coinbase

**To:**

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
1155 21st St NW
Washington, DC 20581

**July 27, 2026**

## Notice of Proposed Rulemaking - RIN 3038-AF65 Prediction Markets; Public Interest Determinations

Coinbase Global, Inc. (together with its subsidiaries, "**Coinbase**") appreciates the opportunity to respond to the notice of proposed rulemaking ("**NPRM**") published by the Commodity Futures Trading Commission ("**CFTC**" or the "**Commission**")[1] proposing amendments to further specify the types of event contracts that may be subject to a determination that they are contrary to the public interest.

We appreciate the CFTC's strong leadership to provide regulatory clarity for event contracts and prediction markets, which are among the fastest growing areas of derivatives markets. The promise of event contracts lies in their ability to respond to a wide range of new developments in the economy and society — but this also heightens the challenge of balancing innovation with regulation that protects the public interest. As prediction markets mature, the CFTC will need to deploy its expertise to sustain their function as financial and information instruments.

The NPRM evidences a substantial improvement over the existing CFTC Rule 40.11. We commend the CFTC for clarifying that public interest determinations by the Commission require separate inquiries into whether an event contract involves an enumerated activity ("**Enumerated Activity**") and whether the contract is ultimately against the public interest. This approach aligns with the plain language of the Commodity Exchange Act ("**CEA**").

We look forward to working with the Commission on these issues.

Faryar Shirzad
Chief Policy Officer
Coinbase

[1] Prediction Markets; Public Interest Determinations, 91 Fed. Reg. 35806 (June 12, 2026).

## Introduction

Prediction markets are derivatives markets with significant economic uses; they also provide meaningful informational value that extends well beyond their immediate participants. Derivatives markets are regulated exclusively by the federal government, and primarily by the CFTC. This foundational point must guide the Commission as it finalizes this proposed rule. Like other derivatives markets, prediction markets will realize their full potential benefits only if they continue to be overseen by a financial regulator with the expertise to enforce a unified set of national rules — and make the complex decisions required to foster robust markets and protect the public interest.

Coinbase operates Coinbase Derivatives, LLC ("**CDE**"), a CFTC-registered designated contract market ("**DCM**"), and Coinbase Financial Markets, Inc. ("**CFM**"), a futures commission merchant ("**FCM**") registered with the National Futures Association ("**NFA**"). Our comments are grounded in our direct experience operating within the CFTC's regulatory framework, and in our strong interest in seeing that framework continue to function effectively as prediction markets grow.

Over the past several years, prediction markets have emerged as one of the fastest growing and most consequential areas of derivatives markets. Far from being incidental, this growth reflects increasing demand for instruments whose settlement conditions can be calibrated to provide more precise exposure and access to information in ways that other financial products cannot. Prediction markets distill information into publicly accessible probabilities, giving individuals and institutions access to forecasts that were once available only to those with the resources necessary to commission proprietary research or retain specialized expertise. They enable hedging against economically significant events for which no conventional hedging instrument exists, like elections, regulatory decisions, and macroeconomic developments. And they provide these solutions with the oversight of a federal regulator capable of ensuring market integrity, regulating exchanges, and rooting out unlawful activity like trading on misappropriated information. For all of these reasons — for both the markets that exist today and the novel use-cases for event contracts that will develop in the years ahead — it is important to get this rulemaking right.

Striking the balance that will allow prediction markets to provide innovative financial and information solutions while ensuring that CEA Section 5c(c)(5)(C) (the "**Special Rule**") functions to protect the public interest is no small task. The universe of events on which contracts can be written is large and ever-changing. Market participants will seek to list contracts that respond to dynamic social, political, and economic circumstances, and some of these contracts will inevitably test the boundaries of any framework.

The challenge will be in distinguishing real public interest concerns from novel but legitimate economic use cases. A framework that is too rigid risks foreclosing the innovation inherent in the last category. One that is too permissive risks undermining the public confidence that underpins the social value of prediction markets in the first place. The Commission must therefore build a framework that is sufficiently prescriptive with respect to process to provide registered entities certainty, yet flexible enough to evolve along with and respond to this rapidly evolving asset class. Neither clarity nor flexibility alone will be sufficient; to build a durable approach, both will be required.

We appreciate that the Commission has approached this rulemaking thoughtfully, and the NPRM represents a meaningful improvement over the status quo. We believe the Commission's proposed revisions to existing Rule 40.11 correctly interpret the CFTC's authority to evaluate contracts for public interest pursuant to the Special Rule. The NPRM correctly treats the statute as requiring separate inquiries: (1) whether a contract involves an Enumerated Activity and (2) whether that contract is contrary to the public interest. This reading is also more workable for registered entities seeking to design and list products and more compatible with the Commission's longstanding principles-based approach to derivatives regulation. We applaud the Commission for taking this fundamental step towards regulatory clarity for prediction markets.

