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Prediction markets: Regulation, risks, and areas of research

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Executive summary

Prediction markets offer a way to leverage collective guesses about the likelihood of real-world events. The companies operating these platforms claim that prediction markets are forms of investment and offer financial hedging. Opponents and critics—including state gambling regulators and attorneys general—argue that prediction markets offer a product that is fundamentally indistinguishable from gambling and should be regulated accordingly.

While some firms have utilized prediction markets, many users have turned to offerings such as sports contracts, mention markets, and short-term crypto markets to gamble. Prediction markets, then, raise a host of new questions for lawmakers, researchers, and for anyone interested in investing, gambling, and digital financial technology—especially as it affects boys and men.

This landscape scan provides an overview of prediction markets and the issues that have emerged from their rapid growth. It includes their history, how they work, and issues that lawmakers must become familiar with to regulate these markets properly. Such issues include:

- Clarifying the CFTC's authority to permit certain types of contracts
- Prohibiting markets that are "readily" susceptible to manipulation by statute
- Balancing CFTC confidentiality needs with rapid responses to suspicious market movements
- Addressing marketing of event contracts on social media
- Deciding how proactive responsible trading tools should be on prediction markets
- Creating space for exchanges within the gambling industry

Familiarity with these topics will equip lawmakers to go beyond surface-level tweaks to prediction market policy like prohibiting individual markets or telling government employees not to engage in insider trading.

Systemic protections for retail traders will have to evolve, especially once crypto is added to the CFTC's growing list of responsibilities.

In an era of historically low institutional trust, prediction markets have attempted to fill the gap with neutral, market-based forecasts. Amid the growing evidence of the harms that online gambling poses for young men, lawmakers must curb the excesses of prediction markets that have revealed themselves throughout 2025 and the first half of 2026.

What are prediction markets

Prediction markets are platforms to trade contracts on the outcome of real-world events. Take a market on whether the U.S. Federal Reserve will lower interest rates before the end of the year. A trader who believes that the Fed will lower interest rates can buy one of two contracts. “Yes,” the Fed will lower interest rates, or “No,” the Fed will not lower interest rates. Each of these contracts is a bet on the market’s outcome.

Contracts cost between $0.01 and $0.99 each. Correct answers pay $1 per contract, and losing contracts pay nothing. Because the contracts cost between $0.01 and $0.99, the price of the contract is also the probability of an event occurring. A $0.30 contract on a Fed rate decrease implies that market participants believe there is a 30% chance of the Fed rate decreasing.

A key feature of prediction markets is the ability to buy and sell contracts before the event has resolved. New information can change the likelihood of an event occurring, and traders respond to that information in real time.

For example, Polymarket traders favored Donald Trump to win the 2024 election on the morning of Sept. 10. After that evening’s debate, Harris’ odds of victory rose from about 46% to almost 50% the next morning. Traders responded to her strong debate performance in real time, pricing in her improved chances of defeating Trump instantly. Trump regained the lead in early October and had an almost 60% chance of winning on Election Day.

Prediction markets can be made for any topic that can be posed as a yes/no question. Gas prices, Spotify rankings, and Papua New Guinea’s ratification of Bougainville independence can all have prediction markets built on them. Many sports outcomes also have prediction markets, including game winners, point spreads, over/unders, and parlays that combine multiple wagers into one.

Event contracts are derivatives. They are regulated by the Commodity Futures Trading Commission (CFTC) under the same rules as other derivatives, like agricultural futures. State gaming regulators argue that event contracts on sports behave identically to sports betting. But as financial products, event contracts are not subject to state gaming laws or state tax rates. They are also available to traders who are 18 or older. In most states, sports betting is limited to those 21 and older.

Kalshi is the largest CFTC-regulated exchange. It became the first exchange dedicated to event contracts in 2020 after receiving its license from the CFTC. Kalshi has also been at the forefront of legal challenges to expand the subjects that are acceptable to offer event contracts on. Its 2024 court victory against the CFTC made election contracts legal and began a marketing blitz toward American customers.

The largest crypto prediction market exchange is Polymarket. Polymarket generated over $27 billion in trade volume in 2025, though few of the platform's markets had any fees. (By comparison, Kalshi generated $23.8 billion in trade volume in 2025.)

Even though Polymarket is a crypto exchange, it is slowly introducing a regulated American product. Polymarket's U.S. app must comply with the same rules as Kalshi. It remains unclear how long Polymarket will be able to legally operate its crypto exchange and U.S. app simultaneously. In April, Bloomberg reported that Polymarket was working with the CFTC to try to bring its crypto exchange to the United States instead of building out a separate American app.

Prediction markets 201

Prediction markets raise novel questions for the gambling industry and the CFTC. While the CFTC has regulated event contracts since the late 1980s, modern markets offer a range of new types of contracts and are accessible on apps that can behave more like gambling sites than investment platforms.

Trading on a prediction market can be similar to betting on a sportsbook. On a sportsbook, bettors are presented with odds that represent how much customers could make in the event of a win. Bettors are free to select these odds but cannot set the odds themselves.
Prediction markets also present traders with contract prices. Traders are free to accept the contract prices given to them on-site. These traders are called “takers,” because they take the given market price to trade immediately.

However, exchanges also allow traders to name their prices. Traders can place limit orders, which allow trades to go through when prices hit certain limits. For example, a trader could place a limit order to buy “Yes” contracts on the Fed lowering interest rates when the price drops from 33 cents to 28 cents. On the other side of the trade, traders could place a limit order that would sell “No” contracts when the price rises from 72 cents to 77 cents per contract.

