April 30, 2025

Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581
PublicRoundtables@cftc.gov

Re: Prediction Markets Roundtable

Dear Sir/Madam at the CFTC:

Thank you for providing a forum through which the public may submit comments and suggestions for the upcoming Prediction Markets Roundtable. Of particular interest, I would like to make some points addressing the undeniable relationship between sports-related event contracts and sports betting markets.

I am not a law expert, nor do I represent any particular interest other than my own. Instead, what I want to share, is based on years of experience as a former sports trader, a current junk bond trader, and a former gaming equity analyst at a Wall Street bank. My hope is the Commission, and the broader public, will deem the following views reliable and pertinent, coming from someone known throughout industry circles as being qualified to speak on the subject(s).

Background

Where I'd like to start is by framing how we got to this discussion: In 2018 a Federal Law (PASPA) was repealed that empowered each state to go about the legalization of sports betting as they saw fit.

Currently there are close to 40 states that have legal sports betting, either through commercial operators, state lotteries, or tribal gaming entities. This year, the industry is well on its way to surpassing $15 billion in gross gaming revenue, generating over $3 billion in state taxes, and over $350 million in federal taxes.

For the past 7 years, betting on sports has been sold as a form of entertainment, with little to no distinction to other games of chance typically found in a casino. And the reality is many people will find that kind of 'entertainment' utility sufficient when they bet on sports, with little to no real expectation of making money.

However, there is a flipside that is finally, and rightfully in my opinion, being recognized: that many people also bet on sports with the expectation of profiting, that it requires skill, and is no different than any other financial or investment decision they make. Furthermore, the very interest of 'Wall Street' caliber participants in prediction-markets related to sports, is a clear acknowledgment of the parallels between sports betting and financial markets.

Market Structure

It should be clear as day that betting markets on sports are driven by the same kind of economic forces and actors found in any financial market. Just as the price of a stock, a commodity, or a derivative of any kind is reflection of underlying information and/or supply demand market dynamics, so too are the odds, spreads, totals, money lines, and probabilities displayed in sports betting markets.

Now, because I am drawing a straight-line between sports betting markets and financial markets, I would like to drive this point home at its core by pointing out that a “bookmaker”, as known in the world of sports betting, is no different than a “market maker” in the world of financial markets.

- In the business of sports betting, the bookmaker (or operator) is no different than a market maker as defined in the world of financial markets, including those market makers authorized by the CFTC to provide liquidity on Designated Contract Markets such as Kalshi (I will continue to use them in my examples out of convenience).

- Kalshi sells itself a P2P platform, or exchange, that allows bettors/traders to enter positions (or place wagers) on so-called prediction markets, betting against each-other, and not “the house”. Of course, we would be mistaken to believe that a ‘person’ is always on the other side of a trade. The market maker, be definition and mandate, will be the other side in many instances, effectively acting as “the house”. *(Please see appendix for a social media post addressed to Kalshi’s CEO addressing this very nature of the model)*.

- Kalshi announced last year that Susquehanna Government Products, LLLP, a member of the Susquehanna International Group of Companies (SIG), a well-known market maker on Wall Street, was onboarded as their first Dedicated Institutional Market Maker. (I will continue to use SIG in my examples out of convenience).

- At this point I would like to also note that what Kalshi offers its users, as it pertains to sports, is identical to what Alex Kane, the CEO and founder of Sporttrade, has offered bettors across a handful of states since 2022, including the use of SIG as a key market maker.

- A bookmaker will put up markets on sports-related events and allow bettors to place wagers, they just so happen to provide it on their own platform on a B2C basis. They also provide live betting, whereby bettors/traders can enter positions and sell out of positions as the event unfolds, although being a closed market the economic terms are generally more punitive to the bettors. That said, a lot of bettors make a bet and sit on it to the conclusion, akin to a “buy-and-hold” strategy.

- On Kalshi, when people enter a sports event contract, they too can sit on the bet in the same “buy-and-hold” approach as with a traditional sports book, but the platform is more geared towards live trading, given that it provides its users much more favorable “cash-out” economics. However, I will stress again, the counterparty taking the other side of the trade will not always be a person, but instead a marker maker acting as a bookmaker in that same B2C capacity.

- A bookmaker, in their equivalency to a market maker in financial markets, will get compensated with a riskless profit in those instances where action is balanced on both sides of an event, otherwise known as clipping the ‘**vig’** or **‘juice’**. However, more times than not, this notion of “balanced action” does not happen, and the bookmaker will have a position (or balance sheet risk), effectively acting as a principal in the transaction.

