority within the CEA, a statute that vests the Commission with exclusive jurisdiction over transactions in swaps, and it did not reserve any parallel role for states, tribes, or any other regulatory body.[7] The existence of a tailored federal mechanism for addressing precisely these concerns forecloses the argument that some gap in oversight remains for other authorities to fill. Rather, Congress's allocation of authority reflects the structural differences between wagers placed against a state-licensed operator and derivatives traded on a nationwide exchange. A wager is generally understood as a bilateral liability of the bookmaker, who sets the odds, takes the opposite side, and profits when the customer loses.[8] An exchange-traded event contract, by contrast, is a market transaction between willing buyers and sellers at competitively determined prices, with the exchange holding no economic stake in the outcome. State gambling laws are not fit for purpose to regulate the latter, and subjecting national derivatives markets to fifty separate state regimes would recreate the fragmentation Congress sought to eliminate.[9]

The Proposal gives effect to Congress's decision to vest exclusive authority over event contracts in the Commission and to address public interest concerns through a uniform federal framework.

B. The Proposal Provides Clear Standards to Market Participants

The Proposal sets forth well-defined standards that would replace the uncertainty resulting from prior adjudications that misconstrued the applicable requirements. For example, the Commission has previously taken the position that certain event contracts "involve" gaming or unlawful activity based on the theory that the act of trading in these contracts is itself analogous

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[5] Proposal at 35,808.

[6] *See* 7 U.S.C. § 7a-2(c)(5)(C).

[7] *See* 7 U.S.C. § 2(a)(1)(A).

[8] *See* Proposal at 35,807 n.6 (contrasting the market structure of prediction markets with legalized sports gambling companies and noting that a sports gambling company "typically controls and adjusts the gambling odds").

[9] *See* Commodity Futures Trading Act of 1974: Hearings Before the S. Comm. on Agriculture & Forestry on S. 2485, S. 2578, S. 2837, H.R. 13113, 93d Cong., 2d Sess. 685 (1974) (statement of Sen. Clark) (stating that the application of different state laws to derivatives trading would "lead to total chaos").

to state-law definitions of gambling.[10] The Proposal, however, properly reverses course, recognizing that an approach under which the act of trading in a contract can itself constitute gaming is "incompatible with the Special Rule's structure" because it could apply to all event contracts and render this category "limitless."[11] With respect to the definition of "gaming" and elsewhere, the Proposal correctly addresses shortcomings in prior interpretations and sets reasonable limitations on the scope of the Special Rule.

Further, the Proposal promotes regulatory certainty by articulating clear, technology-neutral standards that market participants can incorporate into product design and compliance processes. This durable, rules-based foundation reduces the risk that market participants build products in reliance on one interpretation only to see it reversed by subsequent shifts in regulatory priorities or Commission leadership.

III. The Commission Should Adopt Its Settlement-Based Interpretation of "Involve" and Further Clarify Its Application

We agree with the Commission that the term "involve" is central to the application of the Special Rule. Consistent with the statutory framework, the Special Rule should apply only to event contracts that directly "involve" an enumerated activity, and this test should produce clear, consistent results with respect to the Special Rule's application.

We broadly support the Commission's settlement-focused approach to this term, which accurately recognizes that "it is the underlying activity that is the subject of 'involve,'" as opposed to the contract itself.[12] By focusing on how a contract settles, this interpretation avoids sweeping in contracts with only a remote or incidental connection to an enumerated activity. This approach appropriately cabins the Commission's authority under the Special Rule to circumstances where the settlement of a contract is determined by an occurrence, extent of an occurrence, or contingency in one of the enumerated activities.[13]

The Commission's settlement-focused interpretation also aligns with the reasoning of the U.S. District Court for the District of Columbia, which construed the same statutory term in *KalshiEX LLC* v. *CFTC* ("KalshiEX"). There, the court determined that a contract "involves" an enumerated activity "if the event being offered and traded as part of that contract or transaction relates to that activity," and it described that event-focused construction as "the most natural, and only consistently workable, reading of the provision."[14] The court rejected the position that a contract can involve an enumerated activity because the act of trading the contract amounts to that activity, reasoning that this construction cannot be applied consistently across the

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[10] *See* CFTC, *In the Matter of the Self-Certification by North American Derivatives Exchange, Inc., of Political Event Derivatives Contracts and Related Rule Amendments under Part 40 of the Regulations of the Commodity Futures Trading Commission* (Apr. 2, 2012) [hereinafter "Nadex Order"]; CFTC, *In the Matter of the Certification by KalshiEX LLC of Derivatives Contracts with Respect to Political Control of the United States Senate and United States House of Representatives* (Sept. 22, 2023).

[11] Proposal at 35,825.

[12] *Id.* at 35,821.

