

## Research question

My client will form a fund (a limited liability company) and raise \$3M of capital from accredited investors to trade in the prediction markets. Which laws apply? What registrations are required, if any?

All Federal

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## Summary

A client forming a limited liability company fund to raise \$3 million from accredited investors for prediction market trading must comply with multiple federal regulatory frameworks. Under securities law, the fund can rely on Investment Company Act Section 3(c)(1) or 3(c)(7) exemptions [15 USCA § 80b-2](#) and raise capital through Regulation D private placements [17 CFR § 230.506](#) [17 CFR § 230.506](#). The fund manager may qualify for the Investment Advisers Act Section 203(m) private fund adviser exemption if managing less than \$150 million in U.S. assets [15 USCA § 80b-3](#). However, prediction market trading will likely require registration as a commodity pool operator (CPO) under the Commodity Exchange Act [7 USCA § 1a](#), as the CFTC has clear jurisdiction over prediction markets as commodity derivatives [Title Available on Document](#). The fund's trading activities will involve regulated intermediaries subject to anti-money laundering requirements [31 CFR § 1026.210](#), and the fund will receive pass-through tax treatment as a partnership [Standard clauses, Investment Partnership: Tax Clauses](#).

## Securities Law Requirements

The fund structure qualifies as a private fund under federal securities law. Private funds are defined as issuers "an issuer that would be an investment company, as defined in section 3 of the Investment Company Act of 1940 (15 U.S.C. 80a-3), but for section 3(c)(1) or 3(c)(7) of that Act" [15 USCA § 80b-2](#). The fund can avoid Investment Company Act registration by limiting investors to either 100 or fewer beneficial owners under Section 3(c)(1) or exclusively to qualified purchasers under Section 3(c)(7).

For raising \$3 million from accredited investors, the fund can utilize Regulation D exemptions from Securities Act registration. Rule 506(b) permits sales to unlimited accredited investors plus up to 35 sophisticated non-accredited investors without general solicitation [17 CFR § 230.506](#). Alternatively, Rule 506(c) allows unlimited accredited investors with general solicitation, provided the issuer takes "reasonable steps to verify that purchasers of securities sold in any offering under paragraph (c) of this section are accredited investors" [17 CFR § 230.506](#). The fund must file Form D

notices with the SEC within 15 days of the first sale of securities [17 CFR § 230.503](#).

## Investment Adviser Registration Requirements

The fund manager's registration requirements depend on assets under management. Section 203(m) of the Investment Advisers Act provides that "The Commission shall provide an exemption from the registration requirements under this section to any investment adviser of private funds, if each of such investment adviser acts solely as an adviser to private funds and has assets under management in the United States of less than \$150,000,000" [15 USCA § 80b-3](#). Advisers relying on this exemption become "exempt reporting advisers" subject to Form ADV and Form PF reporting requirements [S.E.C. Release No. Release No. 3222](#).

The Dodd-Frank Act eliminated the broad private adviser exemption, requiring most private fund advisers to register unless they qualify for specific exemptions including the Section 203(m) exemption for smaller advisers, the venture capital fund adviser exemption, or the foreign private adviser exemption [S.E.C. Release No. Release No. 3222](#).

## CFTC Jurisdiction and Commodity Pool Operator Requirements

Prediction market trading falls under CFTC jurisdiction as commodity derivatives. Recent administrative guidance characterizes prediction markets as "event contracts" which are "derivatives with binary payoff structures" subject to CFTC oversight [Title Available on Document](#). The Commodity Exchange Act defines a commodity pool operator as "engaged in a business that is of the nature of a commodity pool, investment trust, syndicate, or similar form of enterprise, and who, in connection therewith, solicits, accepts, or receives from others, funds, securities, or property, either directly or through capital contributions, the sale of stock or other forms of securities, or otherwise, for the purpose of trading in commodity interests" [7 USCA § 1a](#).