We strongly support the efforts of the Commission to delineate where contracts run afoul of the public interest. This is particularly important in areas that implicate violence of any type. To that end, we appreciate the Commission's signal to market participants that it intends to interpret terrorism, assassination, and war broadly. However, given the breadth of the proposed definitions, we believe it is critical that the CFTC provide a robust and clear process for identifying which contracts involve the Enumerated Activities and for determining whether such contracts are contrary to the public interest. Financial products and commercial activity are regularly influenced by geopolitics, but not all contracts that capture this relationship are contrary to the public interest. For example, if a war impacts supply lines, prices on certain items will go up. Depending on the facts and circumstances, a contract that captures this relationship may be contrary to the public interest, or it may provide customers with precise hedging and informational tools.

We offer three suggestions to improve the balance struck by the NPRM. First, <u>the Commission should provide increased clarity on when a contract "involves" an Enumerated Activity</u>. We strongly support the NPRM's focus on the settlement-determining occurrence, contingency, or activity as the correct analytical anchor for this determination. But because the line between contracts that "involve" an Enumerated Activity and those that do not remains unclear in practice, the final rule should do more to signal how the Commission intends to make this distinction. Additional concrete examples or accompanying staff guidance distinguishing edge-cases on either side of the line would improve the ability of registered entities to evaluate products at the design stage.

Second, the Commission should provide guidance on its "multiple causal pathways" framework. Where the causal link between the Enumerated Activity and the settlement-determining occurrence is sufficiently attenuated, we urge the Commission to recognize that a carve out for settlement based on one of the Enumerated Activities may not be necessary to ensure that the contract does not "involve" an Enumerated Activity. This is particularly the case where a carve out would make an event contract less useful to the market than existing, and long-standing, financial products reflecting similar economic exposures. Requiring a carve out for contracts that reference financial indices, which may be influenced by geopolitical events, does not seem necessary given the many other inputs, like economic growth, changes in supply and demand, and monetary policy that are also influential.

Third, the Commission should provide additional clarity and guidance to DCMs on their responsibilities in delisting contracts that the Commission has determined are contrary to the public interest and to avoid a process that negatively impacts customers who may not understand the potential impacts of the Commission's review process.

With these observations in mind, we offer several specific recommendations for refining the final rule below.

## The NPRM correctly applies the "Special Rule" and provides markets with a clear road map for contract review

As we noted in our response to the Commission's Advance Notice of Proposed Rulemaking on prediction markets,[2] existing CFTC Rule 40.11 is poorly drafted and has been interpreted by some as a blanket prohibition of certain event contracts. We strongly support the NPRM's approach of requiring the Commission to first determine whether a given event contract involves one of the specific categories identified in the Special Rule, before subsequently performing a separate analysis that asks whether that specific contract is contrary to the public interest. The proposed rule accurately reflects the distinct steps the statute requires the CFTC take in reaching a public interest determination.

The CEA does not require the CFTC to ban all contracts that involve an enumerated category. It says that the CFTC "may determine." It does not say "shall determine" or "must determine." The language grants the CFTC authority, but the exercise of this authority is discretionary. Such a grant cannot bind contracts involving the five enumerated categories as per se prohibited.

As described in more detail below, we believe this Commission has correctly interpreted the statutory provision in the NPRM and developed a comprehensive framework that

[2] *See* letter from Faryar Shirzad, Chief Policy Officer, Coinbase, to Mr. Christopher Kirkpatrick, Secretary, CFTC (April 30, 2026).

appropriately balances principles-based rules and detailed criteria to provide adequate regulatory certainty and clarity.

## The CFTC correctly interprets “involve” but should provide additional clarity on its “multiple causal pathways” framework

The Commission preliminarily interprets the term “involve” in the Special Rule to require that the settlement of the event contracts be determined by an occurrence, the extent of an occurrence, or a contingency in one of the Enumerated Activities as provided in the NPRM’s proposed Rule 40.11(a)(3).[3] While we believe this is the correct approach, it is worth noting that the Enumerated Activities represent broad, open concepts, even setting aside the Commission’s stated intent to interpret most of them broadly. The NPRM, for understandable reasons, declines to adopt precise definitions for all of the categories except gaming. But declining to draw clear boundaries to constrain most of the Enumerated Activities means the analysis of which contracts "involve" such an activity becomes the primary limiting principle governing which contracts may be prohibited by a negative public interest determination. By employing a deliberate and well-defined process, the CFTC can ensure that the Special Rule appropriately protects the public interest, allows for innovation in financial and information contracts, and provides registered entities with the clarity they require.

**The Commission should reinforce its interpretation of “involve” with additional examples.**

The NPRM’s interpretation of “involve” is consistent with the text of the CEA and the decision of the U.S. District Court for the District of Columbia in *KalshiEX LLC v. CFTC*.[4] The United States District Court for the District of New Jersey (affirmed by the United States Court of Appeals for the Third Circuit) recently adopted a similar approach, finding that “[T]he only workable interpretation of the special rule is that ‘unlawful under any Federal or State law’ refers to the underlying event rather than the act of staking money on that event.”[5] By focusing on the settlement-determining occurrence rather than the act of trading, the CFTC’s preliminary interpretation appropriately limits the scope of the Special Rule to contracts whose settlement is tied directly to an Enumerated Activity — exactly the circumstances Congress intended the Special Rule to govern. Accordingly, we also agree with the CFTC that event contracts involving subjects outside the scope of the Special Rule, such as election contracts, are not subject to public interest determinations. By focusing on the underlying settlement contingency, the NPRM takes a first but necessary step in striking the ideal balance described above by avoiding sweeping in overly broad categories of contracts.

