THE BROOKINGS INSTITUTION

FALK AUDITORIUM

THE RISE OF PREDICTION MARKETS: LEVEL PLAYING FIELD OR RIGGED GAME?

Washington, D.C.

Tuesday, May 12, 2026

WELCOME:

AARON KLEIN
Miriam K. Carliner Chair and Senior Fellow, Center on Regulation and Markets, The Brookings Institution

CONVERSATION:

THE HON. ADAM B. SCHIFF (D-CALIF.)
Senator

MODERATOR: AARON KLEIN
Miriam K. Carliner Chair and Senior Fellow, Center on Regulation and Markets, The Brookings Institution

PANEL:

RICK HEASLIP
General Counsel and Chief Regulatory Officer, Kalshi Inc.

SAM HENRY LAZARUS
Special Assistant to the President and Research Associate, Council on Foreign Relations

TODD PHILLIPS
Assistant Professor, Georgia State University

MODERATOR: KRYSTAL HUR
Reporter, The Wall Street Journal

* * * * *

KLEIN: Good morning. Good morning. Good morning. Good morning. I know we're starting a couple minutes late. We've had to call a few audibles, the vagaries of the US Senate schedule with votes and other things going on. So, we're gonna flip the script here, and we're gonna start with our panel, and then when Senator Schiff is able to join us, we're gonna either turn to him or pause in the middle and have a little bit of a Schiff sandwich. In that space, I just wanna welcome everybody to the second of our series of events on prediction markets. Prediction markets are changing the way in which people debate, discuss, and financially speculate on Events from political outcomes to sporting outcomes to the Oscars to the color of the Gatorade thrown on the coach at the Super Bowl, these are coming to your living room, live and in your phone, anywhere in the country as they've now been categorized as financial contracts or swaps.

So as a person who spent his career in financial regulation during the day and maybe enjoyed a little bit of gambling in the evening I've now increasingly found these two things merging in a world in which the regulatory regime and apparatus was not necessarily constructed to consider a bet on tonight's basketball game as a financial swaps or future. In fact, sports wagering had long been the domain of states and tribes with various ages and restrictions all around the country. This was made painfully clear to me this weekend when I was in the place on Earth I'd least want to be, Delaware. When I was in Delaware, like about half of men my age, I opened up my FanDuel sports betting account and was redirected by their automatic geolocation because there is no sports betting on any site in Delaware other than the one sole source contract Delaware has given on sports gaming.

But FanDuel said I could join something called FanDuel Predictions, and with six clicks of self-certifying that I didn't have a gambling problem and had a lot of money and was smart, lo and behold, I funded an account and was able to place a future swaps contract as easy as my thumb could move and somewhat seamlessly from the user's perspective, overriding the sole source contract given in Delaware state law, Delaware age restrictions, all the rest of the things. And the minute I could get back safely to Ocean City, Maryland and not be oppressed by Delaware's tyranny, I was back on my old website because a state-based system, for those of us who cross state lines, is very different than a uniform federal swaps contract.

If what I said to you sounded confusing and complex, it's because it is, and in order to understand this, we have a panel of experts who bring a wide diversity of experience in their personal and professional capacities through to examine this lens or, as my younger kids would say, to turn the Rubik's Cube to all sides. And hopefully together, their combined genius will help us solve or at least unscramble it a little bit more, so we'll leave here with at least one side solved. With that regard, let me start by introducing Sam Lazarus, who's the special assistant to the president at the Council on Foreign Relations, where he focuses on the intersection of markets and geopolitics. An active prediction market trader since 2017, quite the early adopter, Sam previously helped start Melange Technologies, an early venture-backed event contract exchange.

So, Sam, come on up. In that process, following Sam will be Todd Phillips, an assistant professor at Georgia State University, where he previously served as an attorney for the Federal Deposit Insurance Corporation and Director of the Financial Regulation and Corporate Governance Program at the Center for American Progress. He also served on the Commodities Future Trading Commission's Market Risk Advisory Committee. He's a Roosevelt Institute fellow and a leading voice in digital asset regulation and administrative law. Come on up, Todd. Next, we have Rick Heaslip, who is Kalshi's general counsel and chief regulatory officer. With years of experience in event contract trading and even a career before as a professional poker player, Heaslip has a deep understanding of trading and market dynamics, and he earned his JD from Harvard Law School. So, Rick, come on up.

And then I will be trading places and handing over the mic to Krystal Hur, somebody who if you aren't reading on a regular basis, then you're out of the loop because Krystal is one of the lead reporters for The Wall Street Journal, where she covers derivatives and market structures. Previously a reporter at CNBC and CNN, where she covered global financial markets and holds a dual degree in business administration and English, so hopefully we'll all be able to understand this incredibly complicated situation, from the University of Michigan. So, Krystal, come on up, and the floor is yours.

HUR: Thanks. Thanks, Aaron. Hi, everyone. Thank you for being here. I think we should just get started, right? I guess just to start off really simple, obviously there's this big debate going on about prediction markets. Do they serve an economic societal function? Are they just pure gambling? Are they a mix of the two? I would like to hear from each of you on where you stand and what your thoughts are about that. If we can start with you, Rick.

HEASLIP: Sure, and... Oh, am I being picked up? Perfect. And thanks for having me, by the way. Yeah, so I, I think that prediction markets, obviously it goes without saying, serve a great societal function, great purpose for everybody. I think that they really provide information when it comes to, the probability of an event taking place or not. They provide an avenue for folks to hedge risk. They provide an avenue for folks to speculate. And just broadly I believe that they are good for society as a whole.

HUR: Okay. Sam?

LAZARUS: Yeah, thanks for having us here. Look, I think they're a dual use technology in that I think there's a use case where they're purely speculative, and there's a use case where they're- High grade institutional hedging behaviors occurring on an onshore event contract exchange. And it's really a question of what we make of them, what the law permits the exchanges to offer to retail users and institutions. And right now, just dollars in, dollars out. They are obviously a venue for rampant speculation and gambling. So, I guess that's my answer as they exist today, but it's not what I'd like them to be in the future.

PHILLIPS: I guess I'm the prediction market skeptic here. I think that most the contracts that are listed on prediction markets they're known as binary options. They're yes no contracts really are not very effective hedges for any real-world events. It's very difficult to actually hedge economic risk when you're just betting yes or no. Kalshi has found some institutions that are using them to hedge. They're generally insurance companies which are, I think, supposed to hedge their risk themselves. And so, I, I'm not a big fan. I see a lot of what's happening as gambling and I see the CFTC, which is the regulator of these, really taking their eye off the ball of the markets that really do help market participants hedge their, hedge their risks.

HUR: And if any of you would like to respond to each other's points, I think it'd be great if this could feel like a conversation too.

HEASLIP: Sure, yeah. Happy to get started. So, as you mentioned, we do have quite a few entities on Kalshi who are currently hedging their risk. That hedging takes place in a variety of types of contracts, not just sports, which we're known for. In fact, sports are becoming less and less of our overall contracts that we offer. But under the law, there's not really a requirement for there to be hedging anyways. There's a place for speculation. There's a place for other market participants to be meeting their various needs. I'd also note that a lot of folks are getting out of these things even if they're not getting out of this information, even if they're not trading.

So, if you think of the Kalshi user as someone who actually, comes onto Kalshi's website and checks it, seventy percent of Kalshi's users are not trading at all. What's happening is they're seeing something in the news, they're seeing world events, and they're wondering how that actually translates to things that may or may not happen. And so, they'll go on Kalshi, they'll check the odds, and they'll see, was that talking head that I just saw on CNN telling the truth? Were they giving me a real accurate assessment of what may or may not happen? And so Kalshi as an enterprise provides that for everybody, even if they're not trading.