Registration as a CPO triggers extensive regulatory obligations under 17 C.F.R. Part 4, including disclosure document requirements, periodic reporting to participants [17 CFR § 4.22](#), recordkeeping obligations, and restrictions on commingling of fund assets. However, Rule 4.13 provides limited exemptions from CPO registration for certain qualifying pools, though prediction market trading may not qualify for these exemptions [17 CFR § 4.13](#).

The fund must also consider whether the manager requires registration as a commodity trading advisor (CTA). Rule 4.14(a)(8) provides exemptions for registered investment advisers whose commodity interest trading advice is directed solely to qualifying entities (as defined in § 4.5(b)), collective investment vehicles excluded from the pool definition, certain foreign commodity pools, and CPOs claiming exemption under § 4.13(a)(3),

provided the advice is solely incidental to the adviser's securities/investment advisory business and the adviser does not hold itself out as a CTA [17 CFR § 4.14](#).

## Anti-Money Laundering Compliance

While the LLC fund structure itself may not directly trigger federal AML requirements, the fund's trading activities will involve regulated intermediaries subject to Bank Secrecy Act compliance. Futures commission merchants and introducing brokers must establish policies and procedures "to achieve compliance with the applicable provisions of the Bank Secrecy Act and the implementing regulations thereunder" and implement customer identification programs and suspicious activity reporting systems [31 CFR § 1026.210](#). These intermediaries' AML obligations will indirectly affect the fund's operations through enhanced due diligence and reporting requirements.

## Federal Tax Treatment

The LLC structure provides beneficial pass-through taxation, avoiding entity-level income tax. As explained in administrative guidance, "A private fund formed as a limited partnership or limited liability company is generally treated as a pass-through entity for US federal income tax purposes and is therefore not itself subject to federal income tax. The fund's income, gains, losses, deductions, and credits are instead passed through to the fund investors who include their respective share of those items on their income tax returns" [Standard clauses, Investment Partnership: Tax Clauses](#). The fund must file partnership tax returns and provide Schedule K-1 forms to investors reporting their allocated share of income and losses.

## Recent Developments

The regulatory landscape for prediction markets has evolved significantly in recent years. The CFTC under the second Trump administration has taken a more receptive approach, with Acting Chair Caroline Pham announcing that "the undue delay and anti-innovation policies of the past several years have severely restricted the CFTC's ability to pivot to common-sense regulation of prediction markets" [Title Available on Document](#). The CFTC withdrew its 2024 event contracts rulemaking proposal and announced roundtables focused on developing a "holistic regulatory framework."

Federal courts have also issued significant rulings favoring prediction market operators. In *KalshiEX LLC v. CFTC*, the U.S. District Court for the District of Columbia invalidated a CFTC order prohibiting political event contracts, with the CFTC subsequently dropping its appeal [Title Available on Document](#). However, other courts have reached different conclusions, creating uncertainty about the scope of federal versus state regulatory

authority over prediction markets.

## Related Issues

- State securities law compliance and coordination with federal Regulation D exemptions, particularly regarding "blue sky" law requirements and notice filings
- ERISA considerations when employee benefit plans invest in alternative investment funds, including fiduciary duty requirements and prohibited transaction rules
- Foreign investment compliance including FATCA reporting requirements and tax treaty considerations for funds with non-U.S. investors
- State gambling law preemption questions regarding whether federal CFTC regulation preempts state gaming laws, particularly for sports-related prediction markets

## Commentary on This Question

The Securities Act of 1933 governs the offer and sale of securities and generally requires registration unless an exemption applies. Key exemptions facilitating capital formation by private funds and companies include Section 4(a)(2) (private offerings not involving public solicitation) and Regulation D, particularly Rules 504, 505, and 506. Rule 506(b) permits offerings to accredited investors without general solicitation, while Rule 506(c) allows general solicitation if all purchasers are accredited investors and the issuer verifies accredited status. Form D filings are required for Regulation D offerings to notify federal and state authorities. Accredited investors are defined broadly, recently expanded to include certain professional certifications and family offices, ensuring sophisticated investors can participate with reduced disclosure burdens. Rule 506 offerings dominate the private securities market, accounting for the vast majority of exempt capital raised, including by pooled investment funds such as LLCs formed to raise capital [SECPUBPRIV § 6:10](#), [SECPUBPRIV APP C2](#), [SECEXTRANS § 7:2](#).

