**ONLINE APPENDIX**

**Congressional** **Control Market Prospectus**

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IEM Prospectus: Congress14

2014 U.S. Congressional Control Winner-Takes-All Market

On Wednesday, December 26, 2012, at 9:30am CST, the Iowa Electronic Market (IEM) will open trading in a market based on the composition of the two houses of Congress following the 2014 U.S. elections. Contract liquidation values in this Congressional Control market will be determined by the number of seats won by members of the Democratic, Republican, and other parties in each house.

Initially, five contracts will trade in this market, each representing one of five possible unique and exhaustive outcomes. The liquidation value of the contract which represents the actual outcome of the election will be $1.00. All other contracts will have a value of zero.

This document describes the market and should be viewed as a supplement to the Trader's Manual. Except as specified in this prospectus, trading rules for this market are the same as those specified in the Trader's Manual for the Iowa Electronic Market.

**CONTRACTS**

The financial contracts initially traded in this market are:

Code Contract Description

DH\_DS14 $1 if Democratic House, Democratic Senate; $0 otherwise

DH\_RS14 $1 if Democratic House, Republican Senate; $0 otherwise

RH\_DS14 $1 if Republican House, Democratic Senate; $0 otherwise

RH\_RS14 $1 if Republican House, Republican Senate; $0 otherwise

OTHER14 $1 if none of the named contracts pays off; $0 otherwise

The first two letters of the contract symbol represent the net effect of the U.S. House of Representative elections. DH means that Democrats hold 218 or more of the 435 seats in the House. RH means that Republicans hold 218 or more seats in the House.

The next two letters in the symbol represent the net effect of the U.S. Senate elections. DS means that Democrats hold 51 or more of the 100 seats in the Senate or 50 seats plus the Vice Presidency. RS means that Republicans hold 51 or more of the 100 Senate seats or 50 seats plus the Vice Presidency in the Senate.

The contract OTHER14 represents the outcome that for at least one house of Congress, neither Democrats or Republicans hold more than half the seats as defined above. All references to "House seats" in this document are to voting seats in the House of Representatives and specifically exclude those non-voting seats held by Representatives from American Samoa, Guam, Puerto Rico, the U.S. Virgin Islands, and the District of Columbia.

**DETERMINATION OF LIQUIDATION VALUES**

This is a winner-takes-all market. The contract that denotes the actual outcome of the election will have a liquidation value of $1.00; all others will have values of $0.00. For example, if the number of House seats won by Democrats in the 2014 election is 218 and the number of Senate seats won by Democrats plus the number of seats held by incumbent Democratic Senators not up for re-election is 51, the contract DH\_DS14 will have a value of $1.00 and the other four contracts will have values of zero. Similarly, if the number of House seats won by Democrats in the 2014 election is 218, while the number of seats held by Democrats in the Senate after the election (as defined above) is 49 and the number of seats held by Republicans in the Senate after the election (as defined above) is also 49, then the contract OTHER14 will have a value of $1.00 and the other four contracts will have values of zero.

The New York Times and Congressional Quarterly Weekly Report will be the official sources for election results and party affiliations of continuing Senators, respectively. The election data posted on the New York Times official website at 5pm on Thursday, November 6, 2014, or as soon after as available, will be the official source used to determine the results of the election. In the event that the results are not reported at that website by midnight, Thursday, November 6, 2014, the Washington Post official website will become the official source. Should neither source report 2014 election results by midnight Thursday, the information reported in the print version of the New York Times on Thursday, November 6, 2014, or as soon thereafter as reported, will be used.

For purposes of determining payoffs, we will use the composition of the House and Senate for the 114th Congress as determined by each member's party affiliation at the time of the election. For Representatives and newly elected Senators, this will be their party affiliations as shown on the election ballot. For Senators not standing for re-election, this will be their party affiliations as reported at the senate.gov website the day before the election.

In the event that the election is delayed or postponed, liquidation will take place in a timely fashion after the close of polling sites for the popular vote.