HUR: And the title of this panel asks if prediction markets are a level playing field or if they're rigged, right? We are seeing instances now of people potentially manipulating thermostats for weather markets. We're seeing politicians bet on their own elections on markets as well, right? When you look at those kinds of instances, like one, how do you on Kalshi define insider trading and market manipulation? And on instances where people are maybe manipulating thermostats, doing other things that are hard to track, how are you thinking about restricting this kind of activity on your platform?

HEASLIP: Sure. So, there are two parts to that. I'll start with the premise just because it's worth making a really important distinction here. So Kalshi is a US regulated entity and federally regulated under the CFTC. We have other prediction markets that are out there in the world operating under the laws of places like Panama that are not regulated by the CFTC. And so, there's a fundamental difference between the types of contracts you'll see on those places and also the types of activity that you'll see on those places.

So, you were making reference to someone ma- manipulating a weather sensor, for example. That was not on Kalshi, for what it's worth. That was on one of our competitors. And you'll see that kind of across the board in terms of what we offer, in terms of the type of activity that takes place, and in terms of what we do to prevent insider trading on the platforms themselves. So, to get to the second part of the question about insider trading we start with the regulations of course, and the statutory framework. We have a misappropriation framework here in the United States and then we go beyond that. So, we also talk about and take a look at folks who can manipulate the outcome of the event itself, and we prevent those folks from trading in a lot of ways.

I could talk about this one for a while, but to go very quickly, 'cause I know there are other folks up here we first prevent certain classes of people from joining Kalshi as a whole. So, members of Congress, for example, are prevented from joining Kalshi at the outset. They can't trade on any contracts. They simply, their decisions involve too many things that relate to our markets as a whole. So, we just preventatively will stop them from trading. At a certain point, we also bring in data about our members that come in. So, we have full KYC information as a US regulated exchange. And so, if someone, for example, is a sports player, they will be prevented at the outset from trading on their given sport.

So, an NBA player will be prevented from trading an NBA contract at the outset. They won't be able to do it. However, we can't catch everybody, and so we also have around the clock surveillance team that every single minute of every single day is reviewing surveillance flags, is taking tips, is investigating for insider trading is interviewing folks. It's actually a felony to lie to a member or someone, a representative of a designated contract market that is investigating one of these claims. So, we interview people, and then we will either enact exchange discipline or pass it off to the CFTC or DOJ or both. So, we try to catch it all. We can't always catch everything ahead of time, but that's how it works on Kalshi, just like it works on the stock exchange.

PHILLIPS: Can I, I wanna I, I agree with that, and I agree with everything that Rick just said. I think one thing that people don't generally realize is that most of The bad or inappropriate actions people are seeing are happening on offshore exchanges that are not regulated. I think one of the biggest problems is that it's still fairly easy for Americans to get on those unregulated exchanges. The prior administration brought an enforcement action against one of those offshore exchanges was looking into bringing a more substantive enforcement action against that offshore exchange. And since prediction markets have grown, there's a big problem that the CFTC, the regulator of these things, is not really doing enough to keep Americans off of offshore exchanges. I would love to see the CFTC do a lot more to preserve the integrity or at least keep Americans off of these exchanges-- these offshore exchanges where it does seem like they are using inside information and US laws are not having the necessary reach that they should.

LAZARUS: I agree with that. And I would like to see them move to curb US persons use of offshore exchanges, but I guess the broader question in my mind isn't if the game is rigged. I don't think it's rigged. I think the rules on Kalshi are understood by all participants, generally difficult to circumvent. The reason we're here today, I think in large part, is because the game has been marketed as easy to win. And the marketing that Kalshi and your competitors have deployed is that you've built a sort of more lowercase d democratic enterprise for speculation. And, we know now from the WSJ's analysis, and I know there are some quibbles about the numbers, but somewhere on the order of two-thirds of the profits on these exchanges are reaped by one one-thousandth of all the traders. So, the game's not easy to win, but it's been marketed as easy to win. I think that is actually the more interesting question on fairness and these being more democratic enterprises for speculation and hedging or just another outgrowth of capitalism that is not really by nature democratic at all.

HEASLIP: Yeah I think that and I do quibble with those particular numbers. Our own internal numbers don't quite align to that. But- But

LAZARUS: you were a professional trader. You know that skilled participants in zero-sum markets like this are going to capture the lion's share of the profits.

HEASLIP: I wouldn't say lion's share, but I would also point out, proportion of profits and who they go to is not the only metric by which we decide-

LAZARUS: Sure.

HEASLIP: Whether something has social utility. Otherwise, if folks think that a lot of profits going to one person is a real problem, then you look to the state lottery and that looks like the most unfair thing you could possibly find which there is a case for. But beyond that I think that having a fair and open marketplace where folks know the rules They have a fair opportunity to compete with one another on a central limit order book. And they have the ability to do the research, to check the odds, to get an understanding of their own trading activity, and then to compete with other folks. That is what generates better pricing, that's what generates a better product, even for folks who are not doing all the research.

PHILLIPS: But…

HEASLIP: Because there's a be, yes?

PHILLIPS: I was gonna say, but the people who are doing that really aren't using these contracts for any hedging purpose. It really just seems like they're gambling. Which raises the question, should these activities be regulated by a markets regulator? Are they really about markets? Are they really about hedging? Or is this really just a gambling product that should be regulated by a gambling regulator, either at the federal level or the state re-- state level? I don't wanna the, see the CFTC be a gambling regulator.

HEASLIP: Yeah. So gambling is an interesting term. It's a colloquial term that we often use to define, a frame of mind that you take with you into a risk enterprise. I am lactose intolerant. I had whole milk with my coffee this morning, even though I'm on this panel. I was gambling. That was a gambling moment for me. But colloquialism aside. Oh, I should also mention, by the way, the lines get gray. Is options trading gambling if Kalshi is gambling? But colloquialisms aside I think it's important to note that the question is not really is this gambling, the question is who is the best regulator for this enterprise? And at the end of the day, what Kalshi offers are markets. We offer a federal nationwide exchange like any other DCM, offering contracts that are also now being offered on other DCMs.

CME is now offering sports contracts, whether people like it or not. It's out there. And so, when you look at who the best regulator is for a nationwide exchange, the answer in my view is the CFTC. Because they are used to order books, they have ha- tackled these issues before, they've tackled insider trading before. And at the end of the day, these contracts are traded on DCMs, and this is essentially a marketplace. If I were to go to a state gaming regulator and ask them, "How are you preventing loss trading?" They would have no idea what I was even talking about oftentimes, and it's because markets are simply different than a unilateral betting exchange.

Here we're matching trade participants. We have an obligation under the CEA to make things fair, and the CFTC is a regulator that determines that.

PHILLIPS: I will say, but like Aaron said, you go to a state that has banned gaming, suddenly the sports books are converting people over to brokerages that connect to these markets, and people are treating them exactly the same. I understand what you're saying about markets versus, a sports book and state regulators don't have this, the knowledge. I think the state regulators can get there. And I think, I'm concerned that by the prediction markets really setting up nationwide and just exploding all at once we're preventing society from having a conversation about whether we really should be permitting these types of things or whether we should allow states to ban gambling and or prevent their residents from participating on prediction markets.

I don't think anyone who voted on Dodd-Frank back in twenty ten, which kind of authorized this type of thing, thought that they were allowing anything like this. We just have not had the societal conversation about whether this is a good thing, whether this is distinct from gambling, whether we want states to have a role.

HEASLIP: Yeah. So, it with respect to Dodd-Frank, I would say, they the entire purpose of the special rule as you're well aware was to give the CFTC discretion over reviewing these contracts, whether or not they involve gaming, and then assigning a public interest determination there. So, Congress had in mind the idea that this might look like gaming in the future, just like it has in the past. If you look back a hundred years, a derivatives trading was often also viewed as gambling. People said, if someone was trading based upon the price of wheat, it was gambling in grain. There was no physical delivery. They were saying, "This is just gambling." And so, this is a question that has often been embedded in markets. And at the end of the day, the Congress's solution to that in Dodd-Frank was to give the CFTC discretion to allow or disallow these contracts if they involve gaming.