Regulation Crowdfunding provides a separate exemption under Section 4(a)(6) with specific disclosure and investment limits, generally involving smaller amounts and limiting investments by both accredited and non-accredited investors. However, Regulation Crowdfunding may be less suitable for larger raises such as \$3M and private offerings to accredited investors, where Rule 506 exemptions are typically used. Capital formation strategies involving pooled funds typically rely on private placement exemptions to avoid registration, ensuring investor protection through antifraud provisions and verification processes rather than full registration [SECPUBPRIV APP](#)

C13, SECFEDCORP APP GG1, SECBLUE APP J.

## Current Awareness

Under the Commodity Exchange Act, a commodity pool operator must register with the CFTC unless an exemption applies (7 U.S.C. § 6m(1)). A vehicle that solicits investor funds to trade in commodity interests can be a commodity pool, and executing a single swap may be sufficient to trigger commodity pool status. Private fund managers that trade derivatives generally must register as CPOs or rely on an exemption such as CFTC Rule 4.13(a)(3), which imposes de minimis derivatives thresholds and prohibits marketing the fund as a vehicle for trading in commodity futures or options '[CFTC Staff Partially Reinstates CPO Exemption for...](#)', by Anna Pinedo, Matthew Bisanz, Adam Kanter, Elizabeth McClain, Jodi Erlandsen, Mayer Brown Free Writings + Perspectives, Published By JD Supra.

CFTC Market Participants Division No-Action Letter 25-50, issued December 19, 2025, provides interim CPO registration relief effectively reinstating a QEP-based exemption for SEC-registered investment advisers operating private funds whose investors are qualified eligible persons. Conditions include offering interests in transactions exempt from Securities Act registration with Rule 506(c) permitted, a reasonable belief that all participants are QEPs, filing Form PF with the SEC with a copy received by the CFTC, and compliance with CFTC Regulations 4.13(b) and 4.13(c); related CTA registration relief is also available and mandatory redemption rights tied to switching exemptions are not required. Relief is available only to SEC-registered investment advisers, so managers whose participants are merely accredited investors but not QEPs would not meet this condition '[CFTC Reinstates CPO and CTA Registration Relief...](#)', by Stacie Hartman, Rob Schwartz, Nikita Cotton, Morgan Lewis, Published By JD Supra.

*Generated by AI. Not legal advice. A qualified professional must verify accuracy and legal compliance.*

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## Sources (23)

### 1. [§ 80b-2. Definitions](#) 15 USCA § 80b-2

#### **AI document summary**

Defining "private fund" as an issuer excluded from Investment Company Act coverage by sections 3(c)(1) or 3(c)(7)

**Supporting section 1 of 1**

...(29) (FN2) The term "private fund" means an issuer that would be an investment company, as defined in section 3 of the Investment Company Act of 1940 (15 U.S.C. 80a-3), but for section 3(c)(1) or 3(c)(7) of that Act....

**2. § 230.506 Exemption for limited offers and sales without regard to dollar amount of offering.**

17 C.F.R. § 230.506

**AI document summary**

Permitting private placements to unlimited accredited investors and up to 35 sophisticated non-accredited investors without general solicitation

**Supporting section 1 of 1**

...(c) Conditions to be met in offerings not subject to limitation on manner of offering- (2) Specific conditions- (ii) Verification of accredited investor status. The issuer shall take reasonable steps to verify that purchasers of securities sold in any offering under paragraph (c) of this section are accredited investors. The issuer shall be deemed to take reasonable steps to verify if the issuer uses, at its option, one of the following non-exclusive and non-mandatory methods of verifying that a natural person who purchases securities in such

**3. § 80b-3. Registration of investment advisers**

15 USCA § 80b-3

**AI document summary**

Providing registration exemption for investment advisers of private funds with less than \$150 million in U.S. assets under management

**Supporting section 1 of 1**

...(m) Exemption of and reporting by certain private fund advisers (1) In general The Commission shall provide an exemption from the registration requirements under this section to any investment adviser of private funds, if each of (FN4) such investment adviser acts solely as an adviser to private funds and has assets under management in the United States of less than \$150,000,000....

