

27 January 2012

Dear Alex

My apologies for the delayed response to your request under the OIA. Your request was only brought to my attention two days ago.

My responses to your questions follow:

* What was the reason for the suspension?

Trading was suspended to preserve the integrity of the market, specifically, to avoid a situation of VOTE.2011.NZF exceeding 5% and MP.PETERS.2011 being below 50% for election day. I interpreted the large volume of trades immediately before suspension as an attack on iPredict. The trading did not appear to be associated with news and occurred shortly before a scheduled suspension of all trading. The traders forwent higher returns on MP.PETERS.2011 to trade VOTE.2011.NZF. This trading made the VOTE.2011.NZF price inconsistent with the MP.PETERS.2011 price. VOTE.2011.NZF is both more vulnerable to manipulation on iPredict because it was low priced, whereas MP.PETERS.2011 is costly to manipulate and so is less vulnerable to it. When VOTE.2011.NZF trades above 5 cents it puts New Zealand First on the seating chart on electionresults.co.nz.

Because of these factors I concluded an attack on iPredict was probably occurring. As market operator it is my responsibility to protect the integrity of the system. In this instance I decided to suspend trading on VOTE.2011.NZF two hours earlier than all other contracts.

* Was the suspension precipitated by any complaints, whether from market users or watchers, or was it taken solely at the initiative of iPredict's administration?

No complaint was received in any form prior to the suspension of trading relating to the VOTE.2011.NZF contract.

* if there were complaints, I am seeking a copy of all of them, suitably redacted to protect privacy.

No complaint was received in any form prior to the suspension of trading relating to the VOTE.2011.NZF contract.

* Was the suspension discussed within iPredict's management, or was it the decision of one person?

It was my decision alone.

* if there was discussion, I am seeking a copy of all such discussion, whether email, written, or oral. (Yes, information in your head is covered by the OIA, and you can write down your recollection of any telephone calls or physical discussions you had)

It was my decision alone and there was no discussion. I observed trading, decided on the evidence available to me at the time that it was likely iPredict was being

attacked, and immediately made the decision to suspend trading. There was no time to deliberate.

* any advice on the effect of the suspension on iPredict's research goals

This has been a valuable experience for us in research terms. We are one of the few real money prediction markets in the world, we are learning as we go, and the VOTE.2011.NZF experience has taught us about contract design and vulnerability to attack. As a result of the VOTE.2011.NZF experience we have launched 2014 minor party vote share contracts which pay out at 10:1, which we expect will make the site more robust and reduce the need for future interventions of this sort.

* any advice on the effect of the suspension on its Financial Markets Authority authorisation.

I'm not aware of any interaction between the decision to suspend trading on VOTE.2011.NZF and our Financial Markets Authority authorisation.

Your Sincerely

A handwritten signature in black ink, appearing to be 'Matt Burgess', written over a faint circular stamp or watermark.

Matt Burgess
Chief Executive
iPredict Limited