

Safe Bet Consulting

<u>Team Member Name</u>	<u>Year</u>	<u>Major</u>
Melanie Ho	Freshman	Accounting
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Advisor(s): Jennifer Merton and Brian Shea

Topic Title: Prediction Markets: Derivative Trading or Gambling?

Audience: The Senior Leadership of Kalshi

Sustainable Development Goal

SDG #9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

SDG #16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Executive Summary

Prediction markets can serve as a trusted information source. Truth is an important ethical value and is essential for developing inclusive and sustainable infrastructure for financial markets. Truth is also a cornerstone of effective, accountable, and inclusive institutions. Kalshi can play an important role in advancing the value of truth by providing a mechanism to test the truthfulness of information. Our institutions benefit from openness and transparency where participants have access to accurate information to use in decision making.

However, prediction markets also seem to be susceptible to market manipulation and insider trading, both of which may facilitate lies and deception. Not only will this undermine truthfulness of information, but it can also potentially erode faith in financial markets. Similarly, confidence in the trustworthiness of our governmental institutions may be undermined if predictions about those institutions are tainted by market manipulation and insider trading. Perhaps the more significant consideration is whether these predictions should be treated as trades on a market or whether this activity is essentially just gambling and, as a result, should be restricted to protect users from gambling's addictive nature.

Kalshi should advance the value of truthfulness while proactively working to mitigate both the many challenges to truthfulness and the negative social impacts that are generated by this activity. By achieving an appropriate balance, Kalshi should have a sustainable path to advance transparency and truth as it provides accurate forecasting of the future.