In the event that the liquidation values of contracts cannot be determined until after run-off elections are completed, liquidation will occur after a sufficient number of run-off elections are completed so as to determine the liquidation values. In this case, we will count the parties of elected representatives as of the date that they won their respective elections. That is, party changes or vacancies that arise between the general election and runoffs will have no effect on IEM contract values.

If a candidate is nominated by more than one party and one of the parties is a major party (Democrat or Republican), that candidate will be counted according to his or her major party affiliation (Democrat or Republican). If none of the parties nominating a candidate are Republican or Democrat, we will count that candidate as Other. If a party goes by multiple designations (such as the Democratic-Farmer-Labor Party of Minnesota) and one of the party designations is a major party (Democrat or Republican), the candidate of that party will be counted according to the party's major party designation (Democrat or Republican). If none of the designated parties are Republican or Democrat, we will count that party's candidate as Other.

Liquidation formulas can be viewed while you are logged into the IEM trading system by clicking on the market name, Congress14, at the upper right-hand corner of the market window. The judgment of the IEM Governors and Directors will be final in resolving questions of typographical or clerical errors and ambiguities.

**CONTRACT SPINOFFS**

The Directors of the IEM reserve the right to introduce new contracts to the market as spin-offs of existing contracts. When a contract spin-off occurs, an original contract will be replaced by new contracts which divide the payoff range of the original contract into sub-intervals.

No holder of the pre-spinoff contracts will be adversely affected. Traders will receive the same number of each of the new contracts as they held in the original, and the sum of the liquidation values of the new contracts will equal the liquidation value of the original. Outstanding limit orders to buy or sell the contract which is to be spun-off will be canceled just prior to the spin-off.

Decisions to spin-off a contract will be announced at least two days in advance of the spin-off. The new contract names, the specifications regarding liquidation values and the timing of the spin-off will be included in the announcement. This announcement will appear as an Announcement on your WebEx login screen.

**CONTRACT BUNDLES**

Fixed price contract bundles consisting of one share of each of the contracts in this market can be purchased from or sold to the IEM system at any time. The price of each fixed price contract bundle is $1.00. Because exactly one of the listed U.S. Congressional Control contract outcomes will result from the election, the total payoff from holding a contract bundle until the market closes is $1.00.

To buy or sell fixed price contract bundles from the system, use the "Market Orders" option from the Trading Console. Select "Congress14 (buy at fixed price)" from the Market Orders list to buy bundles. Select "Congress14 (sell at fixed price)" to sell bundles.

Bundles consisting of one share of each of the contracts in this market may also be purchased and sold at current aggregate market prices rather than the fixed price of $1.00. To buy a market bundle at current ASK prices, use the "Market Order" option as above but select "Congress14 (buy at market prices)." To sell a bundle at current market BID prices, select "Congress14 (sell at market prices)."

Bundle purchases will be charged to your cash account and bundle sales will be credited to your cash account.

This market will remain open until contract liquidation. Liquidation values will be credited to the cash accounts of market participants.

**MARKET ACCESS**

Current and newly enrolled IEM traders with U.S. dollar accounts will automatically be given access rights to trade in the 2014 U.S. Congressional Control Market. Access to this market is achieved by logging into the IEM and choosing "Congress14" from the Navigation Bar.

Funds in a trader's cash account are fungible across markets so new investment deposits are not required. Additional investments up to the maximum of $500 can be made at any time. New traders can open accounts using the IEM Online Account Application page at http://iemweb.biz.uiowa.edu/signup. There is a one-time account registration fee of $5.00, and investments are limited to the range of $5.00 to $500.

Requests to withdraw funds may be submitted at any time by completing the IEM's Online Withdrawal Request form or by completing and mailing the paper version of the request form (http://tippie.uiowa.edu/iem/accounts/cashout.html). Additional information about requesting withdrawals is available at the IEM website at http://tippie.uiowa.edu/iem/accounts/withdrawals.html.