**4. § 1a. Definitions**

7 USCA § 1a

**AI document summary**

Defining commodity pool operator as persons engaged in pooled investment enterprises for trading commodity interests

**Supporting section 1 of 1**

...(11) Commodity pool operator (A) In general The term "commodity pool operator" means any person-- (i) engaged in a business that is of the nature of a commodity pool, investment trust, syndicate, or similar form of enterprise, and who, in connection therewith, solicits, accepts, or receives from others, funds, securities, or property, either directly or through capital contributions, the sale of stock or other forms of

securities, or otherwise, for the purpose of trading in commodity interests, including any-- (l) commodity for future delivery,

## 5. [Title Available on Document](#)

Know How

### AI document summary

Comprehensive analysis of CFTC regulatory framework for prediction markets and recent policy developments

## 6. [§ 1026.210 Anti-money laundering program requirements for futures commission merchants and introducing brokers in commodities.](#)

31 C.F.R. § 1026.210

### AI document summary

Requiring futures commission merchants and introducing brokers to implement anti-money laundering programs with policies, procedures, and internal controls

### Supporting section 1 of 1

...A futures commission merchant and an introducing broker in commodities shall be deemed to satisfy the requirements of 31 U.S.C. 5318(h)(1) if the futures commission merchant or introducing broker in commodities implements and maintains a written anti-money laundering program approved by senior management that: (b) Includes, at a minimum: (1) The establishment and implementation of policies, procedures, and internal controls reasonably designed to prevent the financial institution from being used for money laundering or the financing of terrorist

## 7. [Investment Partnership: Tax Clauses](#)

Standard Clauses • Maintained • National/Federal

### AI document summary

Explaining pass-through tax treatment for private investment funds structured as partnerships or LLCs

### Supporting section 1 of 1

...A private fund formed as a limited partnership or limited liability company is generally treated as a pass-through entity for US federal income tax purposes and is therefore not itself subject to federal income tax. The fund's income, gains, losses, deductions, and credits are instead passed through to the fund investors who include their respective share of those items on their income tax returns. Fund investors generally consist of: US individuals (including employees of the sponsor). US tax-exempt entities. These can include: endowments;

## 8. [§ 230.503 Filing of notice of sales.](#)

17 C.F.R. § 230.503

### AI document summary

Establishing Form D filing requirements for Regulation D offerings within 15 days of first sale

9. [Exemptions for Advisers to Venture Capital Funds](#)

S.E.C. Release No. • June 22, 2011 • Release No. 3222

**AI document summary**

SEC release implementing Dodd-Frank private fund adviser registration requirements and exemptions

**Supporting section 1 of 1**

...On November 19, 2010, the Commission proposed three rules that would implement these exemptions. First, we proposed rule 203(l)-1 to define the term "venture capital fund" for purposes of the venture capital exemption. Second, we proposed rule 203(m)-1 to implement the private fund adviser exemption. Third, in order to clarify the application of the foreign private adviser exemption, we proposed new rule 202(a)(30)-1 to define several terms included in the statutory definition of a foreign private adviser as defined in section 202(a)(30) of

10. [§ 4.22 Reporting to pool participants.](#)

17 C.F.R. § 4.22

**AI document summary**

Requiring commodity pool operators to provide periodic reports to pool participants including annual audited financial statements

11. [§ 4.13 Exemption from registration as a commodity pool operator.](#)

17 C.F.R. § 4.13

**AI document summary**

Providing exemptions from commodity pool operator registration for certain qualifying pools and operators