LAZARUS: Do you think that sports gaming is a positive sum enterprise for the country?

HEASLIP: For the country as a whole, when you say sports gaming, so there are different versions of that. Obviously I think...

LAZARUS: sports gaming that we could indulge in on Kalshi today?

HEASLIP: Sure. So, I would say, like it or not, people want ex-- financial exposure to sports events. It has proliferated across the country. People are interested in the product. They wanna trade the product. So, if you can accept that folks want to use this product the question then becomes, what is the most fair version of this product? What is the version that we want to allow people to use versus not? In my view market-derived pricing is better pricing for everybody. And so that is the mechanism by which people who want this type of exposure can have it. And what I'm afraid of is finding we in a situation where due to a preliminary backlash against what is fundamentally the more fair version of this, it's just going to drive people, one, into the arms of a casino operator who has predatory incentives because every single dollar that a customer loses adds to their bottom line. Or two, just send people oversea-overseas to the exchanges of the world that are operating in crypto that are pretty easy to access, unfortunately today for many US consumers. And that's not what we wanna see either.

PHILLIPS: I don't think that's a very fair comparison. So, anyone can go to the overseas platforms. We already talked about how the CFTC really needs to do something to stop that kind of thing. I But the, it's not just about predatory pricing or the pricing of these contracts. It's more societal issues. It's people have problem gambling, and the CFTC does not have the regulatory apparatus necessary to deal with that, whereas the states do. Perhaps Congress could give the CFTC that. It hasn't, and I think that if we're giving the CFTC that authority to deal with problem gambling it makes it a lot like a gambling regulator rather than a regulator, a markets regulator that's set up to, prevent another financial crisis. One of the reasons we had the financial crisis in two thousand seven, two thousand eight was because Congress told the CFTC to stand down looking at financial derivatives and the economy blew up. I don't wanna see the CFTC take the eye out, take its eye off the ball again because it's focusing on being a gambling regulator.

HUR: All right. I think, I hate to cut this off, but senator's here, and I think we, this is a good time to pause and come back to it later. Thank you.

KLEIN: That was going somewhere. Thank you. We've been joined by Senator Schiff who's made his way over in the middle of votes in the United States Senate. You're a busy man.

SCHIFF: Yes.

KLEIN: Senator, you have an amazing track record. You ran the Intelligence Committee. You now have the hardest job in the Senate, I think, being representative of the largest state. And there are a million things on your plate. Why are you here today focused on prediction markets?

SCHIFF: First of all, thank you for inviting me, and my apologies. We're between votes to, to come and go. But I got, interested in this issue when we had a hearing in the Judiciary Committee about sports betting. It opened my ideas to the explosive growth of these prediction markets, and they seem pretty indistinguishable from gaming and sports betting. And I remember Mike Selig coming into one of the early hearings, I'm also on the Agriculture Committee and questioning him about this, and there was a Bills game coming up that weekend, and I said, "If I bet on the Bills game using a prediction market, is that a sports bet, if I bet on who's gonna win the Bills game?"

And his answer was something along the lines of that's a very complicated question." And I said, "Is it really? 'Cause it doesn't seem very complicated to me." Since then, I've really explored just how pervasive this kind of gambling is and how the CFTC is completely unequipped to regulate it. It has, frankly it's decimated its investigative staff to begin with. But even if it hadn't the challenge would be profound. Every day, every week, we seem to see a news story about whether it's campaign staffers with internal access to polling or betting on things. Or the real winners seem to be these professional market makers, these firms that hire people to do mass transactions.

They're the people making money where just about everybody else seems to be losing money. And the states certainly aren't gaining revenue from this as you have in states where there's approved forms of gaming. And what's more, in states like California where we prohibit sports betting and where we prohibit gaming except for tribes that we have compacts with it really seems to violate state sovereignty and a state's ability to decide whether extensive gaming is in the public interest or it isn't. So, a lot of things led me to that point.

KLEIN: Let's talk about that because you raised kinda two questions that I think are somewhat interrelated, right? So, you're from California, representing California, which does not allow sports gaming, along with several other big states like Texas. I'm from Maryland, and I like to note that one of the big changes in state and local government finance and in society writ large is the growth of gambling. When I was born 50 years ago, Maryland became the 12th state in America to have a lottery. Today 45 states have lotteries, and one of the five that doesn't is Nevada, and I think we can stipulate that they're a gaming state. And this is a federal, and now we have this sports gaming thing moving around, and states have handled that very differently.

One thing that is uniform is that states don't allow anybody under 21 to game. Puerto Rico does, not a state. Federal swaps contracts, because they're a federal issue, are marketed to anybody who's over 18. That's the financial. So, you have an age distinction, you have a sovereignty distinction as it relates to states and tribes, and then you have in the United States Senate where I worked for eight and a half years, a lot of different interests. You also have an incredibly polarized country, as you know far better than I. You've managed to work across the aisle on this. You partnered some landmark legislation with a senator, I will note Senator Curtis from Utah, one of those four states that is a non-gambling state. Can you talk about two functions?

One, what your bill with Senator Curtis does, because it's very powerful to see bipartisan legislation on anything these days, let alone a very hot topic. And two, how you're constructing your bill in this concept that you just raised of state versus federal sovereignty, because we've all seen politicians do the dance on federal rights versus states' rights and gambling has been something that long has been a state-based issue, and how that bill fits into your broader philosophy. So, one, the bill you have with Senator Curtis, two, your broader philosophy on federal state rights here.

SCHIFF: Yeah. The bill that John and I introduced essentially bans prediction market bets on sports as well as casino-style gaming. So doesn't outlaw prediction markets, and of course prediction markets can serve valuable purposes in setting prices for commodities and predicting or at least externalizing the risk of climate-related disasters. But with respect to casino-style gambling, sports betting, it would return that jurisdiction to the states and continue to allow the states to have the say on whether it's gonna be permitted and what ages it would be permitted. It would not go broader in prohibitions. At the same time, it is far more broad than some of the other legislation that, for example, we passed 100 to zero to stop members of the Senate from betting on prediction markets.

And we have legislation that I'm hoping to take up shortly that would prohibit betting in death markets, betting on assassinations and betting on war. So, I'd say it's in a middle space that doesn't try to accomplish all the reforms that are necessary, but does once again try to carve out those two big areas for state control. And I will mention one other thing that I was very disturbed about vis-à-vis the chairman of the CFTC. And that is notwithstanding his, his rather measly answer to my question about betting on the Bills game, I asked him also whether he would let the courts resolve this issue, and he said that he would.

And when he was a-asked about different permutations of different events, contracts, he said we gotta let the courts decide that." And so, I asked him, "Does that mean then that you're a tabula rasa that you're a blank slate that you're not gonna seek to tell the courts or use the CFTC to decide these questions?" And his answer was yes. He's done the exact opposite which I find very duplicitous. And right now, he's the only show on the road and he's leading the CFTC down this path to fully embrace prediction markets. And as one of the panelists earlier mentioned, e- even if they had the resources, which they don't to investigate all of the insider trading it will certainly divide their attention away from their core function, which is another big problem.

KLEIN: One of the things that I think has been a North Star in America financial regulation is a trade-off between consumer and investor protection with sophistication. If you're a small bank depositor, the government's there to stand behind you. If you're a small investor, the SEC is there, right? If you're a multi-billionaire running a giant private wealth fund, a little caveat emptor, right? You should be able to read the disclosures, have your team of army, et cetera. Swaps and futures were always set up for sophisticated market participants. And moving that regulator on a cultural basis, regulators have deep-standing culture, and it can't be turned overnight, particularly in an under-resourced, under environment.