Ordinary traders can place limit orders, but regular people aren’t necessarily the ones making it possible for others to trade. That job belongs to large professional traders: market makers.

A note on market markers

Market makers are the large, often professional traders and firms who make exchange trading possible. They also complicate the common belief that users trade against other users. The users on the other side of a trade are often market makers. Compared to regular users, market makers are better capitalized and faster. They use advanced pricing models, automated trading, and dedicated technical access to

the exchange through trading terminals. Some market makers are hedge funds and trading firms, like Susquehanna or Jump Trading. Others are individual sophisticated traders or groups of individuals.

To place a sports bet, a sportsbook takes the other side of every wager. So, bets clear the moment users place them. In contrast, an exchange matches buyers and sellers. Trades can only occur, and fees can only be generated, if someone has posted a price that other users are willing to accept. Without traders posting those prices, orders sit unfilled. Ensuring there is always someone on the other side––providing liquidity––is the central operational challenge for every prediction market.

Posting a price is riskier than accepting one. Suppose a trader offers to sell a “Lakers lose” contract and the offer rests in the order book for a few minutes. If news breaks that a star player is injured, the Lakers’ chances fall. The standing offer would then fall below fair value. Anyone who sees the news first can buy it at a price that is now favorable to them and unfavorable to the trader who posted it.

Leaving an order up exposes the trader to new information moving the market before they can adjust. Sportsbooks manage this risk by moving their lines quickly and by limiting customers who consistently beat them. An exchange’s market makers face the same risk but cannot ban the traders who pick off their stale prices. The spreads that market makers can charge are also held down by competition with other market makers.

Exchanges make this difficult job worth doing through liquidity programs, fee rebates, and preferential technical access through APIs that give them faster, richer data. Makers also generally pay lower fees than takers, the users who want a trade immediately.

Market makers can also trade alongside retail traders. Since market makers are not limited to providing liquidity, critics argue that exchanges are not truly peer-to-peer. However, peer-to-peer describes the way prices are set, and exchanges don’t stop being peer-to-peer because of additional trading market makers can do.

Exchanges like Kalshi also have internal market makers. These are trading teams that work for the company and provide liquidity, even at a loss. Kalshi’s co-founder, Luana Lopes Lara, argued that Kalshi maintains strict separation between the exchange employees and members of Kalshi Trading so the traders don’t get preferential treatment or inside information. She also noted that Kalshi Trading market makers still compete for prices instead of unilaterally setting odds.

A survey of how financial companies use affiliates for market making would clarify how this practice is policed across financial companies and how effectively firewalls between exchanges and affiliates are policed.

A note on brokerage integration

When Kalshi secured a partnership with Robinhood, Robinhood agreed to list some

of Kalshi's event contracts alongside stocks and other investment vehicles.

Exchanges partnering with brokers is not new, but there is a push toward "democratizing" financial products: giving retail customers easy access to financial instruments previously unavailable to them.

Robinhood CEO Vlad Tenev has said he hopes the platform becomes a "financial superapp." In practice, this has meant listing Kalshi's event contracts alongside stocks, options, and crypto. Robinhood has also launched products like Robinhood Ventures Fund, which gives users exposure to private companies. Financial apps, particularly those aimed at younger users, increasingly list more speculative markets alongside conventional, lower-risk investments.

Young users of financial apps also expect their crypto to be listed alongside traditional investments. Prediction markets are one of the emerging asset classes that are popular with Gen Z adults. Financial companies geared toward millennials and Gen Z customers are building with this coexistence in mind.

A note on who decides which markets get listed

Regulated CFTC exchanges can offer new markets through a process called self-certification. Self-certification became legal under the Commodity Futures Modernization Act of 2000. It allows prediction markets to launch new products if they submit paperwork verifying that the products comply with CFTC regulations.

This process gives prediction market exchanges the option to launch new products without waiting for CFTC approval. The agency can still request a 90-day review period to review a product it suspects could violate either CFTC regulations or the Commodity Exchange Act (CEA), the federal law that governs commodity trading in the United States.

The speed of self-certification filings is much faster than the process was originally designed for. The CFTC's advanced notice of proposed rulemaking on event contracts includes a footnote that quantifies how dramatic the increase in self-certifications has been. Prediction markets used to list an average of about five event contracts per year. In 2025, prediction markets certified about 1,600 event contracts.

Speculators, hedgers, and lurkers

Prediction markets users are split among retail traders, institutional traders, and lurkers.

Retail traders are ordinary people who trade in prediction markets. They are the vast majority of market users, but a minority of the trade volume.

An analysis conducted on Dune, a crypto analytics platform, found that 2% of Polymarket traders made up 90% of the platform's trade volume.

Most retail traders are also speculators, users who buy contracts hoping their value will rise. Most of a prediction market's trade volume comes from speculators, because they are the ones buying and selling contracts. (Market makers don't fit cleanly into these categories. They supply the baseline liquidity that speculators, hedgers, and lurkers all rely on.)

Speculators make it possible for other traders or larger firms to hedge.

Hedgers use event contracts as insurance. For example, a company worried about higher taxes under a Democratic Congress could buy event contracts on the Democrats taking control of Congress. If Republicans kept congressional control, then the company would lose the money it spent on event contracts, but avoid tax increases. Democratic control would lead to higher taxes, but the company would also get the payout from the event contracts.