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[3] *Id*. at 35821.
[4] No. 23-CV-3257, 2024 WL 4164694 (D.D.C. Sept. 12, 2024).
[5] *KalshiEX LLC v. Flaherty*, 25-CV-02152-ESK-MJS, 2025 WL 1218313, at *5 (D.N.J. Apr. 28, 2025), aff'd, 172 F.4th 220 (3d Cir. 2026).

While we view the Commission's preliminary interpretation of "involve" as the appropriate framework with which to implement the Special Rule, the line between contracts that will and will not "involve" an Enumerated Activity under the final rule is more clear in some cases than it is in others. As an example illustrating where the NPRM draws a clear distinction, the Commission notes that a contract settling on the occurrence of a murder would appropriately be viewed as involving unlawful activity, while a contract settling on a judicial or administrative determination of lawbreaking is not a contract involving unlawful activity, with the distinction being settlement on the unlawful activity of murder versus settlement on the legal determination. The final rule should include this and other explicit examples — including event contracts settling on agency adjudications concerning the legality of corporate conduct, or contracts settling on legislative and regulatory actions effecting a change in law — to provide clarity on how the Commission intends to implement the Special Rule.

**The Commission should clarify how the multiple causal pathways concept will function in practice.**

Where the meaning of "involve" is less clear — and where the NPRM should provide additional clarity — is when the NPRM introduces the concept of multiple causal pathways. The NPRM proposes that where a contract's settlement condition is facially neutral but can be satisfied by the occurrence of an Enumerated Activity, the contract should be treated as involving that Enumerated Activity unless the contract excludes that pathway with sufficient specificity in its terms. We support this framework in principle. However, its application at the margins requires further elaboration, both to give registered entities confidence in evaluating products at the design stage and to prevent the framework from expanding the scope of the Special Rule beyond what the statute supports. In addition to providing examples in this NPRM, the Commission should work toward this goal by providing additional examples through guidance after this rule is finalized.

Two related issues merit particular attention. First, the Commission should clarify the degree of separation sufficient to remove a contract from the scope of the Special Rule even in the absence of an express contractual carve-out. Where the settlement event is a market price, a commercial measurement, or a financial index, the event contract should not be subject to a public interest determination; an Enumerated Activity that might influence the contract's outcome is at least as remote from the settlement-determining occurrence as it would be for traditional financial products. The NPRM correctly notes that an event contract settling on the price level of a Brent crude oil futures contract is not subject to the Special Rule, even if it is sensitive to military activity. The final rule should retain this example and directly incorporate additional concrete examples that illustrate this principle in different contexts and across different markets, particularly where those markets are measured by established indices or widely reported statistical measurements.

Second, the Commission should clarify the circumstances in which it will and will not require registrants to include settlement carve-outs in their contract terms as a condition of avoiding Special Rule scrutiny. Although there are circumstances in which we agree it is appropriate to do so, treating all broadly drafted contracts as involving an Enumerated Activity that has an impact on settlement could severely limit the economic utility of many event contracts. Requiring carve-outs in cases of attenuated causal connection would place event contracts at a competitive disadvantage relative to functionally equivalent financial products, which would settle as expected and provide market participants the expected economic exposure regardless of whether the Enumerated Activity occurs; again, the Commission's example regarding Brent crude oil futures is instructive. The Commission should state clearly that it will not require registrants to carve out the Enumerated Activity pathway in these circumstances and provide additional specific examples to that effect.

## The Commission should provide clarity to DCMs on their responsibilities when contracts must be delisted

The Commission should provide clarity concerning the delisting process required when a contract has been found to be contrary to the public interest after the ordinary 90-day review. Delisting will have financial implications for DCMs and their customers, including how open interest will be resolved and how delisted contracts will be valued for the purpose of issuing customer refunds. FCMs and Derivatives Clearing Organizations of the impacted DCM will be affected, and the delisting process will trigger various regulatory reporting requirements that the CFTC will have to review and action. The NPRM's release opines that "delisting could result in an administrative burden for the prediction market" but "it would be manageable for [a] prediction market to cancel the event contracts and return the purchase price and fees paid by market participants for the event contracts."[6] We urge the Commission to explicitly confirm the obligations of DCMs and FCMs (for example, with respect to customer statements and daily segregation computations) in a final rule.

The Commission should also confirm that any order it issues implementing a public interest determination ("**Final Order**") will be made public on its website and published in the Federal Register, along with the determination initiating public interest review. In the public-facing notice accompanying the Final Order, the Commission should also include the reasoning underpinning its decision, including an analysis of how individual applicable factors contributed to a determination that the event contract was or was not contrary to the public interest. Although we do not expect delisting as a result of a public interest determination to be common — especially as registrants gain experience with the Commission's proposed framework — market participants must be able to have

[6] NPRM at 35838.

confidence that resolution of event contracts failing a public interest determination will occur in an orderly fashion.