The CFTC is meant to have five members and be a bipartisan agency. President Trump hasn't nominated a single Democrat to any single position, and I believe it's well known that the fights among CFTC to be chair was a crypto Game of Thrones. Because that's the other big issue. It's not as if the CFTC is just dealing with this. Senator Merkley was here. We were discussing this topic a few weeks before, and he made the point that the, CFTC isn't up to the job at the moment. Then we had former Commissioner Goldsmith Romero said, "It could be, but you have to devote a lot of resources." Is

Congress gonna devote the resources to the CFTC necessary? Do you see that coming in the next year or two?

SCHIFF: No, I don't. I don't see us compelling administration to staff up. I don't see us providing the money to do it. The majority right now seems all too pliant when it comes to industry and deregulation, and one way to deregulate is simply not have the staff to enforce the regulations that are even on the books. So, I really don't see that happening. And as you say, who's out there, looking out for the average consumer who doesn't have inside information who can use this frictionless way to gamble now? At least when you go to a casino, you have to get in your car, drive to casino, you have to show your ID, you have to go through all the protocols.

If you want to game on your phone at age 18 and maybe even if not 18, if you find a workaround it's just at your fingertips. And if you can now link other financial accounts to your prediction account and transfer money easily who's guarding against that? And who's looking into what's happening with gambling addiction, and have the rates changed? Are they changing now that it is so accessible?

KLEIN: So, another aspect of that, 'cause I'm gonna be honest, I enjoy going to the casino from time to time is the fairness-

SCHIFF: And they enjoy having you.

KLEIN: They do. They do. I play blackjack by the book, and that means I'm gonna win 48% of the time, right? That... and by the way, I know that there's a shoe, and I know that there's a regulatory apparatus making sure that the cards being turned from that shoe are fair according to laws of chance of the game. The Wall Street Journal's out there with an article saying that there are massive computer algorithms that you alluded to on the other side, so only 3% of players in these prediction markets are winners. Do you... are these markets fair?

SCHIFF: I think that's a very good question. They're not fair considering how many individuals now could take advantage of it with insider information, whether that is someone who is on a military mission and has inside information about the nature of their mission, or it's someone working inside a campaign. The possibilities are innumerable compared to everybody else. But maybe the most unequal matchup are these business enterprises that are now set up to use AI and to mass attack the problem to make money. The Wall Street Journal had an analysis that I think 67% of the profits made are made by 0.1% of the users.

And that's on Polymarket. Kalshi, I think, is a different ratio. But even there are three losers for every winner. And that also takes into account, these business enterprises that have become a kind of house. I know the argument that Kalshi and Polymarket make is this is different from gaming because there's no house. I don't know what significance the house is to a state's interest in being able to decide for its own people whether to allow extensive gambling. Surely it doesn't matter whether you are addicted to gambling when there's a house or you're addicted to gambling when there isn't a house. When there isn't a house, the state gets no revenue, so that's a factor, but it's not a factor that cuts in favor of using these prediction markets to gamble. But if you're essentially playing against now these highly sophisticated users who have all the edge, do they become a kind of house?

KLEIN: Let me kinda turn that a little bit on its side here, 'cause as an economist, I like markets, and I like the information markets generate. And one of the panelists was saying before now some talking head on CNN, and I felt like that was a little bit of a shot at me I'll be on Friday afternoon again, I think, talking about Powell's last day. But is he or she saying anything that's true? Or you can go to a prediction market and get an alternative piece of information. And that does have real value. On the other hand, I keep coming back to this basic principle; finance is a means. It is a means to connect savers and investors, it is a means to connect holders of capital with users of capital, with a risk-reward trade-off and a series of intermediaries designed to facilitate that.

And the better we can facilitate that, the longer healthier, our economy and society can grow because those people who are providing a means of connecting savers and investors are deciding where the capital's being allocated. And is it to a productive use, like wiring us all up to the internet, or is it flipping subprime mortgages, right? We had a slow recovery when I was in the Obama administration because we had a financial crisis, because we'd spent a bunch of money, not even giving houses, not even giving mortgages, doing derivatives on other people's mortgages. When finance comes to being an end, that is the goal is the intermediation, not the connection, our society financializes things, and in the long run, that is not, in my opinion, the way to grow a strong, healthy economy with a good distribution of societal resources. What does having financial contracts on non-financial outcomes, who wins the Oscars, right? These things, like what does that mean, and are you concerned about the financialization of everything in society? Is somebody betting on when our panel's gonna stop?

SCHIFF: I don't know what the over-under on that is, but no, it does concern me. Particularly if you look at just one subset, college sports. And you learn about the pressure that college athletes are under now because their pals are betting on their games, and maybe they're betting on how many passes they complete, or maybe they're betting on how many yards they get, or maybe they're betting on something that is well within that athlete- athlete's ability to influence. And athletes are getting harassed because people have lost money on them. And of course it's not just athletics. You can... Because you can bet on anything it, it really covers the gamut. And it's one thing if you're saying, "Let's socialize the risk of a bad crop," or, "Let's essentially outsource the question of what X is gonna be worth at a certain period of time," where there is a financial benefit along the lines that you describe. Or we're, we're just betting on a casino-style game, but we're calling it a prediction market. One has a utility, the other seems to have a utility only for those that are driving money from Making that service available.

KLEIN: We have time for one question from the audience because you have a vote coming up, and we promised to get you back to the vote, and you have to vote with your thumb in the Senate, none of these cards from the House side. Does anybody here have a question? Who or let me ask it a different way.

SCHIFF: No pressure, but it has to tie the whole conversation together.

KLEIN: Single best, single be- single best question there is.

AUDIENCE MEMBER: Sam. Thanks. Hey, Senator Schiff. Thanks for being here. So maybe a slightly higher level and tying into what the folks were talking about earlier, the derivatives complex, broadly, options, futures, perpetual swap futures, whatever you wanna call them, seems to have outgrown the securities markets that, that are their underliers and the regulatory apparatus. Do you see maybe a future reconception of how derivative, the derivatives complex broadly is regulated and whether considering, there are only two really commodities futures exchanges left, CME Globex and ICE, and then however many options exchanges there are, et cetera, whether the CFTC and the SEC and the trade-offs there can be rationalized into a different type of derivatives regulation regime.

KLEIN: Go for it.

SCHIFF: It's a great question. It really does tie everything together. It is certainly possible. And I would imagine if we were beginning the pro- process of establishing the SEC and CFTC today, it would look very different, and maybe there'd be only one of them. I literally just came from a crypto meeting, and I'm going back after votes to another crypto meeting as we're trying to see if we could come to agreement on market structure. And the process is so difficult and complicated, and Congress has generally proven itself so incapable of changing with the speed of technology, that I'm humble about m- my assessment of whether we're likely to do what you're describing. Should we do it? Probably. How long will it take? It could take a very long time.

And I like to say as we've seen technology really transform everything, including these markets that we're describing technology pre-AI under Moore's Law, would ha- double productivity every eighteen months. With AI, it's more like ten times in a matter of twelve months. But if technology's operating at a now super Moore's Law speed, Congress is still operating at a Murphy's Law speed. And so, I'm not particularly optimistic about our ability particularly at the moment of such bitterly divided governance our ability to do but I think we ought to try to figure out what that would look like. Even if it's not possible to achieve today what does that look like, How should we think about these markets as they're evolving?

I'm looking at right now what does the merger of digital currency and prediction markets mean? It can mean, in its worst case, a situation where somebody is betting on the Iran war with ninety-three percent accuracy using an overseas market, Polymarket, to bet, and using digital currency to hide their tracks. It seems like a perfect crime. You can't identify who the bettor is and what kind of inside information they might have and it's very difficult to regulate. But all of these technologies and markets seem to be converging, and we still have a very relatively archaic system of regulation.