12. [§ 4.14 Exemption from registration as a commodity trading advisor.](#)

17 C.F.R. § 4.14

**AI document summary**

Establishing exemptions from commodity trading advisor registration for registered investment advisers and other specified persons

**Supporting section 1 of 1**

...(a) A person is not required to register under the Act as a commodity trading advisor if: (8) It is registered as an investment adviser under the Investment Advisers Act of 1940 or with the applicable securities regulatory agency of any State, or it is exempt from such registration, or it is excluded from the definition of the term "investment adviser" pursuant to the provisions of sections 202(a)(2) and 202(a)(11) of the Investment Advisers Act of 1940, Provided, That: (i) The person's commodity interest trading advice is directed solely to,

13. [§ 6:10. Applicability and overview](#)

Securities: Public and Private Offerings • SECPUBPRIV § 6:10

### Supporting section 1 of 1

...SEC summary of Section 4(a)(2) and Rules 504, 505 and 506:[9]Non-public offering (private placement) exemptionSection 4(a)(2) of the Securities Act exempts from registration “transactions by an issuer not involving any public offering.” To qualify for this exemption, which is sometimes referred to as the “private placement” exemption, the purchasers of the securities must:•either have enough knowledge and experience in finance and business matters to be “sophisticated investors” (able to evaluate the risks and merits of the investment), or be

## 14. [Appendix C2. SEC Release Rule 506\(c\)/Rule 144A Elimination of Ban on General Solicitation and Advertising](#)

Securities: Public and Private Offerings • SECPUBPRIV APP C2

### Supporting section 1 of 2

...The amendments to Rule 506 we are adopting today will affect a number of different market participants. Issuers of securities in Rule 506 offerings include both reporting and non-reporting operating companies and pooled investment funds. Investment advisers organize and sponsor pooled investment funds that conduct Rule 506 offerings. Intermediaries that facilitate Rule 506 offerings include registered broker- dealers, finders and placement agents. Investors in Rule 506 offerings include accredited investors (both natural persons and legal entities)

### Supporting section 2 of 2

...The elimination of the prohibition against general solicitation for a subset of Rule 506 offerings will enable issuers to solicit potential investors directly, through both physical (such as mailings, newspaper advertisements and billboards) and electronic (such as the Internet, social media, email and television) means. As a result, we anticipate that issuers will be able to reach a much greater number of potential investors than is currently the case, thereby increasing their access to sources of capital. We note that many commenters, including

## 15. [§ 7:2. SEC Revamps Exempt Offering Regime—2020: Revises Definition of Accredited Investor and Qualified Institutional Buyer and Harmonizes Exempt Offering Regulatory Regime](#)

Exempted Transactions Under the Securities Act of 1933 • SECEXTRANS § 7:2

### Supporting section 1 of 1

...ExemptionAmounts Reported or Estimated as Raised in Exemption 2019 Rule 506(b) of Regulation D\$1,492 billionRule 506(c) of Regulation D\$66 BillionRegulation A: Tier 1\$0.044 billionRegulation A: Tier 1\$0.998 billionRule 504 of Regulation D\$0.228 billionRegulation Crowdfunding 348\$0.062 billionOther exempt offerings349\$1,167 billion[SEC Footnotes: 348 Data on offerings under Regulation Crowdfunding were collected from Form C filings on EDGAR. For offerings that have been amended, the data reflects information reported in the latest amendment as

## 16. [Appendix C13. SEC Crowdfunding Rule](#)

Securities: Public and Private Offerings • SECPUBPRIV APP C13

**Supporting section 1 of 1**

...Type of Offering Offering Limit[1238]Solicitation Issuer & Investor Requirements Filing Requirement Resale Restrictions Blue Sky Law Pre-emption Section 3(a)(11) None All offerees must be resident in state All issuers and investors must be resident in state None NO[1239] No Section 4(a)(2) None No general solicitation Transactions by an issuer not involving any public offering[1240] None Restricted Securities No Regulation ATier 1: \$20 million with \$6 million secondary sales by affiliates of the issuer; Tier 2: \$50 million with \$15 million limit on secondary sales

**17. Appendix GG1. SEC Response Letter to Representative Issa Concerning Special Purpose Vehicles**

Securities and Federal Corporate Law • SEC FEDCORP APP GG1

**Supporting section 1 of 1**

...In considering whether an exemption from the registration requirements of the Securities Act is appropriate for capital formation strategies like crowdfunding, the Commission will be mindful of its dual responsibilities of facilitating capital formation and protecting investors....