Event contracts offer ordinary people the ability to hedge. However, they do so at the cost of largely binary outcomes. Event contract traders who hold contracts until the market resolves aren't rewarded based on how right or wrong the bet was. (Some event contracts pay interest on qualifying positions, and new products are trying to move away from binary win/loss outcomes.)

Finally, lurkers are the people who observe prediction market prices without putting money down themselves. These are people who are interested in reading the forecasts that prediction markets produce, like journalists or financial analysts. Kalshi has claimed that 70% of its site visitors view the odds instead of trading.

Independent data on viewership is limited to self-reports from the exchanges and a handful of surveys.

Who uses prediction markets?

The best available data on prediction market user demographics comes from polls. The American Institute for Boys and Men (AIBM) and Ipsos surveyed a nationally representative sample of Americans. Paradigm partnered with Echelon Insights to survey 1,008 likely voters about prediction markets. Both polls found that younger men are disproportionately interested in prediction markets:

- AIBM/Ipsos found that 29% of men 18-24 were familiar with prediction markets, compared to 21% of total Americans
- Paradigm found that 46% of men used prediction markets compared to 31% of women

The men using prediction markets also tended to be in younger cohorts across both surveys:

- AIBM found that 7% of young men (18-24) had used Kalshi in the past six months, compared to 3% of total Americans
- Paradigm found that 38% of men 18-34 had traded, compared to 28% of men 35-49

The crypto industry has also been heavily involved in prediction markets. Of the 935 prediction market projects recorded in a crowdsourced database, 650 use crypto for trading. Only about 48% of those crypto projects are reportedly operating. Most of the new prediction markets that have launched since 2016 have also been in crypto.

Sports-specific prediction market issues

Sports contracts have been among the most contentious products listed on prediction markets. State and tribal gaming regulators worry about lost tax revenue and circumvented regulations. Prediction market operators believe not only that the CFTC alone can limit sports contracts, but also that they offer a superior product to traditional sportsbooks. Sportsbook operators like DraftKings and FanDuel are also offering prediction markets. Some of the key misunderstandings about these conflicts include differences between volume and handle, exchange fees and sportsbook vig, and potential cannibalization rates.

Volume vs. handle

Even though sports contracts dominate trading volume on prediction markets, it can be difficult to assess the amount of money that customers risked on exchanges compared to sportsbook apps. Exchange volume shows the total volume of contracts traded. Contract value is counted both when the contracts are bought and sold. Sportsbook handle is the total amount of money wagered by the customer, and the money is only counted once.

Since a “full” event contract is worth $1—the sum of the yes and no price—retail traders can risk very little money despite volume being quite high. A trader who buys a five-cent contract only produces five cents in handle but controls $1 in volume. That same contract will count for another dollar in volume when it is resolved or traded again. The other 95 cents is likely matched by a market maker whose trading activity wouldn’t be at traditional sportsbooks.

That is consistent with traditional derivatives. American Civics Exchange founder Flip Pidot gave a clear example with a call example in traditional options. Pidot explained how spending $5 on an option based on Apple

stock can control a position worth $200:

“Say for a 30-day option, it’s going to cost me $5 with a $200 strike price. If [Apple’s stock price] goes to $210, my option is worth $10…The premium I paid was $5, so I’ve gone from $5 to $10. I’ve realized a 100% profit in what was only a 5% gain in the stock.”

The ability for a small amount of money to control a much larger position is why Pidot believes derivatives built on top of prediction markets could be worth quadrillions of dollars in volume.

These measurements are why volume and handle cannot be directly compared. Gaming research firm Eilers and Krejcik estimated that U.S. prediction markets did $2 billion in handle-equivalent trades in March 2026. That same month, Kalshi alone saw just under $10 billion in trade volume across its sports contracts. Sportsbooks saw $2.3 billion in handle in New York, the country’s largest legal sports betting market, in March 2026.

Prediction market fees vs. sportsbook vig

Commercial prediction markets primarily generate revenue through fees on customer trades.

The fee the exchange takes can vary based on the price that traders bought their contracts at. Traders usually pay the highest fees on fifty-cent contracts when the outcome is the most uncertain. The lowest fee rates are on contracts at the extreme price ranges. Exchanges may also charge deposit, withdrawal, or transaction fees.

There are also different fees for makers and takers. Traders who place limit orders pay lower fees than traders who accept orders that are available to take immediately. Exchanges routinely encourage makers to place orders so the market remains liquid. On Kalshi’s market on U.S. gas prices, maker fees can range from $0.02 to $0.44 per 100 contracts. Taker fees can range from $0.07 to $1.75 per 100 contracts. $100 worth of contracts at $0.76

each would incur about $1.65 in fees.

Prediction market fees can be high enough to skew odds. Statistics professor Harry Crane calculated the skew that different prediction markets showed during the 2024 election cycle. Differences in fees caused the odds of Kamala Harris' victory across four prediction markets to range from about 46% to 52%.

Fees contributed to Kalshi's NFL moneyline and over/under odds to be worse than sportsbooks in fall 2025. However, Kalshi had better pricing than major sportsbooks during March Madness in 2026, even after fees were applied.

Fees are also the main reason most retail traders are unprofitable over time. Most traders have no "edge," meaning their expected loss per trade is roughly equal to the spread—the gap between buy and sell prices—and fees. The same holds true for bettors at traditional sportsbooks: even someone who predicts outcomes no better or worse than a coin flip loses over time, because payouts are tilted in the house's favor.