KLEIN: I'm a little more optimistic in the wisdom of Congress as a result of this conversation, and you will forever be my hero if you manage to merge the SEC and CFTC. I-- What I heard you say was you need a white paper with how to do it, and I'm gonna go and give that to you. But in the meantime-

SCHIFF: I have discussed that very idea with one of the former commissioners, and it has a lot of appeal to me, candidly.

KLEIN: So, I, in my research once, I came up with an idea that because it's immutable to change the jurisdictional structure between the two committees, you would just appoint the f-- same five people to both and just be done with it. And now, by the way, I'll give the Trump administration some credit that they've done some greater staff mergers and this or that. Came across an Anti-Patronage Act law that precludes two salaried employees from holding the same position to double-dip. And as a consequence- We cut their salary in half. There thank you very much, sir. Join me in...

SCHIFF: Pleasure.

KLEIN: And while the senator runs out to vote, we're gonna bring the panel right back up because Lord knows you got a lot of stuff to react to and to continue that conversation.

So come on back up and fire away.

HUR: All right. I guess just as a way to jump back into the conversation we just had, and I'd like to pose this question to all of you. When we think about the regulatory framework for prediction markets, right? My question is, what does that look like to each of you? Are the current laws we have for commodities for gaming, are they enough to regulate prediction markets properly? Or do they have unique characteristics that require an entirely new framework? How are you each thinking about this? We can start with you, Rick.

HEASLIP: Sure. And then I would love to react to a few of the things that were just said as well. But we can go through the question, of course, first. So yeah, I, I think that a uniform federal framework is what's best here I think that markets are the best way for consumers to have financial exposure to the outcome of an event because it provides better pricing, because it provides a fair playing field, which

I'd like to get to later. But I think that fair markets on a national level can only really happen from federal oversight. And so, I think the CFTC is really the regulator for the job.

LAZARUS: I agree strongly with what Rick said. I think my caveat would be I'd like the Congress to prescribe a narrower set of markets that designated contract markets such as Kalshi can list. But I certainly would like to see this regulated federally. I do think as a sort of net benefit trade-off, I would much rather gambling in this country happen on a large, very liquid limit order book than the current patchwork framework we have with the states where we have, casino enterprises that earn a substantial from every dollar that goes in and out of them.

And then the other thing, just to pick up on what Senator Schiff said is the overseas element of this. And there too, we probably have some common ground, Rick, in that I think the overseas exchanges need to be brought to heel. I don't think the risks they present can be tolerated even though they occur offshore. So, I think we need to consider actually invoking extraordinary authorities, like even a national security emergency to force offshore exchanges to harmonize their listings, their governance with those of onshore exchanges because we just can't tolerate there to be channels for, national security insiders, say, to have a huge incentive to trade on a market the likes of which Gannon Van Dyke traded on prior to the Maduro operation. So that's an area where we need substantial new legislation and action from the executive.

PHILLIPS: A, as I've said I don't like the idea of the CFTC taking its eye off other balls in favor of this one, so I would like to see another regulator tackle it. I don't know who the appropriate gaming regulator is, whether it's the states, whether it's a federal regulator. I will say that with the offshore markets the states can sue. Any state could sue Polymarket for noncompliance with the Commodity Exchange Act. They haven't because I think they're too busy trying to deal with the existential threat that is Kalshi in the domestic markets. But that's something I would love to see. Either the CFTC sue or the states sue.

HEASLIP: So, I would quibble only with that we're an existential threat to, state-based gaming or gambling. We are not of the position that we're going to, start creating slot machines or table games or anything like that. We actually agree with Senator Schiff that casino style games like those are not markets. That's something completely different. We also agree with the senator, by the way, with respect to death markets and markets on war and terrorism. Those are currently, subject to CFTC approval, and they have not been approved, so you will not see those in the United States under current law, for what it's worth.

I also wanted to if, before, before there's a new question, I also wanted to touch base, touch on something that, that the Senator said with respect to market makers or sharps on these exchanges. I some folks know, but I was actually trading on Kalshi myself before joining the company as a lawyer. And so, I was one of these mythical market makers that people talk about. But all that a market maker really is someone who is setting a bid and an ask on a market. I was a market maker in Taylor Swift contracts. There were contracts on her album sales, and I was using statistical models to model out how many albums she would sell, which has a financial consequence.

And I was setting a two-sided spread on those markets and profitable in doing so. There was nothing magic about it. It's just trading. It, it is just simply using your own analysis in order to trade. Some folks don't do that. Some folks just like to speculate, which is totally fine, but speculators are what drives good pricing for everybody else. I'd also note, just as an example of another type of market that I traded on Kalshi before I joined was we have markets on weather and things like cloud coverage which you would think are, not hedging instruments at all. But I actually used it to hedge myself when I was traveling up to Burlington to watch the eclipse in 2024.

I actually placed a number of trades on the cloud coverage in Burlington, such that when I got there, if there was more than fifty percent cloud coverage, which would be a poor eclipse viewing experience it would pay for my vacation. And that's not something I could find, a, an insurance contract on. It's not an obvious use case that people would think of. I certainly was not thinking at the time that I was gonna be talking about it on stage years later, but that is what people are using these markets for. And so, the intuitions about whether or not it's gambling, I think are secondary to the type of risk exchange that's taking place and how it's taking place.

LAZARUS: But I guess to, just to borrow from Taylor Swift my problem here is if you play stupid games, you win stupid prizes. And what Kalshi is gonna have to decide is, do you want to be the world's largest sports gambling parlor, which you're on track to do now, and in many ways I'm proud and happy of your success there But it's going to be difficult for you to have your cake and eat it too, and both be the world's largest sports betting parlor that's serving me ads on Instagram for, the latest four-leg parlay that I can place on your exchange with liquidity provided by Susquehanna on the Nationals games this weekend.

Or if you wanna be an exchange where we have really interesting high-grade hedging occurring around real-world events that are otherwise difficult to price and difficult to mitigate risk for. I think prediction markets are essential. I want them to survive. I think we need them to survive, and they have a ton of social utility, but they have that utility insofar as they're not running a silly race. And the reason why I think you'll have to decide is because, as we saw from Senator Schiff here today, ultimately, even if under the law you can make the argument that you're not a casino and I think this emerged in the Fourth Circuit argument the other day, if it quacks like a casino and it walks like a casino, it's a casino. And eventually people are gonna vote representatives into office that are gonna regulate you like one, and I don't wanna see that happen. But I see that as inevitable if 90% of your volume is on sporting events with most of that being driven by retail folks with no skin in the game.

HEASLIP: So, I would quibble with a few things. The first and most obvious was the last thing, just because it's top of mind, is that 90% of our volume is not sports. It's cyclical but it is a number that is going down over time. The last I checked it was something like 70%. I would also say the overall import of what you were just describing was a lot like the conversations that were happening, literally 100 years ago with respect to the exchanges that are now seen as commonplace. When you look at commodity training, trading and they were trading based on the prices of future of commodities in the future with no physical delivery, people were saying, "These exchanges are the world's largest gambling house." That is the exact argument that was being made. What it comes down to is there is a real desire and a real d-desire in both the public and in institutions to trade their risk on all these events, and we're simply providing the place to do it.

PHILLIPS: Okay. But not all of your contracts actually allow for risk shifting. There's a contract that Kalshi lists where you can bet on whether an announcer of a sports game is going to say, "What a catch" at some point during that game. There is no hedging utility from that, like none whatsoever about what an announcer says during a broadcast.

HEASLIP: I would disagree. And although it is attenuated, and the definition of swap provides for leeway here. But setting that aside. Not by definition of swap. Just, Setting that aside. Yeah. And again, setting aside the fact that there's no need for real hedging utility it's also the case that there's an entire industry and infrastructure right now Depending on sports highlights, on clipping them online, and on commentary on those exact highlights. There are companies that are built around individual plays and showing them to users on Twitter and Instagram, and the entire function of these multimillion-dollar companies is getting views on big plays.