- Market makers, in traditional financial markets, including those overseen by the CFTC, get compensated in the same fashion. There are instances when then simply collect the difference between the bid-ask spread in a riskless transaction, but there are also times when they are left, *or choose to engage*, in principal transactions, with a position and corresponding balance sheet risk, hoping the market moves or settles in their favor.

Let's first use an example to illustrate how a bookmaker acts as a market maker, sometimes in a riskless principal transaction while other times in a principal capacity. Then we will show the same dynamic on Kalshi. For simplicity I am leaving out Kalshi fees.

Example 1:
Player A wants to bet that Team X will beat Team Y and the two-way price quoted by the bookmaker is Team X -140 / Team Y +120. Player A submits a wager risking $140 to win $120, which the bookmaker gladly accepts.

Player B, who doesn't know Player A, wants to bet that Team Y will beat Team X and the two-way price quoted by the bookmaker is the same Team X -140 / Team Y +120. Player B submits a wager risking $100 to win $120, which the bookmaker gladly accepts.

*In both instances, the bookmaker is acting as a market maker. In this case, however, the bookmaker has effectively locked in a riskless profit of $20 no matter the outcome. This is what we know in the world of financial markets as a **Riskless Principal Transaction**.*

Example 2:
Player A wants to bet that Team X will beat Team Y and the two-way price quoted by the bookmaker is Team X -140 / Team Y +120. Player A submits a wager risking $140 to win $100, which the bookmaker gladly accepts.
*Assume that in this case the market is very illiquid, and no other bettor shows up to bet on Team Y. This is not a problem, because the bookmaker is a market maker and in this instance, the bet is a **Principal Transaction**, whereby the bookmaker (market maker) assumes balance sheet risk. In this case the bookmaker stands to lose $100 or win $140 depending on the outcome.*

Let's now show how sports-related event contracts provided by market makers on Kalshi are no different.

Example 3:
Player A wants to bet that Team X will beat Team Y and the two-way, binary Yes - No market quoted on Kalshi is Yes $0.60 / No $0.42 (note these do not add to $1.00, which is identical to the overround concept for bookmakers). Player A buys ~233 Yes contracts at $0.60 for a total of $140 to win ~$93...

Player B, who doesn't know Player A, wants to bet the No at the quoted price of $0.42, and buys ~238 No contracts for a total of $100 to win ~$138.

*If the same market maker was the counterparty in each trade, the market maker has entered into a **Riskless Principal Transaction**, and will make a profit no matter the outcome. If there are instead two different market makers in each trade, they each are engaging in a **Principal Transaction** taking on the respective risk.*

Example 4:
Player A wants to bet that Team X will beat Team Y and the two-way, binary Yes - No market quoted on Kalshi is Yes $0.60 / No $0.42. Player A buys ~233 Yes contracts at $0.60 for a total of $140 to win ~$93...

*Assume that in this case the market is very illiquid, and no other trader shows up to buy the No... call it unmatched flow. This is not a problem, because the market maker, in his duty of always standing ready to provide liquidity, engages in a **Principal Transaction** and assumes balance sheet risk. In this case the market maker stands to lose $93 or win $140 depending on the outcome.*

In conclusion to this market structure section, sports betting markets quoted by bookmakers are no different than sports-related event contracts quoted by market makers on Kalshi. The role of a bookmaker, like DraftKings, FanDuel, Bookmaker, the local bookie, is identical to that of a market maker on Kalshi. While they may quote prices differently, they are in fact mathematically interchangeable. They both get paid by assuming principal risk, though sometimes they also get to enjoy riskless profits. Though Susquehanna (and others) may like to disguise themselves as a market maker under the purview of the CFTC, it is very clear they are engaging in the same kind of risk taking that traditional bookmakers and present-day operators do.

Final Thoughts

If powerful interest groups want sports betting to be regulated by a Federal body so that they can expand across all states, while at the same time opening it up to institutional players, would it not be better for the Congress to create and pass a sports betting-specific Act that eliminates any ambiguity and sets a more solid foundation instead of having to rely on subjective interpretations, loopholes, and word-smithing.

Let's think of those pivotal moments that gave way to the Acts of 1933, 1934, 1936, 2000, 2010. The discussion back then was not about sports betting markets. The discussion today is explicitly about sports betting markets. We can and should find a better solution to address this specific issue.