Prediction market cannibalization of online sportsbooks

One of the concerns from gaming companies is that prediction markets will take customers away from them. State regulators also worry about the potential loss of taxable revenue. It's a particularly strong concern from tribal groups that have benefited from the expansion of tribal gaming since the 1980s.

Piper Sandler estimated that 25%-35% of Kalshi's volume came from Robinhood users. Eilers and Krejcik estimated that about 69% of sports contract volume came from states without legal online sports betting. Forty-three percent came from Texas and California alone, the two largest markets without online sports betting. Other estimates, like Sporttrade founder Alex Kane's, peg the volume from states without online sports betting at around 50%.

Prediction market lawsuits

The CFTC's prediction market regime faces numerous lawsuits that could disrupt the types of contracts available on licensed exchanges. States and tribes have taken issue with sports contracts specifically, which, they argue, contravene state and tribal gaming laws.

Nevada sent the first cease-and-desist letter to Kalshi in March 2025, around the time the company offered its first March Madness contracts. Kalshi sued Nevada gaming regulators at the end of the month. By April 2026, 14 states had been in litigation with Kalshi and other companies in the prediction market industry.

States have also won 14 preliminary injunction or temporary restraining order motions at the District Court level. Prediction markets had won two. As of May 2026, Kalshi's sports, election, and culture contracts are limited in Nevada. Other states have pursued legal action against Kalshi, and brokers like Robinhood have voluntarily pulled contracts from certain states. Minnesota passed a bill attempting to ban prediction markets, but no states besides Nevada and Michigan have made Kalshi withdraw contracts.

On April 6, 2026, the Third Circuit of the United States Court of Appeals issued a 2-1 opinion in favor of Kalshi. The majority agreed that federal regulation preempted New Jersey's state gaming law, allowing Kalshi's sports contracts to remain listed. The Ninth Circuit heard oral arguments on April 16, and the Fourth Circuit heard oral arguments on May 7. Opposite decisions in different circuit courts will likely set up a U.S. Supreme Court decision to decide the legality of event contracts.

CFTC and prediction market arguments

The CFTC believes that its regulations preempt state law and that the agency retains discretion in deciding which contracts prediction markets can offer. In practice, this would mean that prediction markets can offer any CFTC-approved contract anywhere in the United States.

Section 1a(19) of the Commodity Exchange Act (CEA) defines an excluded commodity as anything that falls within one of four categories, one of which, 1a(19)(iv) is "an occurrence, extent of an occurrence, or contingency ...beyond the control of the parties to the relevant contract, agreement, or transaction...and associated with a financial, commercial, or economic consequence."

The Dodd-Frank Act amended the CEA to prohibit certain categories of event contracts, including those that "involve" gaming. The CFTC also published Regulation 40.11, which prohibited the listing of these contracts. However, "gaming" was never defined, and the rule said the "Commission may" prohibit these contracts after review.

Under Michael Selig, the current CFTC and prediction market companies argue that all of their products, including sports contracts and combos, are financial instruments. As federally regulated swaps, the CFTC retains sole authority to regulate prediction markets, and no prediction market would be subject to state gaming law.

The CFTC roots its argument in part on the fact that the Supreme Court has ruled in favor of the federal government's role in regulating derivatives, most notably in Board of Trade of the City of Chicago v. Christie Grain & Stock Co (1905). The CFTC argues that whether event contract trading constitutes gambling is a tired issue that has been settled over a century ago by Supreme Court precedent and the CEA's statutory language. Opponents argue that Christie Grain involved futures on commodities with established cash markets, physical underlyings, and commercial hedging counterparties.

State arguments

State gaming regulators and tribes that offer gaming take issue with the fact that sports event contracts appear to offer a product almost indistinguishable from sports betting, but do so under the legal guise of hedging, investing, or forecasting.

Since a 2018 Supreme Court decision, states have been able to choose whether to legalize and regulate sports betting. States have traditionally been the primary regulators of gambling and often use gambling tax revenue to fund or support public programs. As a federally regulated commodity, event contracts do not pay state taxes and are not subject to state gambling laws. States have taken them to court, arguing that event contracts are a form of gambling and should be regulated as such.

Tribal gaming adds an additional challenge to prediction markets. Under the Indian Gaming Regulatory Act (IGRA), state governments and tribes must reach agreements about which forms of gaming tribes can offer. These agreements grant tribes the exclusive right to conduct certain types of gaming on their lands. Sports wagering is one of those types of gaming.

If sports contracts are gaming, then they violate these tribal-state compacts, thereby overriding tribal sovereignty and threatening tribal gaming revenues used for reinvestment into tribal lands.

Early prediction market legislation

Throughout the early months of 2026, precipitated in part by the creation —primarily on Polymarket—of event contracts related to the United States war against Iran, lawmakers introduced bills to regulate prediction markets. These bills would create limits by law rather than the CFTC's discretion.