PHILLIPS: So, you can hedge whether an announcer is going to say, "What a catch," at all during the sports game to hedge your inability to not clip a video that you can later post online? It's possible. I, I- that's crazy. That just sounds like gambling to me.

HEASLIP: I know that it's contrary to a lot of folks' intuitions, but we can't simply go by intuitions on these things because oftentimes we don't actually have the domain expertise to know what and what is and is not hedgeable or what is or is not valuable. And again, this-- none of this is actually necessary under the law. I'm just simply pointing out that there are things like cloud coverage in Burlington, Vermont, that you would not immediately think of as having-

PHILLIPS: But weather swaps are explicitly defined as swaps in the Commodity Exchange Act. What a catch is not.

HEASLIP: Right.

PHILLIPS: So weather swaps, I totally agree. Absolutely hedging purpose. What a catch is not.

HEASLIP: You're saying it doesn't have a hedging purpose?

PHILLIPS: Correct.

HEASLIP: It doesn't need to, once again. But there are downstream effects that you wouldn't think of, and I'm just pointing out one of them that just came to mind, but they exist. And they do have that purpose that is borne out in the markets.

PHILLIPS: Come on.

HEASLIP: I'm... You're, you're-- I think you're mischaracterizing what I'm saying in-- as there's no speculation. That's not what I'm saying. In fact, speculation is what drives liquidity, is what drives market participants that come in and deliver good pricing. And so, there's plenty of speculation on these markets. Oh, yeah. But at the same time, I'm simply pointing out that people's intuitions about what may and may not have a hedging utility may not always be accurate. There may be things or industries, entire industries, that you may not realize are operating behind the scenes.

HUR: And Rick, I'm curious too, how does Kalshi decide which markets to list? What does that process look like? Where do you get, suggestions from? What happens from when someone has an idea to it actually getting listed on Kalshi?

HEASLIP: Sure. So, there's a long process. I probably don't have enough time to go through all of it right now. But broadly, we start with statutory definitions. We list things that are swaps as opposed to not. A swap has... is associated with a potential economic consequence. The event itself is, I should say. And so, what that means is, just by way of example the Met Gala took place recently. It would be a swap to list a contract on whether or not a celebrity will wear a certain brand because that is associated with economic consequence, whether-- or economic-- an economic outcome. Whether, if I listed a swap on whether or not my neighbor wore a red hat or a blue hat tomorrow- that would probably get me into hot water with the CFTC very quickly.

So, we start with the statute. We start with the definitions of the products themselves, and then we go down and, there's a-- we go through the special rule to determine whether it would be something that would require the CFTC to take a look and make a public interest determination. We have our own internal standards that we keep to even beyond that. So, for example we, we don't list contracts on war. We don't list contracts on assassination. But we also think about other contracts that might have adverse incentives built in. So, we don't list contracts on forest fires, for example. Definitely associated with an economic impact definitely something that people would likely trade but it only takes one ill person to try to influence the result and do real harm, and so we just don't list them. So even once we get through all the statutory and regulatory bars, make sure it's not subject to easily subject to manipulation, et cetera, et cetera, we also have our own standards that we apply.

HUR: And then how do you guys deal with market disputes? There is that infamous Cardi B instance, right? Where people voted or they bet on whether she would perform at the Super Bowl, and she was on stage, but she didn't sing, and she didn't rap, and that caused a big ruckus, right? Like, how did you deal with that, and how do you guys think about market disputes?

HEASLIP: So, we handle market disputes internally, and then we have an outcome review committee that can also in, give input as we request it which happens from time to time, especially when something is perhaps ambiguous. Broadly, we just try to get it right. Because we're in exchange, we don't have any sort of economic incentive to add, to resolve a market yes or no. Instead, we simply want to resolve the market correctly. And so, we look to the swap itself, we look to all the terms and conditions of trading and then we make the decision based on that.

HUR: Got it.

PHILLIPS: Can I ask a follow-up there? Would you guys consider outsourcing that function to something like ISDA, which does that type of interpretation for the rest of the derivatives markets?

HEASLIP: It's certainly possible. As an SRO, we do have an obligation to administer the products ourselves or, and so when we, if we were to outsource that, there would be a lot, as a lot of steps that would need to be taken to make sure that we're maintaining our ability to do it's a good question.

HUR: Something I wanna ask each of you is, some people say that prediction markets are a good indicator of what will happen, right? But they also have the ability to influence what actually happens, too. So, for example, people have noted maybe if there's a ninety percent chance of a candidate winning in an election on Kalshi or another market, then maybe that makes people not want to vote or think that the election's already thrown one way. People have raised those concerns. I'm curious if that's something that each of you have thought about and what, how you're thinking about it, if you have.

HEASLIP: Sure. I've been talking a lot. I will answer this, but I wanna give the opportunity to...

LAZARUS: one, there's just a growing body of literature, I think, on accuracy itself and how well-calibrated these markets are. I think in many market categories, they are clearly very powerful and accurate indicators. In others, and this is a huge focus of my work right now like geopolitical markets where we don't have easy baselines to model from I think it's generally poorly understood whether or not these markets obscure more than they illuminate. My intuition as somebody who is enamored with the magic of the price system is that they are probably very good information aggregators, but I think that work still needs to be done. In terms of their ability to influence future outcomes, and I don't need to get into sort of the whole futarchy debate here, or we'll be here for another hour.

But yes, I absolutely think there's some reflexivity there, and you can get positive feedback loops. And I guess the most concerning area is in elections. Robin Hanson will tell you, Oh, they're very difficult to manipulate because let's say if some element of the Chinese Communist Party or the IRGC wanted to move an election market one way or another for a candidate they thought was, preferential to their interests, they would move the price up, and then capital would come in on the other side and bid it back to fair value." That sounds great in theory. I don't think we, I'm not in the market of testing that, and I don't think we should be as a country. We need more guardrails I think to prevent that experiment from playing out in real time for the most critical organ of the democratic process, which is, our free and fair elections here in the United States. And I am concerned right now that there's, as hard as Rick works, I'm concerned that the law maybe has not even provided both Kalshi and the government with sufficient powers and tools and authorities to make sure that type of reflexivity is not taken advantage of.

HUR: You actually mentioned earlier, and I think you wrote an article about it recently for the CFR, is that you think that some markets have national security risks. I think you mentioned earlier, too, you think there should be additional rules and regulation around that. Can you talk a little bit about what that would look like?

LAZARUS: Yeah. Here, look, I will largely exempt Kalshi and tip my cap in that I don't believe Kalshi is in its present configuration, a national security risk but I do think Polymarket with its current listings and certainly with a number of its historical listings, does pose a risk to national security. And that's because, insider trading on something like the Maduro raid sure, it's distasteful and it's greedy and somebody's being ripped off ultimately, but that's not the real crime. That's the lesser offense. The real crime is the leakage of that information on the order book when the trade is placed And that's why preemption is so important for the offshore markets because it's not enough ex post facto to just catch the people and punish them. Deterrence isn't something that we should feel comfortable with in this arena.

There needs to be preemption. The only way you can do that is narrowing the categories of markets that can be listed in line with the prohibitions in the Commodities and Exchange Act as it was amended by Dodd-Frank. So, no war markets makes good sense. No death markets make good sense. No markets on terrorism, no markets on events like forest fires, so the arsonists that lit the Palisades on fire in California can't, pocket a couple hundred grand in the process of destroying a neighborhood, so on and so forth.

But the US government is going to need to deploy a toolkit almost not unlike what we used in the post-9/11 era to dismantle terror financing networks, potentially to bring offshore exchanges to heel. Hopefully, they cooperate voluntarily. Hopefully, I'd love the President to call up Shane Coplan and say, "Hey, Shane we're not okay with these markets being listed. They pose risks. Will you please take them down and harmonize your compliance with what we expect from Kalshi and other actors in the US?" But short of that happening, or if Shane tells the President no yeah, I think we need to bring extraordinary authorities to, to bear here before there are much graver consequences than Gannon Van Dyke winning 400K off some fish that didn't correctly price Trump's appetite to snatch Maduro.