While the CFTC may want to refrain from calling what Kalshi is providing on their platform “sports betting” or “sports gambling” or whatever equivalent, it is abundantly clear that betting on sports is precisely the product being offered to its users. What better proof is there other to compare side-by-side what Kalshi and Sporttrade are doing when it comes to sports? They use the same market maker for the same exact reasons! The only difference is that Alex Kane will not deny it is sports betting and nor should the CFTC. But if CFTC continues to do so, Sporttrade should be allowed almost immediately to operate on the same terms.

As someone who has worked in both trenches here, making markets for bookmakers and then as a junk bond trader, there is no doubt that market makers are bookmakers, and that bookmakers are market makers. While audacious, it is rather naïve and insulting to say otherwise.

Never have I opposed the view that sport betting markets are no different than financial markets and would welcome it very much if it became institutionalized as such, instead of being put alongside games of pure chance and strictly under the umbrella of 'entertainment'. But I also believe in getting things right and not necessarily taking shortcuts, which could very well be detrimental in the long run, especially if it limits the investment of capital to drive further innovation.

While many of us can appreciate the innovation and spirit at Kalshi, the approach that seems to undermine state gambling laws as they pertain to sports betting is, in my opinion, not the best way to go about establishing a Federal regulatory framework that seeks to institutionalize betting on sports across the country. Maybe it is time to pull out a clean canvas instead, engage in more dialogue, and come up with a more solid and stable foundation for all stakeholders.

Sincerely,

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Appendix:

If you read the following statement by Tarek Mansour, the CEO of Kalshi, and believe it to be entirely true, I would ask you to pause for a moment and ask yourself if you truly understand the role of a market maker in the context of financial markets, and the equivalent role of a bookmaker in the context of sports betting.

"In our markets, you're trading in an open financial marketplace. You're trading against other people... If you go to a traditional model, you're betting against a sportsbook. They're setting the odds and they make money if you're losing money." -- Tarek

In my opinion, I find this to be a very misleading statement because all the facts aren't laid out properly. And given the magnitude of what is at stake here for the entire sports betting industry, I'll pound the table and say lawmakers, regulators, media, etc. need to do a better job of dissecting this fundamental issue that makes prediction markets on sports no different than betting markets via sportsbooks.... it is all in the market making component.

Hi Tarek –

Listen, I have no issue with your platform, and frankly no issue with prediction markets at all. But I do have an issue with the following statement, and particularly as it pertains to event contracts on sports. Will explain below and if you don't agree... please tell us why.

*"In our markets, you're trading in an open financial marketplace. You're trading against other people... If you go to a traditional model, you're betting against a sportsbook. They're setting the odds and they make money if you're losing money." -- @mansourtarek_*

No one should be disputing what an exchange is, or claiming that @kalshi is a sportsbook. But the idea you keep putting out there that folks are trading against each other, almost as if that is always the case, and then using that argument to drive a key difference with a traditional sports betting model, is flawed and misleading. And sorry dude, there is way too much at stake to let that naïve comment slide.

Last I checked you have market makers. You said yourself last year you had onboarded Susquehanna... we all know SIG has been making markets in sports for a good while already... across the pond and even here the US before hooking up with you. Readers can see here: https://sig.com/sigsports/. Also, if readers want a deeper dive to market making in sports get a copy of "The Logic of Sports Betting" by Ed Miller and Matthew Davidow.

So how do market makers make money?

Now we all know that bookmakers make money by being the house, setting odds (or prices), and take on principal (balance sheet) risk, although sometimes end up with a riskless profit if bets get balanced and just collect the vig.

On the other hand, market makers on Wall Street, including those on your platform, also set prices and take on principal (balance sheet) risk, although sometimes end up with a riskless profit if they manage to clip the bid-ask spread on almost immediate trades.

All this to say your market makers on Kalshi become the house to those trades that don't find a natural match. And though we will likely never know what % of trades on your platform are filled by a P2P modality, at the end of the day your market makers are holding a bag of positions. They are the bookie in those instances, and doing the same exact thing @draftkings and @FDSportsbook do at the end of each day. At a much smaller overround of course.

So back to your comment above: perhaps you could be more clear as to the role of your market makers, like SIG (perhaps a few others I hear), and the fact they too make money if people are losing. Do you agree or disagree? Simple question… simple answer.

One last thing, lets not lose sight of the spirit driving all that volume you are seeing… folks are betting on sports. That is the underlying product, and it is no different than what my friends over at @sporttrade_app created and have offered for several years now. They just had to go through state hurdles and end up paying state taxes in the process.

Hope to hear from you.

Alfonso
4/17/25