As of May 2026, 16 federal bills target prediction markets across three categories

Insider Trading	Sports/Casino Markets	Death Markets
Torres - HR 7004	Titus - HR 7477	Schiff - S 4035
Merkley - S 4017	Blumenthal - S 4060	Levin - HR 7942
Murphy - S 4117	Moore - HR 7840	Murphy - S 4115
Casar - HR 7955	Schiff - S 4160	Casar - HR 7955
Slotkin - S 4188	Merkley - S 4226	Merkley - S 4226
Budzinski - HR 8076	Raskin - HR 8123	Raskin - HR 8123
Moulton - HR 8148	McCormick - S 4469	McCormick - S 4469
McCormick - S 4469		
Torres - HR 8771		

As of May 2026, lawmakers have introduced 16 bills largely focused on insider trading, death markets, or drawing lines between gaming and non-gaming contracts. The insider trading bills target government employees who could use classified information or other material non-public information (MNPI) to trade and profit on prediction markets. The death market bills either prohibit contracts that resolve based on someone's death or contracts that encourage or resolve based on violence. Finally, the sports and casino market bills either designate topics like sports "gaming" to be prohibited from listing or apply state gaming laws to sports contracts, including state licensing and tax requirements.

Senator Blumenthal's bill calls for consumer protections that mirror guardrails he has supported for online sports betting. They include prohibitions on credit card deposits, setting the user age limit at 21 for sports trading, and requiring exchanges to conduct affordability checks at certain thresholds.

Senator McCormick's bill creates new advisory bodies and prohibits contracts that "materially encourage violence," broadening the scope of contracts that could be prohibited as violence or death markets. The bill also specifies new filing requirements for event contracts without eliminating self-certification altogether.

Some of these bills touch on multiple topics, but still only scratch the surface of how prediction market regulation may need to change.

Future research

The CFTC has decades of experience regulating derivatives and even certain event contracts. It has little experience with exchanges that self-certify new contracts on new topics as quickly as modern prediction markets do. The ease of access and velocity of self-certifications have created new questions that regulators will have to answer.

Ordinary Americans also have an interest in reckoning with prediction markets. While insider trading is not limited to prediction markets, these platforms have created new insiders who not only have MNPI, but whose actions can also resolve markets worth tens or hundreds of thousands of dollars. The early bills introduced in Congress say much about what lawmakers want the CFTC to do in the wake of prediction market expansion, but those bills say little about how the agency should modernize to more effectively regulate markets that move faster than previous generations of futures.

Event contracts can be useful for hedging niche risks and tracking forecast changes in real time. They can also operate indistinguishably from gambling platforms, presenting the same risks for users as state-regulated gambling products.

To better understand how prediction markets actually work and their effects on American society, lawmakers and researchers will need better data. Authoritative sources should produce independent data on:

- The impact of prediction market usage on traders' financial wellbeing
- Users who view market odds on prediction markets and those who trade on them
- Long-term effects of sports contracts on sportsbooks' profit margins
- Range of cannibalization rates of sports contract volume on sportsbook handle

Beyond data collection, there are policy questions that researchers,

regulators, and lawmakers should come to terms with as they decide how to oversee prediction markets.

Which markets are "readily" susceptible to manipulation?

One of the basic questions is which events should have prediction markets based on them. The CFTC already has the authority to prohibit contracts on specific categories: terrorism, assassination, war, gaming, or an activity that is unlawful under any state or federal law.

However, these prohibitions still leave other categories of markets that aren't directly addressed by current regulations or Congress. They say nothing about mention markets or hourly markets on the price of Bitcoin. (Polymarket has crypto price markets as short as five minutes apart.)

CFTC Core Principle 3 states that exchanges will not list markets that are "readily susceptible to manipulation." The term "readily" is crucial. Prediction markets investigate suspected wrongdoing from traders, like users who may be allowed onto the exchange but trade with MNPI. Classic examples include employees using their knowledge of customer positions to trade against them and profit at their expense. For example, the CFTC charged an employee at a brokerage firm with insider trading. This employee placed trades on a friend's account using knowledge of the exchange's customers' positions. That allowed the employee to bet against the exchange's customers and win at their expense.

Newer insider trading cases are more niche. Mr. Beast's editor used his insider knowledge about pre-recorded videos to make accurate trades that sharp traders wouldn't have access to. Even live events have manipulation concerns. Karoline Leavitt ended a press conference 30 seconds before the resolution of a market on the event's length. No manipulation in that market has been proven, but that did not stop suspicions from arising.

Lawmakers will have to settle whether market resolutions controlled by the actions of one or a few people are "readily" subject to manipulation, such that offering contracts on the event itself is a clear mistake.

Distinctions between a live and pre-recorded event could clarify which mention markets are permitted, if any. Position limits on markets primarily listed for forecasting instead of hedging utility could also assuage concerns about government officials profiting from classified information.

Lawmakers should standardize preemptive screening tools. Kalshi has adopted preemptive know-your-customer (KYC) screening tools to prevent prohibited users from trading in relevant markets. It's an optional step for Kalshi but not for brokers.

Finally, regulators should examine whether the downstream effects of insider trading should lead to new prohibitions on markets. One of Polymarket's weather markets resolved based on a temperature sensor in Charles de Gaulle Airport in Paris, France. A user held a heat source near the sensor to increase the resolution price and profit from a false price. The CFTC should consider whether the expense of guarding a temperature sensor, or some other unintended manipulation attempt in a niche market, is disqualifying for prediction markets. Lawmakers should define whether the costs of something like extra security guards–born entirely by the airport–are against the public interest.

How should rule 40.11 be clarified?

Rule 40.11 was passed in a suite of changes required by the Dodd-Frank Act. This rule lists prohibited categories of event contracts, but also gives the commission the discretion to review or not review new contract subjects. Rule 40.11 has other possibilities for reform beyond prohibited category definitions.