PHILLIPS: I, to the original question about swaying events and accuracy I think it, A lot depends on how much liquidity is available in each market. The more there are people on both sides, the more accurate they are. If you have, if you don't have enough volume you can have contracts that are lopsided against actual probabilities. I will say I, I am also concerned about the run-on effects here. So, I do banking and financial services policy. One thing you can imagine that Polymarket did have for a while are is a bank going to run? And if the volume on that contract is very thin you can have someone who puts in for a high probability that a certain bank will run which could actually set off a bank run, which would be very problematic.

So, I, I agree. I think that the public interest evaluation here is very important. I think I would consider where the public interest is probably different from where the current CFTC is putting it. But regardless, I think having someone coming in and putting a stop to these contracts that do have problematic consequences is vitally important.

HEASLIP: Yeah, I would only add that this is a, an issue that is already in a sense absolved. It, because we have a duty as an exchange under US law to prevent price manipulation, and what you're describing is pretty, pretty run-of-the-mill price manipulation that you would see on other exchanges that, that happens in other places essentially. I'd only add that when it comes to actual reflexivity as you're describing we've already had an election cycle with deep liquidity on our elections markets, and we, we did not see that sort of behavior on that cycle. But it is something that we always look out for.

HUR: And, throwing things to the future now, when you look five, ten years from now, where do you see prediction markets? Do you see them as a slice of every American's portfolios? Do you see them as more niche? I'd love to hear from each of you on, how you're thinking about the future of these markets.

HEASLIP: Yeah. I think prediction markets are going, They're not going anywhere. They're going to be around for a while. And I think that as more and more people use them, they'll get an understanding of their utility, both to price the future and to hedge against risks and to speculate and to do all the other things that folks do on markets. I think we're going to see a much broader off-- sense of what kind of products are offered. All of these DCMs can list different varieties of products, not just event contracts and not just event contracts on the events that are currently being listed. But broadly I think that there's a lot of utility to it. I think that folks really enjoy the product and as people learn to trade, learn why it's more fair and learn why it's structurally the best place to take on risk I think they're only gonna grow.

HUR: Sam?

LAZARUS: I'd like to see prediction markets be a part of every American's information diet because I think they're positive expected value in that sense. But I would actually like to see the pool of participants and the range of events being speculated on narrower. So, I guess I hold those two sort of opposing things in my mind at the same time, and mostly with respect to sports markets.

PHILLIPS: Not investing advice. No one should ever include derivatives as part of your retirement portfolio. The CFTC in ‘24 did a study finding that only about forty percent of retail participants in traditional derivatives markets even break even, meaning sixty percent lose money. And I have to imagine with the event contracts it, it has to be less. The Wall Street Journal did that article showing I don't know what Polymarket, or sorry what Kalshi's numbers are, but I can't imagine they're any better than forty percent. Derivatives are just not good for retail participants, and I think that's something that regulators and Congress really need to consider even outside of the prediction market context.

I, I think where prediction markets are in five to 10 years depends a lot on the court cases. There's a barrage of litigation going on right now. It's going up to the Supreme Court. I truly don't know where the Supreme Court is going to come out here. I- if the Supreme Court rules for the states and the tribes, I think that states will, knock on wood, change their laws to allow prediction markets to operate under state gaming laws. If the Supreme Court sides for the prediction markets the CFTC is going to be the regulator, at least until Congress does something different.

LAZARUS: What are your odds on that, Ric?

HEASLIP: I could not say. I think that the only-- I would add one thing without giving any sort of probabilistic anything. Which is I would agree that even though I, even though retail is currently a large portion of the user base I do think institutions are coming too. For sure. I think that the e- the ecosystem as it grows there are more and more opportunities for institutions to take a look at these contracts and to hedge out and price their own risk when it comes to certain events. Elections are the obvious one, but it really only expands from there. So, I, while I still believe in democratized markets, I still think that having an open and fair platform for retail to come and participate in the markets is a good thing as a retail trader, a former retail trader myself. But at the same time, I do see it expanding beyond that. Part of that forty percent.

HUR: And a cheesy question before I think we can turn it over to audience questions, but when it comes to prediction markets for each of you what keeps you up at night? And this could be, something exciting, it could be something that you're worried about, but I'm curious what it is, what is it when you close your eyes you think about?

PHILLIPS: I'll take a first stab at that. The thing that wakes, that keeps me up at night is not the predict-prediction markets themselves, but the way the CFTC is operating. The CFTC is an agency that has limited resources and it is spending its time suing states, five so far, for trying to bring their own enforcement actions against the prediction markets. Rather than letting those lawsuits play out, they're trying to stop the lawsuits in their track rather than, dealing with the, I think, more economically significant markets.

LAZARUS: My earnest answer is that they don't become serious exchanges for hedging and price discovery. And my, the most honest answer I could give is, am I a fish or am I a shark?

HEASLIP: Yeah I don't sleep much, but it's not because I'm too worried. Just a lot to do. But I do think that, philosophically I really want these marketplaces to exist for the good of the consumer. I think that the way that our current gambling or gaming regimes are set up are monopolies that are designed to prey on people in many ways. And I think that having this, an opportunity of markets to be available to folks is really important. And I frankly just genuinely, personally worry a little bit about restrictions on that and leaving people to have to use overseas exchanges and state regimes that are not really designed for them. Yeah.

HUR: All right. I think if any of you have questions, we'll be happy to take them. Go ahead.

AUDIENCE MEMBER: First of all, thank you for being here. This panel's been very instructive. This question is to Rick. First of all, congratulations on the positive decision by the Third Circuit last month. Moving forward, though, with respect to Judge Trott's dissent in that particular c-case, I'm just kinda curious as to whether Kalshi can overcome or contain some of her comments within her dissent. Specifically, one, are DCMs a subfield within the concept of field preemption? Two, is the historical context a preemption as well, considering that Dodd-Frank was passed in 2010 and states have been involved in gambling, certainly prior to 2010. And third the congressional content with respect to former Senator Blanche Lincoln's colloquy with respect to gambling on sport-sporting events.

HEASLIP: Sure. And I'll answer in the reverse because of what's fresh in mind. So, I, I think that when Congress passed Dodd-Frank they deliberately, whether or not they were thinking about sports at the time, just like whether or not they were thinking about Taylor Swift at the time the solution was just simple. It was within the special rule. And they tasked the CFTC with evolving with the times, much state gaming law has evolved over time, and making a public interest determination in light of that.

So, colloquy aside I think that the solution to the problem of what if they do think-- what if things appear on exchanges that we're not thinking of right now was not to ban it.

The solution was to empower the CFTC to make a decision. With respect to preemption I, it, I think the most clear indication of field preemption is just right at the very top of the Commodity Exchange Act. Exclusive jurisdiction means exclusive. It means not anybody else. And it's-- everything else is in the shadow of that argument. I would also add just with-- when it comes to conflict preemption, it's once you start looking at the state-by-state regimes for how they conceive of gambling or gaming it just doesn't really work on an exchange. They have concepts of handle. They talk about the casino being the counterparty to all of, all the transactions.

It's just not how we actually regulate and conceive of markets. Taking a step back also, if you take a look at what folks have traditionally, at least under federal law, called gaming, we look at UIGEA, and UIGEA notes that the definition of a bet or a wager excludes transactions on a DCM. There's just really a lot of indication that the intent here was to preempt the field, was to allow and empower US exchanges to operate on a federal level across all states.

HUR: Yes.

