Interactive Brokers Canada is the first CIRO dealer to offer forecast contracts by ForecastEx LLC

April 02, 2025

Will the year-over-year change in the U.S. Consumer Price Index exceed 2.4 per cent in March 2025?
Will the United States economy enter a recession by the end of Q2 2025?
Will global carbon dioxide emissions exceed 42,000 million metric tons in 2024?

These are the types of “forecast” or “event” contracts that offer investors a way to express a view or hedge against the outcome of key market-moving events.

With the rising interest in “prediction markets”, Interactive Brokers Canada Inc. (Interactive Brokers Canada) has been granted securities regulatory approval to offer certain forecast contracts to eligible clients in Canada. The forecast contracts are traded on ForecastEx LLC (ForecastEx), a U.S. Commodity Futures Trading Commission registered Designated Contract Market (DCM) and a Derivative Clearing Organization (DCO). BLG is proud to have partnered with Interactive Brokers Canada on this project.

How forecast contracts work

Forecast contracts allow investors to make predictions about future economic and climate events by purchasing either a Yes or a No contract, essentially answering “yes” or “no” to questions like: “Will the Canada Overnight Rate target be set above 2.75 per cent at the Governing Council meeting ending April 16, 2025?”

There are no counterparties and there are no sellers, only buyers. The yes and no contracts are separate contracts that do not share the same price, and investors will not trade the same contract. There is no need for novation, as the contracts share execution and go through the same clearinghouse separately.

Each contract is priced between US$0.02 and US$0.99, based on the market's assessment of the probability that the event will occur. Generally, the more likely an outcome is to occur, the more expensive the contract will be. The less likely it is to occur, the less expensive it will be. These dynamic prices reflect the evolving

consensus of market participants and provide a real-time view of market sentiment. If the investor is correct, the contract settles at US$1.00. If not, it settles at zero.

In addition to any settlement payment, each investor receives a monthly incentive coupon on the daily closing value of the contract. This means that even if investors are not correct with their prediction, and the contract settles to $0, they still receive coupon income over the life of the contract.

Interactive brokers Canada's offering in Canada

Interactive Brokers Canada engaged in discussions with the members of the Canadian Securities Administrators and the Canadian Investment Regulatory Organization in order to offer forecast contracts traded on ForecastEx. The offering is subject to certain terms and conditions, including the term of the contract and limitations on the types of underlying events. For example, Interactive Brokers Canada shall not offer forecast contracts based on the outcome of elections.

How BLG's derivatives team can help

BLG is home to one of the largest and most experienced derivatives practices in North America, advising clients that transact in the derivatives markets in Canada and throughout the world. We also represent clients before Canadian regulators. We can help you with novel derivative-based product structuring and regulatory compliance.

For more information on the derivatives industry, reach out to any of the key contacts listed below.

By

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Expertise

Investment Management, Derivatives

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