Section (c) of Rule 40.11 states the "commission may determine" that a contract in a prohibited category be "subject to a 90-day review." One of the contentious arguments in litigation against prediction markets is whether the CFTC retains its discretion to review contracts in prohibited categories or whether that review has been done in advance by listing the prohibited categories in the first place.

Distinctions between a live and pre-recorded event could clarify which mention markets are permitted, if any. Position limits on markets primarily listed for forecasting instead of hedging utility could also assuage concerns about government officials profiting from classified information.

A future clarification should plainly state how state law should be factored into commissioners' judgments during public interest reviews. Deciding gaming laws can preempt contracts with identical topics, or whether commissioners should consider state law when conducting public interest reviews would prevent future jurisdictional battles over contracts that cover the same topics as gaming companies.

Another clarification should decide which contracts can be offered under the current self-certification procedure and which require additional review. That would focus agency resources without abandoning review of controversial contracts altogether. Another dual track could allow some contracts to be self-certified but others to require submission to the CFTC for approval before launch.

How should the CFTC balance confidentiality and market speed?

The CFTC is a federal agency with the ability to bring civil enforcement action. So, the agency must consider how to preserve due process when it investigates insider trading. Spending months or years on an investigation may be acceptable for energy block trades. However, prediction markets move much faster, and even professional traders need to know quickly whether suspicious price movements result from clever traders or from insiders with MNPI.

For example, Kalshi offered a market on which song would have the most streams on Spotify. Gaeten Dugas, a professional culture markets trader, noticed a price spike that wasn't explained by the data sources he had access to. He refrained from trading in that market until the price spikes disappeared.

Investigation results have not been published, but it would be

unreasonable to expect results after only a few months. Former California gubernatorial candidate Kyle Langford traded on his own election and encouraged his followers to do so. Kalshi and the CFTC announced fines against Langford nine months after the trades occurred and after he posted his trades on X.

However, prediction markets are also required to maintain confidentiality about CFTC investigations. The CFTC cannot build a paper trail of suspicious trades if the money flees the market once alerted.

So, regulators will have to figure out how insider trading investigations can be conducted fairly, confidentially, and much more quickly in prediction markets than traditional derivatives markets.

How should the marketing of event contracts change?

Prediction markets are not beholden to the same stringent marketing requirements as other types of CFTC-regulated entities.

Kalshi and Polymarket raced to buy up social media influencers throughout 2025, most prominently on X. Both exchanges ended or significantly shrank their social media influencer programs in early 2026. Some accounts posted antisemitic or otherwise inappropriate content, and their relationships with the exchanges were severed. Influencers also pushed the narrative that prediction markets were not gambling so hard that they attracted the attention of X's Head of Product.

Other advertisements included a TikTok ad in which a young woman claimed that she could pay two years of rent thanks to Kalshi trades. Event contracts are volatile, and some markets can change unpredictably. That advertisement doesn't accurately represent the risk profile of prediction market contracts. Kalshi has also pioneered AI-created commercials that include taglines like "It's your turn to defy the odds" or "The world's gone mad, trade it." A Wall Street Journal investigation found that Polymarket built parallel versions of its site to allow social media influencers–some of which did not disclose their relationship with the company–to fake big

wins and give the illusion that it is easy to make money buying and selling event contracts.

As prediction markets and their brokers target retail customers, lawmakers should look at which sets of rules should be standardized across the industry. For example, the National Futures Association (NFA) has codified marketing restrictions, but only certain companies are required to be members. Kalshi is not an NFA member, and it is not required to be. FanDuel Predicts is a Futures Commission Merchant (FCM) that offers sports contracts in partnership with CME Group. FanDuel Predicts is an NFA member and is required to be. Lawmakers and regulators should examine whether these divisions continue to make sense.

Some lessons that exchanges have learned could be formalized into new marketing regulations. Regulators could decide that influencer marketing is unworkable or inappropriate for financial exchanges or their brokers. They could also place guardrails around the types of messages that can be implied in an advertisement or improve the visibility of partnership disclosures. Prohibiting spam or content implying guaranteed wealth already tracks with the requirements facing other financial products. A balance has to be struck between allowing prediction markets to reach the customers they're designed to reach while avoiding the excesses of social media influencers.

How proactive should responsible trading tools be?

In March 2025, Kalshi launched a consumer protection hub where traders could set time and position limits. These features are standard offerings at sportsbooks.

Trading addiction is a budding area of addiction research that pre-dates Kalshi. Timothy Fong noticed patients using online financial trading to gamble as early as 2000. However, the frequency, resolution speed, and easy access make the responsible trading conversation crucial for the prediction market industry.

Allowing customers to set their own limits is one approach. But regulators could also require customers whose trading patterns change to be limited until they can prove they can afford their trading activity. William Hill takes this approach in the United Kingdom. Regulators could also use automatic limiting in certain markets used more heavily for entertainment, like sports, than markets with a widespread hedging purpose.

Limiting retail volume also limits the ability of institutional traders to hedge with prediction markets. Regulators should ensure their efforts strike a proper balance between legitimate hedging activity and consumer protections for retail traders.

Finally, regulators should consider whether a portion of fees should fund problem gambling programs in the United States. State sports betting bills set money aside for problem gambling funds, though the amounts and outcomes vary wildly across states. Some states fund original research, like Massachusetts, while others use problem gambling funds to fill holes in the state's general fund, like Kansas.

