

Sauder School of Business Prediction Markets

Subject Information and Consent Form

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1 Introduction

The *Sauder School of Business Prediction Markets* (SPM henceforth) are financial futures markets in which the ultimate values of the contracts being traded are based on the outcome of pertinent political, economic, and scientific outcomes. These include provincial or federal elections in Canada, as well as monetary policy decisions of the Bank of Canada. Participants invest their own funds, buy and sell listed contracts, earn profits and bear the risk of losing money. The SPM is operated as a not-for-profit venture. The method of issuing contracts and making final payoffs on these contracts ensures that the SPM does not realize financial profits or suffer losses. No commissions or transactions fees are charged.

The exclusive purposes for conducting this market are teaching and research. Through the SPM, participants learn first-hand about the operation of a financial market and, because they have an added incentive to do so, they often become better informed about not only the underlying political, economic, or scientific event. As a research project, the SPM generates valuable data that will provide insights into market and trader behaviour.

2 Voluntary Participation

Your participation in the SPM is entirely voluntary. Before you decide to participate, it is important for you to understand what the research involves. This consent form will tell you about the study, why the research is being done, and about any potential benefits and risks associated with your participation in the SPM. If you wish to participate, you will be asked to indicate your approval when you accept the "Trader Agreement" through clicking on the checkbox on the web-based registration form. You are free to withdraw from the SPM at any time after selling your contracts in the market and withdrawing your cash funds. After a particular prediction market closes, liquidation of the contracts is carried out as soon as the liquidation values can be ascertained. In the case of elections, this may be within days if the outcome is certain, but may be delayed if results are challenged through a recount. We make every effort to liquidate markets expeditiously.

3 Purpose and Benefits of this Study

The SPM is conducted to educate participants about the operation of a financial market as well as to conduct research about trader behaviour. The exchanges that are offered in the SPM involve different levels of risk, and require different levels of trader sophistication. The researchers will collect all trading data (all submitted orders), and additionally may conduct voluntary online questionnaires (see below). The trading data and questionnaire responses are collected for statistical evaluation. The purpose of our related research is to identify trading behaviour, trading strategies, trader sophistication, the market response to news, arbitrage opportunities, hedging strategies, and other financial market issues. A list of research papers that have been published and which are based on trader data and questionnaires is available on the SPM web site (section "Research"). Future research will involve similar scope and methodology, albeit research questions may evolve over time. Data from any of our prediction markets may be used in current and future research, subject to the restrictions set out in this consent form.

The study of the economics of prediction markets is an active area of research. Prediction markets have been shown to be useful tools to predict future events such as elections. However, many questions about how prediction markets functions remain: how they aggregate information from investors and traders; how the accuracy of these markets depends on the composition of traders such as price makers and price takers; which factors determine the order flow, spreads between bids and ask prices, and market liquidity; and how quickly these markets respond to news. Your participation in the SPM will generate very useful research data in a controlled experimental setting. Your participation in the SPM therefore has the potential to advance research into prediction markets significantly. Your participation will also tend to make you more aware of the economic, political, and scientific events that are tracked by particular prediction markets. In particular, electoral prediction markets tend to make participants more aware of Canada's political environment and political process, and make participants take greater notice of political events during election campaigns.

4 Questionnaires

On occasion the team of investigators may conduct online multiple-choice questionnaires. These questionnaires may include questions about the underlying event (such as an election). We may ask questions about how participants assess certain news. For example, during the operation of an electoral prediction market we may ask traders about who they thought won a leadership debate. For economic policy prediction markets, we may ask traders about how they view the state of the economy, or how they view particular public policies. We may also ask traders about their attitude towards financial risk.

Participation in online questionnaires is voluntary, and responses to each individual question is optional. You may choose to answer all of the questionnaire, part of the questionnaire, or none of the questionnaire. When a questionnaire is offered upon logging in to the market at a specific date, you can choose to participate or simply drop the questionnaire by closing the questionnaire window.

