



2025

Comprehensive Research Study on Prediction Markets and Gambling

**An in-depth look at how prediction markets intersect
with gambling, regulation, and technology.**

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Abstract: This study explores the convergence of prediction markets and gambling, examining how platforms that allow trading on real-world events are reshaping both industries. It provides a broad overview of regulatory challenges, key players like Kalshi and Polymarket, and the growing debate over whether these markets are financial tools or forms of betting. The report also highlights emerging technologies such as blockchain and AI, and considers how prediction markets could influence finance, entertainment, and policymaking in the years ahead.

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1. Executive Summary

Prediction markets – exchanges where participants trade on the outcomes of future events – are emerging at the intersection of finance and gambling. This primer provides an in-depth exploration of how these markets have evolved from niche forecasting tools into potentially mainstream financial instruments, and the complex regulatory landscape they face. Key findings include:

- **Rise of Regulated Platforms:** Platforms like **Kalshi**, the first CFTC-regulated event-contract exchange (designated in 2020), have pioneered legal trading on events ranging from elections to sports. Kalshi's case exemplifies the **opportunities and legal battles** in bringing prediction markets into the U.S. financial fold. The company fought a high-profile lawsuit against the Commodity Futures Trading Commission (CFTC) over political event contracts – a battle that it ultimately won in court, effectively **securing the right to offer election markets**. At the same time, Kalshi's expansion into sports event markets in 2025 ignited **conflict with state gambling regulators**, who argue these trades are indistinguishable from sports bets.
- **Blurring Line with Gambling:** A central tension is whether prediction markets constitute regulated financial products or simply another form of gambling. Critics (including state gaming commissions and some CFTC officials) contend that betting on events like elections or games poses risks of **manipulation, disinformation, and moral hazard**. Proponents argue that, when properly regulated, prediction markets harness the "wisdom of crowds" for accurate forecasting and hedging, aligning more with financial derivatives than casino wagers.
- **Regulatory Tug-of-War:** The primer details a **patchwork of U.S. regulations** governing these markets. Federally, the CFTC oversees event contracts under the Commodity Exchange Act, imposing strict rules (e.g., prohibiting contracts on war or gaming outcomes) but grappling with how to treat political and sports events. At the state level, gambling regulators in jurisdictions like New Jersey, Nevada, Montana, and others have issued cease-and-desist orders against prediction platforms, asserting state gambling laws and consumer protections. A major theme is **federal preemption vs. state sovereignty**: Kalshi and its peers assert that a CFTC-regulated exchange can operate nationwide, while states (and Native American tribes) vehemently object to the sidestepping of local gambling controls.
- **Market Landscape and Innovation:** Beyond Kalshi, we examine platforms such as **PredictIt, Polymarket, Manifold Markets, and Insight Prediction**. These range from centralized, U.S.-based markets (often operating under academic or

experimental allowances) to decentralized, blockchain-based markets operating globally. We compare **centralized vs. decentralized models** and the role of blockchain in enabling peer-to-peer “betting” without intermediaries. Notably, blockchain-based prediction markets (e.g. Polymarket, Augur) have demonstrated both the potential (billions in trading volume during the 2024 election cycle) and pitfalls (e.g. enforcement actions like Polymarket’s \$1.4M CFTC fine in 2022) of a DeFi approach.

- **Future Outlook:** The primer discusses possible **pathways to legalization and mainstream adoption** of prediction markets. These include clearer regulatory frameworks (the CFTC in 2025 is actively soliciting input on sports event contracts), potential integration with traditional finance (e.g. retail brokerages offering event contracts, institutional use for hedging), and the influence of emerging technologies. The role of **AI in forecasting** and in monitoring prediction markets is considered, as are ethical safeguards to ensure these markets enhance rather than undermine decision-making and public trust.

Implications: For policymakers, the growth of prediction markets raises questions about how to balance innovation with protection of investors, consumers, and democratic institutions. For industry stakeholders – from startups and VCs to casinos and sports leagues – prediction markets represent both a disruptive threat and an opportunity to engage users in new ways. Finally, for society, these markets could become valuable predictive tools (improving information aggregation on everything from elections to epidemics) if their integrity is maintained. This primer concludes with recommendations and considerations for regulators, industry leaders, and researchers as they navigate the **convergence of betting, trading, and information markets**.

2. Introduction to Prediction Markets

Definition and Concept: Prediction markets (also known as information markets or event futures) are marketplaces where contracts tied to the outcome of specific events are traded. Each contract pays out based on whether a particular event occurs, essentially allowing participants to “bet” on outcomes. As Morgan Stanley’s analysts describe, *“prediction markets are a type of marketplace where event contracts trade... trading an outcome at an event, such as the November election, economic indicators, or even corporate events”*. Unlike traditional futures, these event contracts often have a **binary payoff** (e.g. \$1 if event happens vs. \$0 if not), giving them a defined risk/reward profile. The price of a contract fluctuates between 0 and 100 cents, effectively reflecting the market’s consensus probability of the event. For example, if a contract on *“Candidate X wins the election”* trades at \$0.75, the market is estimating a 75% chance of that outcome. This mechanism leverages the “wisdom of crowds”: by

putting real money at stake, traders are incentivized to incorporate all available information, yielding prices that often serve as predictive odds.