AUDIENCE MEMBER: My name is Roger Cocchetti. I'm a retired high-tech executive, IBM, VeriSign, CompTIA, whatever. And it seems to me that the elephant in the room is something you've discussed a little bit, but I hope you can expand on it, and that is the international dimension of r-r-regulating or p-imposing guardrails even in this whole area. First, does anyone have any information of what other countries are doing? And secondly is there any multilateral effort underway now to address this in a cross-border way? And then thirdly, for those who believe that what we should do is simply take whatever the US regulations are and impose them by whatever military, financial, or other means necessary on the other countries how does that actually work?

And what if the other service provider is in North Korea or something like that? I know, the-- without some international perspective on how this works it, it doesn't make sense. And just quickly, if anybody has demographic information on who is actually involved in the prediction markets, that would be interesting, I think, for everybody. But mostly, how does the international side of this actually work? Thank you.

PHILLIPS: I'll note that there are a number of countries that have banned binary options. Polymarket is also illegal in those jurisdictions as well. I'm not saying that I-- my solution is force, to force Polymarket to comply with US rules. I, I do think that we need to do-- that the US should bring a lawsuit. US should require Polymarket to be doing KYC or know your customer of accounts to make sure that they're not onboarding Americans and keeping US persons off the platforms.

LAZARUS: Look, I one reason I'm currently employed is that I think there's not a robust multilateral or any international effort whatsoever to harmonize governance in this domain. I don't know the forum through which we would advance a framework like that. It strikes me that the most common-sense way to approach it would be to take our, good but not perfect system for governing these exchanges onshore and at least for now as the law is still developing and as this issue is still making its way through the courts, try to hold the second largest player in this space, Polymarket, to some degree of account.

And I certainly didn't mean to imply I thought we ought to use military force in order to force Polymarket to stop listing, say, markets involving sensitive US military operations. But it does strike me that we should, A, ask politely, and B, if our request isn't granted consider getting a bit tougher. Right now, they are trying to enter the US market. They would like to enter the US market and compete with Kalshi. And maybe one condition that we could attach to Polymarket's, DCM licensure process is that if they would like to service customers here in the United States, we would like their offshore exchange to harmonize with onshore requirements. So, there are lots of levers that we have here that don't require, new legislation or extraordinary powers. It's pretty obvious how one could game this out and at least get the second biggest player to abide by the rules, and that's where I'd start. And you can read my white paper in three months on how we solve this globally. Yeah.

HEASLIP: The international laws we've learned really run the gamut here. They just treat it in very different ways in different jurisdictions. The one area in which we in the United States can have some influence is how US residents actually access these overseas exchanges. So, any attempt to solve the problem from here would likely start there.

AUDIENCE MEMBER: Thanks. Hello, my name is Daniel Timprano. I would like to ask, why should we not regulate these markets the same way we would regulate gambling parlors or casinos? What's it matter what these markets have in terms of social utility for making predictions if many of your users are still using it functionally the same as a casino? You mentioned about seventy percent of your user, of your listings are sports bets. I'm willing to make a bet that most of those people making sports bets are not making statistical models to predict the outcome of a game between the Nationals and some other team. They're just going off vibes in making that prediction. I would imagine that's a similar story that the average Joe would make in a casino. So why not just regulate them the same way as a casino if people are still using it the same way they would use a casino if this leads to gambling addictions?

HEASLIP: Yeah. Folks are adults and they can do what they wish with their money. But I think more broadly the distinction comes down to how the product actually operates. If something is listed on an exchange, then that carries with it certain considerations, certain things that a regulator really needs to be focused on that they would not need to be focused on if they were focusing on what happens in a casino. I'd also add that some of our casino-specific regulations seem structured in such a way that they really enforce a functional monopoly in certain states and allow the casino operators to, they're the sole counterparty to all of the trades or bets that are taking place. And so, a lot of those laws, not only are they really-- they don't really make sense if you're applying them to a market as a whole, but they are designed to enforce a system that is fundamentally different from how a national level exchange is meant to operate.

HUR: I think we have time for a few more questions. Yeah, over there.

AUDIENCE MEMBER: Kelvin To, Data Boiler Technologies. First of all, the comments about derivative shouldn't be in anyone's pensions portfolio I have reservations with that. I hate to say look at your insurance or annuities portfolio. The insurance company is actually putting your money into all this high leverage derivative in order to match the maturities and all these type of things. Well- The thing is, think about predictions market and the relations with insurance. Think about what the actuary at insurance company do, right? They are actually trying to use quantitative models to predict outcomes, right? And think about predictions market from an economic sense, okay? 'Cause on part-time basis, I teach economics.

Like back many years ago, it was like decades and decades, predictions markets was being used, okay, to help big corporates like Hewlett-Packard, right? To market the products, design the products, come up with concepts. So, there are endless possibility for putting it into good use. The thing is, it's more like how the market design can be improved so that it would be beneficials to the advancement of society. Think about integrating all this prediction market probability and integrate it with AI, right? Think about computing from zero and one, all this probability, to all the shadings of different probability. How powerful is that in using that to correct the quantum cubits, right? To advance quantum computing.

That could be endless possibility, right? And there shouldn't be any limits. But look at the market microstructure, 'cause my firm's focused on the security market as well as the commodity markets. And the whole thing is we should look at the dynamics between predictions market and zero-day options. 'Cause it's this decoupling of the event, the cause, and the price risk, right? And by decoupling those two what can it be done or how the market would evolve? And has the panelists have any thoughts about the dynamic between the arbitrage between zero-day options and prediction market?

PHILLIPS: Yeah I think having insurance contracts in your retirement account makes sense. Those insurance companies certainly use derivatives. I think that's a step removed from, everyday people putting derivatives in their retirement accounts, but I understand. I will say I think derivatives markets are important. I think that traditional derivatives that have a linear outcome rather than a binary outcome tend to have much more of a hedging utility than binary options. Throughout, the history of binary options the past thirty years, when they're traded on exchanges, they're generally just sold to retail investors or speculators because they're not very effective hedges when linear derivatives are. I'm not sure exactly the, how to disentangle the event contracts with zero-day options. I also think zero-day options generally look a lot like gambling, the way people use them. And I think gambling in financial markets is a big problem and something that, that policymakers really need to be thinking about, whether it's prediction markets or NYSEA.

HUR: All right. I think we have time for just one more question. Please go ahead.

AUDIENCE MEMBER: Hi Will Carman. I'm a research analyst at Capstone. We're a policy analysis firm based in DC. Question for Rick. Kinda thinking about this from the CFTC's special rule forty-eleven. Understand that there there's an ongoing effort to, potentially reform that rule. But would be curious how Kalshi thinks about the risk associated with a Democratic administration coming in twenty-twenty-eight and, assuming that sports events contracts fall under the definition of gaming and using that rule against sports events contracts.

HEASLIP: Sure. We saw a version of this with respect to our elections contracts. And there, as one would expect the CFTC, we went through the whole process. We e-eventually sued the CFTC, and we challenged their assumption that a contract based upon the outcome of an election was gaming, which was the argument at the time. And we were successful first in DC and then the CFTC abandoned the appeal after argument. So that is how the process is supposed to work. Whether or not sports contracts would fall into the category of gaming is a different question, but if in the current version of forty-eleven it's a pertinent question.

When you think about a... When I think of gaming, I think of video gaming, and I think of casino style gaming. That's my personal thought. I don't think many football players would go say, "I'm gonna go do some gaming today." That's a different sort of use of the word. But to, to whatever extent gaming does encompass sports it, it does just point to congressional intent as being a CFTC call. We would hope to engage with any future administration on questions they have about this. We engaged when they asked us about this in our, in a request for information when we first listed sports. I do think these are here to stay. I think all of the other exchanges are listing them now. Again, like CME currently has sports contracts listed today. And so, it, it has grown beyond being a niche product offered by folks like us who are in the public eye, but this is something that is across the board by now.

LAZARUS: Are you gonna hedge this policy risk?

HEASLIP: Not on Kalshi. I can't trade it.

HUR: All right. Thank you so much all for being here today and to our great panelists for taking part in the conversation.