ProphetX

Dean Sisun
Co-Founder & Chief Executive Officer
ProphetX LLC
4 World Trade Center, 29th Floor
150 Greenwich Street
New York, NY 10007

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**Via Regulations.gov Comments Portal**

Mr. Michael Passalacqua
Designated Federal Officer, Innovation Advisory Committee
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

**Re: Comment Letter Submitted in Connection with the August 20, 2026 Meeting of the CFTC Innovation Advisory Committee — Why a Two-Sided Exchange Model Matters to the Commission's Developing Market Structure for Sports Event Contracts**

Dear Mr. Passalacqua:

My name is Dean Sisun. I am the Co-Founder and Chief Executive Officer of ProphetX, America's first CFTC-registered Designated Contract Market and Derivatives Clearing Organization built specifically for sports-based event contracts. Our mission is to create the world's most trusted and innovative marketplace where anyone can participate in event outcomes. I write to submit this comment letter in connection with the August 20, 2026 meeting of the Innovation Advisory Committee ("IAC"), which is scheduled to address, among other topics, prediction markets and recent Commission activity in that space.

I have spent much of the last several years, in public writing, in press statements, and in comment letters I have filed with the Commission, making a single structural argument. Two-sided, peer-to-peer exchange markets produce better outcomes for consumers than the one-sided, single-dealer model that defines the traditional state-regulated sportsbook industry. The Commission's recent Advance Notice of Proposed Rulemaking and Notice of Proposed Rulemaking have moved the regulatory discussion materially forward by recognizing that event contracts offered to the public as futures or swaps belong on federally regulated exchanges.[1] As the IAC considers how that framework should develop, I respectfully encourage the Committee to focus on what follows from that choice. Exchange status should carry market-structure content, and Section 4(c) should be a complementary tool for providing categorical regulatory certainty to compliant sports event contracts.

[1] Prediction Markets, Advance Notice of Proposed Rulemaking, 91 Fed. Reg. 12,516, 12,517–18 (Mar. 16, 2026); Prediction Markets; Public Interest Determinations, Notice of Proposed Rulemaking, 91 Fed. Reg. 35,806, 35,809–10, 35,830–31 (June 12, 2026).

## I. <u>The structural distinction between two-sided and one-sided markets</u>.

My starting premise, which I have made publicly since I first set out to build an exchange for sports nearly a decade ago, is an analogy to the rest of the financial system. Markets for stocks, crypto, and other financial assets function as fluid, two-sided venues where buyers and sellers transact with one another and the venue's role is to provide the infrastructure for liquidity, price formation, and efficient transfer rather than to stand on one side of every transaction. We have built ProphetX on the view that sports event contracts, once listed on a regulated venue and cleared, are financialized instruments that have entered the financial system. ProphetX operates as a peer-to-peer exchange in which users are matched against each other and trade directly, with the platform earning a commission rather than a betting margin.[2] Participants set prices and trade against one another. The venue itself does not hold a directional position in the outcome.

That structure is distinct from the state-regulated sportsbook model. A sportsbook is, in economic terms, the seller of a product. It sets the price presented to the customer, stands as the customer's counterparty, and earns a margin across customer activity. That seller-customer structure is not an inherent feature of sports event outcomes. It is simply the model state-regulated sportsbooks have used. A two-sided exchange can offer exposure to a similar underlying event on fundamentally different economic terms, with prices formed through competition among market participants rather than set by the venue as principal.

Nothing in this argument suggests that principal or dealer-intermediated markets are inherently problematic. CFTC-regulated swap dealers and securities broker-dealers perform important functions in markets designed around principal intermediation. My point is narrower. Where sports event contracts are listed and cleared as derivatives on a DCM and offered as exchange products to the public, the Commission's market-structure rules should preserve the competitive price formation and venue neutrality that an exchange can deliver, rather than allow exchange form to reproduce the seller-counterparty economics of the state sportsbook model.

The Commission's recent Conflicts and Affiliations proposal points in the same direction. The Commission does not propose to prohibit affiliated market makers. Instead, it distinguishes bona fide market making from directional proprietary trading, including by proposing that an affiliated market maker maintain continuous two-sided quotations, receive execution only after unaffiliated members at the same price levels, and refrain from taking directional proprietary positions except in connection with its market-making obligation. That is not a mandate for any one business model. It reflects a sound market structure principle. Affiliated liquidity may help support or bootstrap a market, but it should supplement rather than displace independent price formation. For sports event markets, rules should preserve room for customers, professional market makers, and other independent participants to compete on both sides of the market while the venue remains neutral as to outcome.[3]

## II. <u>The consumer-economics case against the one-sided sportsbook model</u>.

I have also tried to make a specific economic argument for why the one-sided sportsbook model can harm the very consumers it is often defended as protecting. New York is a useful illustration. Sports wagering

[2] Mike Breen, "ProphetX Wins CFTC Approval for Sports Focused Prediction Exchange," DeFi Rate (June 11, 2026), https://defirate.com/news/prophetx-wins-cftc-approval-sports-focused-prediction-exchange/.