**18. APPENDIX J. SEC proposed amendments to Rule 506 of Regulation D and Rule 144A re. general solicitation and general advertising**

Blue Sky Law • SEC BLUE APP J

**Supporting section 1 of 2**

...Privately offered funds, such as hedge funds, venture capital funds and private equity funds, typically rely on Section 4(a)(2) and the Rule 506 safe harbor to offer and sell their interests without registration under the Securities Act.[82] In addition, privately offered funds generally rely on one of two exclusions from the definition of “investment company” under the Investment Company Act, which enables them to be excluded from the regulatory provisions of that Act. Privately offered funds are precluded from relying on either of the two

**Supporting section 2 of 2**

...From the standpoint of investors, accredited investors who previously have found it difficult to identify investment opportunities in Rule 506 offerings would be able to identify, and potentially invest in, a larger and more diverse pool of potential investment opportunities. In addition, the elimination of the prohibition against general solicitation in some Rule 506 offerings would likely increase the flow of information about issuers to investors that may not have been publicly available previously, thereby potentially leading to more efficient

**19. CFTC Staff Partially Reinstate CPO Exemption for RIAs**

Anna Pinedo, Matthew Bisanz, Adam Kanter, Elizabeth McClain, Jodi Erlandsen, Mayer Brown Free Writings + Perspectives  
JD Supra • 2025 WLNR 34649618 • December 27, 2025

**Supporting section 1 of 1**

...BACKGROUND Under the Commodity Exchange Act, among other things, a CPO

must register with the CFTC absent availability of an exemption.<sup>1</sup> A CPO is a person who is engaged in a business that is of the nature of a commodity pool, investment trust, syndicate, or similar form of enterprise, and who—in connection with that business—solicits, accepts, or receives from others, funds, securities, or property for the purpose of trading in commodity interests.<sup>2</sup> From 2003 to 2012, CFTC Rule 4.13(a)(4) exempted operators of funds that were offered solely

## 20. [CFTC Reinstates CPO and CTA Registration Relief Related to QEPs](#)

Stacie Hartman, Rob Schwartz, Nikita Cotton, Morgan Lewis  
JD Supra • 2026 WLNR 2658397 • January 27, 2026

### Supporting section 1 of 1

...The fund manager files Form PF (Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors) with the SEC and a copy is received by the CFTC; and The fund manager complies with relevant sections of CFTC Regulations 4.13(b) (requiring electronic filing of the CPO's notice of exemption) and 4.13(c) (relating to books and records requirements and special calls from the CFTC to demonstrate the CPO's eligibility for reliance). [7] In addition to relief from CPO registration, No-Action

## Additional sources

These sources are not cited in your report, but can provide context that may be helpful.

## 21. [Securities Laws in Venture Finance](#)

Practice Note • **Maintained** • National/Federal

### Practical Law resource summary

This Note summarizes the key securities laws, rules, and regulations that are most applicable to the securities offerings of a startup, including the Securities Act of 1933, the Securities Exchange Act of 1934, Section 4(a)(2), Regulation D, Rule 504, Rule 506(b), Rule 506(c), bad actor disqualification, Regulation A+, Regulation Crowdfunding, blue sky laws, Rule 701, Regulation S, intrastate offering exemption, securities fraud liability, and integration rules. This Note also summarizes several rules that are applicable to the resale of unregistered

## 22. [Registration of Investment Advisers: Overview](#)

Practice Note • **Maintained** • National/Federal

### Practical Law resource summary

A Practice Note discussing the requirement that investment advisers register with the SEC under the Investment Advisers Act of 1940, the various exclusions and exemptions from registration under the Advisers Act, and the process of registration.