Financial regulators may decide that these measures are paternalistic and unnecessary. But they should consider how they should address the worst excesses of prediction market trading if they want a sustainable industry.

How should the gambling industry manage betting exchanges?

Betting exchanges are not a new idea. U.K. betting exchange Betfair was founded in 2000. It tried to launch a horse racing betting exchange in New Jersey in 2016 and ended operations in 2020. Among the reasons that it failed in New Jersey was its inability to expand to other tracks and other states.

Sporttrade, a betting exchange for sports wagers, launched in 2022 and has only been able to expand to five states. Sports betting licenses can run six figures, and each state sets its own tax rate. Some of these regulations make it impossible for exchanges to launch. For example, Tennessee taxes 1.85% of a sportsbook's handle, which has kept Sporttrade from launching

an economically viable product in that state.

State-regulated sportsbooks must also follow the Wire Act, which prohibits wager information from crossing state lines. That means that a sports exchange must ensure each state has its own pile of money to manage instead of a large pool of funds to disperse as needed. Customers could not engage in peer-to-peer trading with customers in another state.

The CFTC allows 50-state access and allows the kind of algorithmic trading that an exchange makes possible. However, state gaming regulators struggle to accommodate the exchange model, if they're able to at all.

Even if the Supreme Court rules that sports contracts are "gaming" and subject to state law, the push to offer a betting exchange in the gambling industry will not disappear. Exchanges offer features that sportsbooks struggle to optimize, including seamless live trading and, often, better pricing. Algorithmic and agentic trading are also possible, though they're prohibited under state gaming laws.

Creating a liquidity pool among the states is complicated, too. Tribal groups with agreements to exclusively operate sports betting will still seek a portion of the revenue and raise tribal sovereignty concerns should they be cut out of an arrangement.

State regulators, tribes, and the federal government will have to coordinate to create a fair solution to betting exchanges in the American gambling landscape.

Appendix: Prediction market history

Intellectual roots of prediction markets

Several intellectuals paved the way for prediction markets. Austrian economist Friedrich Hayek argued that prices were uniquely good at aggregating information into a single data point. His 1945 paper, "The Use of Knowledge in Society," is required reading for Polymarket employees. It is considered the philosophical foundation for using prices to aggregate information about things besides prices, like events.

In the 1990s, George Mason University economist Robin Hanson studied how prediction markets could be used to make business decisions. His work shows how putting money behind the best decisions could combat groupthink. His 2007 paper, "Shall We Vote on Values, But Bet on Beliefs?," argues for a futarchy, a government that makes decisions based on prediction markets. Market prices could show how likely an event is to occur, but could also be designed to forecast the immediate effects of different policies.

Exchanges moved from theory to practice during the 1980s. The Iowa Electronic Markets were founded in 1988 to offer a market-based solution to polling after polls failed to detect Jesse Jackson's upset victory in the Michigan Democratic caucus.

The government experimented with prediction markets in 2003. With advice from Robin Hanson, the Pentagon briefly offered a program that allowed experts on the Middle East to use $100 to bet on economic and political markets. After two senators accused the Pentagon of offering terrorism futures, the project was scrapped.

Commercial derivatives exchange Hedgestreet gained approval to launch in 2004 and offer event contracts. However, Hedgestreet largely offered

event contracts on events that had already existed as traditional derivatives, which require losers to pay the winner each day based on how the contract moves, making them too expensive for retail traders.

Modern prediction markets

In 2014, PredictIt secured authorization from the CFTC to offer a real-money prediction market on political outcomes. PredictIt began as a research project with a polished user interface for a modern customer base. The CFTC allowed PredictIt to operate because the platform limited traders' maximum bet sizes and the number of traders in each market. Markets were limited to 5,000 traders per market, and traders could spend up to $850 in each market. In a 2016 op-ed, Brookings Senior Fellow Philip Wallach estimated that PredictIt had $1 million in trade volume in its market on the 2016 presidential winner. Kalshi's 2024 presidential election market generated over $535 million in trade volume.

Kalshi and Polymarket followed in 2019 and 2020, respectively. Kalshi was built in Y Combinator, a startup accelerator that offers funding and mentorship to promising entrepreneurs.

Shayne Coplan built Polymarket himself on the Polygon blockchain. Polymarket launched in 2020 to offer event contracts using crypto payments. It did not register with the CFTC.

Kalshi would become the first licensed exchange solely offering event contracts. Kalshi also introduced new markets, like event contracts on whether inflation would pass a certain threshold by a given date. One of the categories of markets it hoped to offer commercially was election contracts. In 2022, the company's submission to the CFTC to offer contracts on the midterm elections was not approved. Kalshi withdrew its submission before the CFTC could formally prohibit the midterm election contracts. The following year, Kalshi sued the CFTC to offer contracts on elections. Kalshi won in September 2024 and rapidly expanded its selection of political and election markets. In early 2025, it began adding sports contracts.

As of this writing, Kalshi has an 89% market share among regulated American prediction markets. About 87% of its trade volume came from sports contracts and parlays in May 2026, a month without the Super Bowl or March Madness, but which nears the end of the NBA and NHL seasons.

Polymarket, Kalshi's crypto competitor, also benefited from the publicity around the 2024 election and the Trump administration. After Polymarket launched, the CFTC investigated the platform for not registering as a designated contract market. The CFTC found that the platform was "operating an unregistered facility or non-designated contract market." Polymarket settled with the CFTC to cease operations in the United States and paid a $1.4 million fine in January 2022.