[13] *See id.*

[14] *KalshiEX LLC* v. *Commodity Futures Trading Comm'n*, No. 23-cv-3257 (JMC), 2024 WL 4164694, at *13 (D.D.C. Sept. 12, 2024), *appeal dismissed*, No. 24-5205 (D.C. Cir. 2025).

enumerated categories.[15] The court further explained that a broader reading would allow the Commission to review any event contract, because every event contract entails staking value on a contingent outcome, and would thereby swallow the Special Rule's limitation to specific enumerated activities.[16] The Proposal adopts the same analytical frame. By anchoring "involve" to the occurrence on which settlement turns, the Proposal harmonizes the Commission's interpretation with KalshiEX and departs from the overbroad readings reflected in the Commission's 2012 order concerning political event contracts and discussed in connection with the Commission's 2021 review of Eris Exchange, LLC's ("ErisX") sports-related contracts.[17] Codifying an interpretation consistent with judicial precedent will make the final rule more durable and give market participants a single, stable standard.

Finally, given the central importance of the term to the Commission's framework, the Commission should also consider providing additional examples to help delineate different types of event contracts and how the Commission anticipates analyzing whether such contracts "involve" an enumerated activity. Further examples illustrating limitations of the "involve" definition, including where a settlement condition could be satisfied through multiple causal pathways, would provide market participants with helpful guidance for structuring products.

IV. The Final Rule Should Require the Commission to Publish Its Determinations and Supporting Analysis

All of the Commission's determinations made under CFTC Regulation 40.11 should be publicly available, along with the Commission's analysis supporting the determinations. This transparency provides market participants with the clarity they need to design compliant event contracts and reduces the need for repeated, fact-specific inquiries to Commission staff. Each published determination adds to a body of precedent on which market participants and the Commission itself can rely, promoting consistency and predictability over time.[18]

The 2021 ErisX proceeding illustrates the cost of the alternative. There, ErisX withdrew the relevant self-certification during the review period, before the Commission issued a public determination, leaving the market without authoritative guidance on how the Commission's rules applied. Individual CFTC Commissioners stepped in to attempt to fill the gap through separate public statements.[19] The result was uncertainty that persisted well beyond the individual proceeding, as market participants were left to infer the Commission's views from incomplete signals rather than a reasoned, published Commission order.

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15 *Id.* at *11 ("The 'act of trading in' an event contract can never 'amount to' war. The 'act of trading in' an event contract cannot 'amount to' terrorism.").

16 *Id.* at *12 (explaining that under the Commission's prior logic, "it could presumably review any event contract, because (1) a person or entity purchasing an event contract is putting money on the outcome of a contingent event and (2) many states define such conduct as 'gambling' and make it unlawful").

17 *See* Nadex Order; Statement of Commissioner Brian D. Quintenz on ErisX RSBIX NFL Contracts and Certain Event Contracts (Mar. 25, 2021) [hereinafter "Quintenz Statement"].

18 *See* Proposal at 35,841 (noting that "[p]rediction markets could thus look to the Commission's published determinations to anticipate how the public interest factors are likely to apply to comparable event contracts").

19 *Id.* at 35,816; *see also* Quintenz Statement; Statement of Commissioner Dan M. Berkovitz Related to Review of ErisX Certification of NFL Futures Contracts (Apr. 7, 2021).

The Proposal takes a meaningful step toward transparency by requiring that any order finding an event contract contrary to the public interest include written findings addressing each factor relied upon and explain its consistency with prior determinations, as well as requiring that the Commission post to its website its determinations to initiate reviews of event contracts. We support these provisions. A gap remains, however: if the Commission declines to issue a prohibition order following its review, the contract may be listed or continue trading with no order or supporting analysis required.[20] As a result, the Proposal would require an explanation for prohibitions but not for approvals (including approvals-by-inaction), an asymmetry that would deprive the market of interpretive guidance in circumstances where it is likely to encourage responsible product innovation.

While the Commission states that this approach "would allow for a more streamlined process," we believe that any gains in efficiency are outweighed by the resulting loss of market guidance.[21] The incremental burden of publishing a determination in cases where a contract is permitted to proceed is likely modest, particularly relative to the analyses the Commission will already have undertaken in conducting its review. The Commission should therefore require publication of its reasoning whenever it concludes a CFTC Regulation 40.11 review, including when it permits listing, so that determinations or inaction allowing event contracts to proceed provide the same interpretive guidance as determinations prohibiting them.

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[20] *See* Proposal at 35,819.

[21] *Id.*

V. Conclusion

HPC and Multicoin Capital commend the Commission for advancing a thoughtful, forward-looking framework that provides market participants with stable ground rules and creates the conditions for these markets to develop and mature responsibly. We appreciate the opportunity to comment and welcome the chance to provide further assistance as the Proposal is finalized.

Respectfully submitted,

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