## 23. [Broker-Dealer Issues for Private Funds](#)

Practice Note • **Maintained** • National/Federal

### Practical Law resource summary

This Practice Note discusses the broker-dealer registration issues relating to the

marketing and sale of interests in private funds, the issuer exemption from registration under Exchange Act Rule 3a4-1, and the FINRA rules on marketing these interests through registered broker-dealers.

## Research Steps

- ✓ Researching federal securities law requirements under the Securities Act of 1933 and Investment Company Act of 1940 for private investment funds raising capital from accredited investors
  - o Found Investment Company Act 1940 Section 3(c)(1) and 3(c)(7) exemptions for private funds. SEC private fund adviser exemption under Section 203(m) applies to advisers with less than \$150M in AUM. Accredited investor exemptions available under Regulation D.
- ✓ Analyzing exemptions from securities registration under Regulation D, Rule 506(b) and Rule 506(c) for private placements to accredited investors with \$3M offering threshold
  - o Rule 506(b) allows up to 35 non-accredited investors, while 506(c) allows unlimited accredited investors with general solicitation. \$3M offering falls within Regulation D scope. Must verify accredited investor status and file Form D notices.
- ✓ Examining Investment Advisers Act of 1940 registration requirements and exemptions for fund managers, including the private fund adviser exemption under Section 203(m)
  - o Found Section 203(m) private fund adviser exemption for advisers with less than \$150M in AUM in U.S. Must be registered adviser or exempt reporting adviser. Form ADV and Form PF reporting requirements apply.
- ✓ Researching CFTC jurisdiction and regulatory framework under the Commodity Exchange Act for funds trading in prediction markets and commodity derivatives
  - o CFTC has clear jurisdiction over prediction markets and event contracts as commodity derivatives. Recent developments show regulatory uncertainty with some courts favoring platforms like KalshiEX, while CFTC

continues to assert jurisdiction. Prediction market trading likely constitutes commodity interests requiring CFTC oversight.

- ✓ Analyzing CFTC registration requirements for commodity pool operators (CPO) and commodity trading advisors (CTA) engaging in prediction market trading
  - o Found comprehensive CFTC regulations for CPOs under 17 CFR Part 4. Rule 4.13 provides exemptions from CPO registration under certain conditions, but prediction market trading likely requires full registration. CPO registration includes disclosure, reporting, and recordkeeping requirements.
- ✓ Examining federal anti-money laundering (AML) and Bank Secrecy Act compliance requirements for investment funds and trading entities
  - o Federal AML/BSA requirements apply to futures commission merchants and introducing brokers under 31 CFR Part 1026. Must implement customer identification programs and suspicious activity reporting. Fund structure itself may not directly trigger AML requirements but trading platforms and intermediaries will be subject.
- ✓ Researching tax implications and reporting requirements under federal tax law for LLC-structured investment funds and prediction market trading activities
  - o LLC structure provides pass-through taxation avoiding double taxation. Partners report their share of income, gains, losses on individual returns. Fund must file partnership returns and provide K-1s to investors. Tax distributions typically made to cover phantom income allocations.

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## Questions for further research

1. **What specific prediction market platforms or exchanges does the fund intend to use for trading (e.g., KalshiEX, regulated designated contract markets, or offshore platforms)?**
2. **Will the fund's investment activities be limited exclusively to prediction market trading, or will it also engage in other types of commodity derivatives or securities trading?**

3. **Are any of the potential investors employee benefit plans, foreign persons, or entities that might trigger additional regulatory requirements under ERISA or FATCA?**
4. **What is the anticipated timeline for launching the fund and beginning trading operations?**
5. **Will the fund manager or any affiliates be providing investment advisory services to other funds or clients beyond this prediction market fund?**