The Department of Justice opened a new investigation into Polymarket in 2024 for allegedly allowing U.S. traders in violation of the 2022 settlement. The Department of Justice ended that investigation into Polymarket in 2025, and Polymarket is now developing a U.S. app that complies with American law and CFTC regulation.

Polymarket continues to operate its crypto site and is reportedly in talks with the CFTC to bring that exchange over to American audiences instead of building a separate app. Polymarket acquired a CFTC-licensed exchange and clearinghouse, QCEX, for $112 million, allowing Polymarket to launch a regulated app.

Prediction markets under Biden and Trump

The CFTC regulates prediction markets because contracts on events are considered commodities. Regulated prediction markets are born out of a steady evolution of commodities markets away from ways to buy and sell agricultural futures into products that allow new customers to hedge new risks.

One of the first commercial event contracts was the yield future. It was a contract on how much crop an acre of land would yield. The contract was resolved on the basis of Department of Agriculture reports without

reference to a cash market or financial event. Since there was no reference in the contract to a price, index, or financial event, event contracts on new topics could be similarly broad. When Hedgestreet launched in 2004 with yes/no contracts on crop yields, hurricane damage, or other events, the CFTC had already allowed traditional derivatives on these events to be sold.

Kalshi would also specialize in yes/no contracts, but it would offer contracts on increasingly niche risks and events. The CFTC under the Biden and Trump administrations would draw lines in very different ways regarding which events could have markets based on them.

Rostin Behnam (2021-2025)

Kalshi's initial contracts were a selection of economic, financial, and culture markets like broadcast figures after certain television events. One market Kalshi had hoped to launch was a congressional control market: a yes/no market on whether Democrats or Republicans would control Congress after the 2022 midterms.

Kalshi submitted congressional control contracts to the CFTC for agency approval in July 2022. Kalshi made that submission after meeting with commissioners and some members of Congress beginning in late 2021. The CFTC commenced a 90-day stay to review the product's suitability for listing. Kalshi pulled its filing before the CFTC officially prohibited the contracts.

The next year, Kalshi self-certified the congressional control contracts, and the CFTC commenced a 90-day stay. The CFTC decided that the congressional control contracts constituted "gaming" on elections and prohibited their listing in September 2023. Kalshi sued the CFTC on November 1, 2023, arguing that the CFTC overstepped its authority.

Then-CFTC Chairman Rostin Behnam argued that the CFTC lacked the ability to police elections, which are the underlying events of congressional control contracts. In June 2024, the CFTC proposed a rule that would

define “gaming” under Rule 40.11 to prohibit sports and election contracts. That rule was never finalized, so it never went into effect.

In September 2024, the District Court for the District of Columbia ruled in Kalshi’s favor. Rule 40.11 allows the CFTC to prohibit contracts on certain topics, including gaming. The act of trading contracts was not a feasible definition of “gaming,” and elections are not “games.” On the back of this victory, Kalshi offered contracts on the presidential election and control of both chambers of Congress.

The week of Christmas, Crypto.com self-certified “title event” contracts. These would settle based on the “title holder” of an “association title event.” This was the first Super Bowl contract that a CFTC-regulated prediction market had filed to list.

The CFTC issued a stay for review and requested that Crypto.com delist those contracts on Jan. 14, 2025. Crypto.com refused, arguing that the Trump administration, which would come to power in five days, should make its own public interest determination.

Caroline Pham & Michael Selig (2025-Present)

On January 20, 2025, Commissioner Caroline Pham became the acting chairman of the CFTC. She and her successor, Michael Selig, believed the CFTC had broad discretion in which contracts prediction markets were allowed to list.

Kalshi self-certified its own title event (Super Bowl) winner contract on Jan. 23, three days into the Trump administration. Kalshi announced a partnership with Robinhood to offer Super Bowl contracts to its customers, which dramatically increased Kalshi’s reach.

The CFTC requested a pause in trading and additional documentation showing how the title winner contracts complied with CFTC regulations. No action was taken on the contracts. Kalshi followed with March Madness contracts, auguring the full-throated arrival of sports contracts on prediction markets.

Under Pham, prediction markets began offering point spreads, over/unders, player props, and many new contracts in other categories, like mention markets, which resolve based on whether a certain person uses a certain word during a certain event. Pham viewed the CFTC's cases against prediction markets as a pattern of "regulation by enforcement." Determined not to overstep the CFTC's authority, she allowed prediction markets to launch new types of event contracts even as state gaming regulators, tribal groups, and state attorneys general pursued enforcement action against prediction markets.

While Pham was more focused on crypto issues, Michael Selig was much more vocal about prediction market regulation. He clerked under CFTC Chairman J. Christopher Giancarlo and represented crypto companies like Paradigm as a private lawyer. Selig was sworn in as the CFTC's Chairman and sole commissioner in December 2025. He offered neutral answers about the CFTC's role in prediction market regulation during his confirmation hearing. Then, he filed briefs supporting prediction market exchanges in February 2026. In March, the CFTC sued three states and began the rulemaking process for prediction markets.

The Trump family has also invested in prediction markets. Donald Trump Jr. is a strategic advisor to both Kalshi and Polymarket. 1789 Capital, Trump Jr.'s venture capital firm, also invested in Polymarket in August 2025. Precise investment terms–and his role in the operations of the two companies–have not been disclosed.

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