ONTARIO SECURITIES COMMISSION

(Applicant)

– and -

BLOCKRATIZE INC. and ADVENTURE ONE QSS INC.

(Respondents)

APPLICATION FOR ENFORCEMENT PROCEEDING

(Subsection 127(1) and Section 127.1 of the *Securities Act*, RSO 1990, c S.5)

A. OVERVIEW

1.   Between June 16, 2020 and May 26, 2023 (the **Material Time**), utilizing blockchain technology, Blockratize Inc. (**Blockratize**) and later Adventure One QSS Inc. (**Adventure One**, together with Blockratize, the **Respondents**) operated an online[1] global options trading platform (**Polymarket**),[2] which was accessible to Ontario residents, in violation of Ontario securities law.

2.   Polymarket offered the public the opportunity to "bet on your beliefs" by trading in options with individuals, in Ontario and beyond, where the amount of payout was based on the outcome of a future event. The majority of these event-based options were based on individuals betting on the outcome of a "yes" or "no" proposition (e.g., Will U.S. inflation be more than 0.2% from July to August 2022?) or on a multiple-choice question (e.g. 2022 Winter Olympics: Will the USA or Canada get more gold medals?). These options constitute "binary options" under Multilateral Instrument 91-102 *Prohibition of Binary Options* (**MI 91-102**).

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[1] Polymarket operated using the web address polymarket.com, formerly poly.market.

[2] In this Application, unless otherwise stated, all activities of Blockratize described refer to activities prior to January 2022. All activities of Adventure One described refer to activities in and after January 2022.

3.   Binary options are risky products. The Respondents contravened MI 91-102 by offering binary options in Ontario through Polymarket and exposed Ontario investors to associated risks. None of the Respondents have been granted any exemptive relief under MI 91-102 to offer binary options in Ontario.

B. GROUNDS

The Ontario Securities Commission (the **Commission**) makes the following allegations of fact:

i.   Platform Overview

4.   Polymarket has been publicly available since on or around June 16, 2020.

5.   During the Material Time, Ontario residents were able to use Polymarket to purchase options in what are commonly referred to as "event-based markets" or "prediction markets" (hereinafter referred to as "contracts"). The options in these contracts included binary options in the form of winner-take-all contracts through which individuals bid on whether a given event would occur, with a term to maturity of less than 30 days.

ii.   Options Offered Through Polymarket

6.   The majority of event-based contracts offered through Polymarket during the Material Time were comprised of binary options pairs related to an event taking place in the future – a "yes" option and a "no" option (e.g., Will U.S. inflation be more than 0.2% from July to August 2022?) (**Binary Contracts**). Some of the event-based contracts through Polymarket differed slightly by providing multiple discrete non-yes/no options (e.g., 2022 Winter Olympics: Will the USA or Canada get more gold medals?) (**Categorical Contracts**, and together with Binary Contracts, **Contracts**). Upon resolution of the event underlying a Contract, holders of the winning options were able to redeem their options for a fixed amount of USD Coin (**USDC**), a value-referenced crypto asset that references the value of the United States dollar. Conversely, upon resolution the losing options had a redemption value of zero.

7.   The Respondents created each Contract by programming and deploying open source software code (commonly known as a "smart contract protocol" or "protocol") that created, defined, executed and resolved the Contracts on the Polygon blockchain network. The Respondents made those Contracts available through the Polymarket website user interface (**Polymarket User Interface**).

8.   The Polymarket User Interface allowed residents of Ontario to interact with the smart contract protocol through which they could, among other things, select a Contract and review the Contract terms, add liquidity to the Contract, transmit an order for an option in the Contract, view aggregated pricing data and price charts, track their own positions, and redeem trading profits, if any. The Polymarket User Interface provided continuously-updated pricing information along with dynamic information concerning each Contract's trading volume and available liquidity in each Contract's liquidity pool.