[3] Conflicts and Affiliations, Notice of Proposed Rulemaking, 91 Fed. Reg. 50,926, 50,949–52 (Aug. 6, 2026).

revenue is taxed at 51 percent.[4] On top of that tax, sportsbooks in New York and other high-tax states typically incur significant promotional costs. By my estimate, the combination can consume 70–90 percent of sportsbook revenue before operating expenses are even considered.[5]

The significance of that tax is not a separate public-policy argument sitting beside market structure. The transmission mechanism runs directly through the sportsbook model. A one-sided operator that is both the price setter and the customer's counterparty must recover those costs through the economics it controls, including hold, pricing, promotions, limits, and product mix. That pressure can produce wider margins, particularly in higher-hold products such as same-game parlays, and the customer ultimately receives a worse price.

In two-sided markets, the structural difference is that the venue does not need to embed those costs in a house-set directional price because the venue is not the directional counterparty. Buyers and sellers compete over the contract price, while the exchange charges for facilitating the transaction. The New York example therefore reinforces the market-structure point. Where one operator controls both the product price and the opposing economic position, cost pressure and profit maximization can be transmitted through that controlled price. Where independent participants form the price, venue costs and market prices are cleanly separated.

From this, I have drawn a two-part definition of what genuine consumer protection requires. First, identifying behavior that is counter to responsible trading early and building appropriate safeguards around it. Second, structuring the market so that consumers keep more of their own money while they participate.

## III. A durable federal exchange framework — market structure and Section 4(c).

I have consistently tied this structural argument to the case for a durable, CFTC-administered framework for sports event contracts. In an April 2026 comment letter responding to the Commission's ANPRM on prediction markets, I urged the Commission to use its authority under Section 4(c) of the Commodity Exchange Act to establish a conditions-based framework for sports event contracts.[6] ProphetX has continued to press that approach in its comments on the Commission's subsequent NPRM and its fintech innovation RFI.

The regulatory posture has now moved materially in that direction. The ANPRM explains that a prediction market offering futures or swaps to the general public must register as a DCM. The NPRM proceeds from the same premise and recognizes price discovery, information aggregation, responsible innovation, and fair competition as relevant features of the Commission's event-market framework. The threshold question is therefore no longer whether these instruments can enter the financial system. The more important question

[4] New York State Gaming Commission, Sports Wagering, Taxes & Revenue (stating that sports wagering revenue is taxed at 51 percent), https://gaming.ny.gov/sports-wagering (last visited Aug. 19, 2026).

[5] Dean Sisun, "ProphetX Raises $35M to Power the Prediction Market Sports Traders Need," Dean Sisun on Substack (July 28, 2026), https://deansisun.substack.com/p/prophetx-raises-35m-to-power-the.

[6] ProphetX, "ProphetX Releases Comments to CFTC on Prediction Markets Rulemaking," PR Newswire (Apr. 21, 2026), https://www.prnewswire.com/news-releases/prophetx-releases-comments-to-cftc-on-prediction-markets-rulemaking-302748818.html.

is how the Commission should structure the federal rules so that sports event contracts can function as exchange products in economic substance as well as legal form.

Section 4(c) should be part of that design process as a complementary product-certainty tool. The Commission's NPRM specifically asks whether it should use Section 4(c) to provide that defined classes of event contracts may be listed and traded without individualized review under Regulation 40.11.[7] A categorical framework could set objective conditions for eligible sports event contracts — including clear settlement criteria, surveillance, information controls, and market-integrity protections — and provide exchanges with maximum ex ante regulatory certainty. The Commission's broader innovation RFI similarly asks how regulatory and authorization processes can be made better fit for purpose while preserving market integrity and customer protection.[8]

Taken together, this is the request I renew here. As the Commission defines the federal rules of the road for sports event contracts and prediction markets, it should treat the two-sided exchange model as a distinct and legitimate market structure and keep its rules broad enough to let a two-sided, commission-based exchange compete on its own economic terms. Section 4(c) can help define what may trade. The Commission's market-structure and conflicts rules should preserve the conditions under which those products can trade through neutral, competitive price formation. That is how competition should be created in this space by giving multiple venues the ability to offer similar underlying interests on different economic terms, so that the market, rather than a single dominant structure, determines which model actually serves consumers best.

**IV. <u>Conclusion</u>.**

I applaud the CFTC for its leadership in prioritizing pragmatic regulatory innovation and for convening the Innovation Advisory Committee. I respectfully ask the Committee and the Commission to consider the framework I have laid out above. A two-sided, peer-to-peer exchange model operating under durable federal oversight is not simply another way to package the state-regulated sportsbook model. It is a structurally distinct, more consumer-favorable way to bring financialized sports event contracts into the financial system, and the Commission's developing market-structure rules should preserve the neutral, competitive price formation that makes that distinction meaningful.

Section 4(c) can complement that market-structure framework by providing categorical certainty as to which compliant sports event contracts may be listed. Used together, those tools can give the market durable rules of the road while allowing two-sided exchanges, independent liquidity providers, and other compliant market structures to compete on the merits.

I appreciate the Committee's and the Commission's attention to innovation across the prediction-market landscape and would welcome the opportunity to discuss this further.

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[7] See 7 U.S.C. § 6(c); Prediction Markets; Public Interest Determinations, 91 Fed. Reg. at 35,839 (requesting comment on use of Section 4(c) for defined classes of event contracts without individualized review under Regulation 40.11).

[8] Request for Information: Identifying Regulations to Facilitate Innovation and Competition to Financial Products and Services for Fintech Firms, 91 Fed. Reg. 36,774, 36,774–76 (June 18, 2026).

Respectfully submitted,

Dean Sisun
Co-Founder & Chief Executive Officer
ProphetX LLC