5 Confidentiality and Privacy

Your confidentiality will be respected. The anonymity of participants in the SPM is preserved. No information that discloses your identity will be released or published without your specific consent to the disclosure. However, research records (trading data and questionnaire data) identifying you may be inspected in the presence of the Principal Investigator or his designate, as well as the UBC *Behavioural Research Ethics Board* for the purpose of monitoring the research. However, no records which identify you by name or initials will be allowed to leave the Investigators' offices without your express consent.

Occasionally, the SPM administrators receive requests from the public news media (newspapers, television, radio) to interview one or more of our traders. If you agree to be contacted by journalists, please indicate this to us when registering for the SPM. If you have not expressly indicated your consent to be contacted by journalists, we assume that you do not wish to be contacted by journalists.

The SPM reaffirms your right to privacy; the SPM complies with all applicable privacy laws. Your rights to privacy are also protected by the *Freedom of Information and Protection of Privacy Act* of British Columbia. This Act lays down rules for the collection, protection, and retention of your personal information by public bodies, such as the University of British Columbia and its affiliated teaching hospitals. Further details about this Act are available upon request.

6 Restrictions on Participation

Participation in the SPM is subject to two important restrictions. Participants must be at least 19 years of age. Participants in the SPM must also reside in Canada. Because of regulatory constraints in other jurisdictions, we cannot accept investments from outside Canada. Upon accepting investments into the SPM, participants must provide a residential address located in Canada, as well as a corresponding telephone number with a Canadian area code. Disbursements from the SPM are exclusively by cheque to the registered Canadian residential address of the participant.

7 Benefits and Risks of Trading

Participation in any financial market involves financial risk. Traders in the SPM may earn or lose money. Gains and losses depend on the positions that a trader takes. Certain prediction markets (for example, a Majority Government Market or a Referendum Market) operate as “winner-takes-all” markets, and are thus inherently more risky than markets that are based on percentage share outcomes or continuous outcomes (for example, a Popular Vote Share Market or a Seats Share Market). Traders are advised that taking risky positions may result in the loss of part or all of the invested funds. As total investments into the SPM equal total payouts from the SPM, the total amount of investment gains also equals the total amount of investment losses: one trader’s gains are another trader’s losses. Investments into the SPM are limited to a maximum of 1,000 Canadian Dollars. Minimum investments are \$25.

TRADING RISK ADVISORY

Investing money into a financial market, and trading in securities, is associated with the potential of making or losing money. Do not invest money into the Sauder School of Business Prediction Markets unless you are fully prepared to accept the risk of losing part or all of your investment if your trades, or the contracts that you may hold at the time a contract or market matures, expose you to such risk.

The SPM is operated as a not-for-profit entity. The SPM does not charge commissions or fees. All investments from traders are paid out to traders. The method of operation of the SPM guarantees that the SPM does not realize any gains or losses. However, individual traders may make gains or losses.

8 Responsibilities

Participants in the SPM are expected to familiarize themselves with the trading mechanics of the SPM as set out in the trader’s guide available on the SPM web site (<http://predictionmarkets.ca/guide.php>). Participants in the SPM are required to safeguard their login information (username and password) appropriately. The SPM assumes no responsibility for unauthorized access to individual accounts. The Director of the SPM reserve the right to suspend the trading privileges of any trader suspected of attempting to manipulate market prices. Participants in the SPM may only open one trading account per person. Trading with oneself by way of multiple trading accounts is expressly prohibited.

In the unforeseen event that the maturity date of a market needs to be postponed, for example if a scheduled elections is postponed, the SPM Director reserves the right to either continue the market until the new maturity date, or cancel the market. The SPM Director also reserve the right to cancel the market due to *force majeure*, unforeseen technical problems, or other situations that significantly impede the continuation of the market or compromise its integrity. In the case of a cancellation, investors will be refunded their original investment in the particular prediction market.

9 Further Information

Further information about the SPM is available on the SPM web site

<http://predictionmarkets.ca>

This includes the *online trader’s guide* and this *subject information and consent form*. If you have any concerns about your treatment or rights as a research subject, you may contact the Research Subject Information Line in the UBC Office of Research Services at 604-822-8598 or by e-mail to RSIL@ors.ubc.ca.