9.   Many of the Contracts offered through Polymarket fell under categories that attract speculation, such as politics, sports, crypto, coronavirus, and pop culture. The Polymarket User Interface allowed Ontario residents to search for Contracts by category.

iii.   Process and Functionalities of Polymarket

10.   During the Material Time, Ontario residents accessed the trading functionalities of Polymarket by either connecting their self-hosted digital wallet, or by providing an email address, which in turn prompted an instruction to the Polygon blockchain network to create a smart contract wallet address for the Ontario resident (a **Designated Wallet**) that would allow the Ontario resident to take positions in Contracts by transferring USDC to smart contracts created by the Respondents. No other information was required. The individual's Designated Wallet was viewable through the Polymarket User Interface, allowing the individual to trade in Contracts through Polymarket.[3]

11.   Individuals purchased options in the Contracts through Polymarket by depositing USDC to their Designed Wallets and committing such USDC to the relevant smart contract protocols created by Blockratize, prior to January 2022, and by Adventure One, in and after January 2022.

12.   The portfolio page of the Polymarket User Interface displayed the USDC balance deposited to individuals' Designated Wallets, and their positions in each Contract to which they had committed USDC.

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[3] The Respondents did not hold or have access to USDC held by Ontario residents or other individuals in Designated Wallets or traded through the Polymarket User Interface.

13.   The conditions by which the Contracts resolved were defined by the smart contract protocols deployed by the Respondents and described on the Polymarket User Interface. Any dispute or ambiguity in the Contract resolution (i.e., determining the winning option) was resolved by:

(a)   for all Contracts resolved prior to January 12, 2022, Polymarket's "Markets Integrity Committee" (**MIC**), staffed by Blockratize personnel prior to January 2022 and Adventure One personnel as of January 2022, which verified the resolution date, checked the resolution source's data and determined which outcome the data fit into, read the entirety of the contract description with consideration for edge cases, and ensured that the correct outcome matched the payouts;

(b)   for all but four Contracts resolved between January 12 and April 8, 2022, the "UMA's Optimistic Oracle" (**UMA**),[4] which was integrated into Polymarket by Adventure One; and

(c)   for all Contracts resolved after April 8, 2022, UMA.

14.   The Respondents also made available on the Polymarket User Interface an online "Knowledge Center" to assist individuals in and outside Ontario to access and trade through Polymarket, including by providing information regarding connecting to Polymarket, deposits and withdrawals, Contracts, portfolios, options, liquidity, and Contract resolution.

15.   In addition, the Respondents engaged in the following activities during the Material Time to solicit participation and trading in Contracts through Polymarket:

(a)   displaying a prominent banner near the top of the Polymarket homepage with the words "Bet on your Beliefs";

(b)   providing dollar figures for "Maximum Winnings" and percentage figures for "Max Return on Investment" on the Polymarket User Interface for inputting the terms of trade orders. In particular, the "Maximum Winnings" figure displayed would increase proportionally to the amount an individual decided to commit;

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[4] UMA is a decentralized protocol that verifies data and resolves disputes on blockchain networks. UMA was fully integrated into Polymarket on January 12, 2022.

(c)   creating a leaderboard page listing the traders with the highest trading volume and highest profit, respectively, along with gold, silver, and bronze medal icons next to the top three traders in each category;

(d)   providing a link to polymarketwhales.info, a third party website which aggregated the trading data on Polymarket that, by default, sorted the wallet addresses with the highest profits in descending order of profit amounts;

(e)   automatically prompting individuals to tweet their trades upon the completion of a transaction through Polymarket;

(f)   holding giveaway events that provided prizes, including prizes available only to those who trade in certain Contracts during a specified time period;

(g)   labelling, with a gift box icon (previously a lightning bolt icon), those Contracts that provided rewards based on trading in them;

(h)   providing rewards for trading, liquidity provisioning, and marketing material, among other things; and

(i)   providing links to the Polymarket Twitter account and Discord server under the heading "Join the Community":

(i)   the Polymarket Twitter account regularly tweeted and retweeted Contracts available through Polymarket, including the price of the options in those Contracts. As of March 13, 2023, the Polymarket Twitter account had approximately 26,400 followers.

(ii)   the Polymarket Discord server provided a forum for people to discuss trades and Contracts available through Polymarket. The Respondents' representatives made announcements on this Discord server about new Contracts, weekly rewards for trading/liquidity provisioning, and improvements to Polymarket, among other things. As of March 25, 2023, the Polymarket Discord server had nearly 6,000 members.

iv.   Binary Options Trading Volume Through Polymarket

16.   During the Material Time, Polymarket offered at least 6,044 event-based contracts which together had approximately over $254 USD million in trading volume. Those event-based contracts included 3,873 Binary Contracts and 2,100 Categorical Contracts.

17.   The options traded in the Contracts during the Material Time constitute "binary options", as defined in MI 91-102.

18.   Out of the 5,973 Contracts that were offered through Polymarket during the Material Time, approximately 5,375 have contained at least one trade in options made less than 30 days from the date of maturity. Of those Contracts, 4,948 had an initial term to maturity of less than 30 days. During the Material Time, approximately 58% of all trading in Contracts through Polymarket were made less than 30 days from the maturity date.

v.   Polymarket's Ontario Presence

19.   Polymarket was available to Ontario residents during the Material Time. Ontario residents have used the Polymarket User Interface to create Designated Wallets, deposited USDC to those Designated Wallets, and traded options in Contracts through Polymarket.

20.   The Respondents did not restrict their advertising and promotions of Polymarket from being viewed by individuals accessing the platform from Ontario, although no advertising or promotion of Polymarket specifically targeted Ontario or Ontario residents.

21.   During the Material Time, there were 28,454 visitors to the Polymarket website with location data corresponding with Ontario.

22.   After the Commission contacted the Respondents, on May 26, 2023, the Respondents implemented access restrictions on the Polymarket User Interface to prohibit Ontario residents from purchasing options in Contracts through Polymarket (**Ontario Restrictions**) and announced those restrictions on Polymarket's Discord server and by way of a temporary banner on the Polymarket website homepage. According to the announcements, the Ontario Restrictions would only permit Ontario residents to sell and redeem their options in Polymarket's event-based contracts until June 9, 2023.

23.   Subsequent to June 9, 2023, individuals using Ontario-based IP addresses have continued to be able to sell and redeem their options through Polymarket in order to close their positions in Contracts, although they are unable to buy new options.

24.   Based on available data regarding total global visitors, total global traders and total Ontario visitors to the Polymarket website, it is estimated that approximately $22,966.75 USD of revenues earned by the Respondents in connection with trading activities through Polymarket are attributable to trading activities by Ontario residents during the Material Time.

vi.   The Operators of Polymarket

25.   Blockratize, a Delaware corporation with offices in the United States, operated Polymarket from on or about June 16, 2020 to at least January 10, 2022. Prior to January 11, 2022, the Terms of Use on Polymarket stated that the website, software applications, features, applications, and other related services were provided by Blockratize.

26.   On January 3, 2022, the United States' Commodity Futures Trading Commission (the **CFTC**) issued an order imposing sanctions on Blockratize on consent of Blockratize (the **CFTC Order**). In making the CFTC Order, the CFTC made findings of facts and concluded that Blockratize contravened the United States Commodity Exchange Act and CFTC regulations.[5]

27.   Among other things, the CFTC ordered Blockratize to cease offering access to trading in contracts displayed on Polymarket, unless such offering, solicitation, or trading complied with the applicable statute and regulations in the United States.

28.   Adventure One, a company incorporated under the laws of Panama, has operated Polymarket since at least January 11, 2022. On January 11, 2022, the Terms of Use on Polymarket were updated to reflect that Polymarket was made available by Adventure One. The updated Terms of Use also identify Blockratize as a developer of software which Adventure One licenses.

29.   The Respondents did not engage in any compliance discussions with the Commission prior to making Polymarket available in Ontario. None of the Respondents have been granted any exemptive relief under MI 91-102 to offer binary options in Ontario.

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[5] In the Matter of Blockratize, Inc. d/b/a Polymarket.com, CFTC Docket No. 22-09.

C. BREACH

The Commission alleges the following breach of Ontario securities law:

30.   During the Material Time, the Respondents breached Ontario securities law by, without lawful exemption, advertising, offering, selling or otherwise trading binary options with or to an individual, contrary to s. 2 of MI 91-102.

D. ORDER SOUGHT

31.   The Commission requests that the Tribunal make an order pursuant to subsection 127(1) and section 127.1 of the Act to approve the settlement agreement between the Commission and the Respondents with respect to the matters set out herein.

DATED this 31ˢᵗ day of March, 2025.

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