Historical Context: Prediction markets have a surprisingly long history, evolving from academic experiments into modern financial instruments. One of the earliest examples was the **Iowa Electronic Markets (IEM)**, launched in 1988 at University of Iowa, which allowed small-stakes trading on political elections. The IEM demonstrated that market prices can outperform polls in forecasting election results, attracting economists' interest in the 1990s. Another notable (though ill-fated) initiative was DARPA's proposed **Policy Analysis Market** in the early 2000s, which aimed to use futures contracts to predict geopolitical events. Although that program was shut down amid controversy (due to ethical concerns over "betting on terrorism"), it helped popularize the idea of markets as predictive tools. In the mid-2000s, **InTrade** and **Betfair** (in the UK) gained traction by allowing real-money trading on elections, sports, and other events, though U.S. participants were eventually barred by regulations. Internally, companies like Hewlett-Packard and Google experimented with prediction markets to forecast project completion times and sales figures, further proving the concept's value in aggregating dispersed information.

Evolution into Financial Tools: Initially seen as a curiosity or a form of gambling, prediction markets have increasingly been framed as financial instruments akin to derivatives. Contracts can be structured in various ways – *winner-takes-all binaries*, *index contracts with scaled payouts*, or *spread contracts tied to an outcome threshold*. These designs mirror financial products: for instance, a binary event contract is essentially an option that pays \$1 if a certain condition is met. Over time, the **use cases** for prediction markets have broadened beyond politics into domains such as:

- **Elections:** The most well-known application – markets predicting election results or policy outcomes. Election markets have repeatedly demonstrated accuracy and quick information assimilation (e.g., reacting to debate performances or scandals in real time). During the 2024 U.S. presidential race, prediction markets provided a running forecast of the Trump vs. Harris contest, and even outpaced traditional polling in responsiveness.
- **Sports:** Traditionally the realm of sportsbooks, sports outcomes are now traded on prediction exchanges. This includes contracts on game winners, championship outcomes, or even player statistics. For example, one could buy a contract paying \$1 if a certain team wins the NCAA tournament. Such contracts effectively turn

sports betting into a commodities-style market where odds move with news like injuries or weather. (Sports prediction markets are discussed in depth in Section 5 and Section 7 due to their legal sensitivity).

- **Finance and Economics:** Prediction markets have converged with finance by offering contracts on economic indicators and business events. Kalshi and others have listed contracts on metrics like **inflation rates, unemployment figures, Federal Reserve interest rate decisions**, and even the debut dates of specific IPOs. These allow investors to hedge or speculate on economic outcomes in a simplified way. In fact, *event contracts on weather and other commodities have existed on Chicago exchanges for decades*, and modern platforms build on that legacy. The **information value** is also significant – a contract on, say, the Federal Funds rate target can serve as a live forecast of Fed policy changes.

Major Use Cases and Appeal: Why have prediction markets gained appeal? A key reason is their **track record of accuracy** in certain domains. Academic research has shown that in many cases, prediction markets outperform individual experts and polls. They incorporate diverse viewpoints and update continuously as traders react to new information (much like stock prices adjust to news). Additionally, these markets provide **tangible financial hedges** for real-world risk. For instance, farmers might hedge against bad weather by trading weather event futures, or media companies might hedge the risk of low viewership of an event by trading on outcomes related to ratings. Businesses and investors see potential in using event-driven contracts as an “*insurance-like*” tool. Finally, on the demand side, prediction markets tap into the same human interest that drives both **investing and gambling**: the desire to put money behind one’s predictions or beliefs about uncertain future events. This crossover appeal – engaging both those looking for profit opportunities and those seeking entertainment – underpins the surge in public interest in recent years.

In summary, prediction markets have evolved from obscure academic projects to platforms attracting **millions in bets and trades**. Their unique blend of speculation and information aggregation positions them at the frontier of finance. However, this evolution also raises questions about how society should classify and regulate these markets – a theme that resonates throughout this primer.

3. The Kalshi Case Study

Background and Business Model: Kalshi (KalshiEX LLC) is a pioneering U.S. prediction market platform and the first to achieve full federal regulatory approval as a financial

exchange for event contracts. Founded in 2018 by Tarek Mansour and Luana Lopes Lara, Kalshi went through Y Combinator and secured venture capital backing (including Sequoia Capital) to pursue a bold vision: turning real-world events into a new asset class. In November 2020, Kalshi made history by becoming a **Designated Contract Market (DCM)** under the CFTC – essentially a federally regulated exchange on par with commodity futures markets. This designation meant Kalshi could list “yes/no” event contracts for U.S. customers, subject to CFTC oversight and compliance with the Commodity Exchange Act (CEA).

Kalshi’s platform launched publicly in 2021, offering contracts on a range of topics, primarily in the realm of current events and economics. For example, early markets included **economic indicators** (e.g. “Will the monthly inflation rate exceed X%?”), **financial events** (“Will the S&P 500 hit a new high by date Y?”), and popular happenings (“Will a certain movie win an Oscar?”). Traders buy “Yes” or “No” shares at prices between 1¢ and 99¢, with correct outcomes paying \$1. Kalshi earns revenue by charging small transaction fees on trades. This model is analogous to a stock exchange, but instead of equities, the “securities” are event outcomes. By positioning itself as a financial exchange rather than a gambling site, Kalshi built its brand around **legitimacy and compliance** – a crucial differentiator given the legal gray area of unregulated prediction markets.

Venture Funding and Growth: The promise of a legal, scalable prediction market attracted significant investor interest. Kalshi has raised over \$80 million in funding (as of 2024), with notable backers including **Sequoia Capital, Charles Schwab, and Henry Kravis**. Such backing underscores a belief in the commercial potential of event trading. By 2024, Kalshi’s user base and volumes were growing, particularly as it positioned itself as a safer alternative to offshore or crypto-based markets. The platform reportedly processed more than **\$1 billion in trades on political event contracts during 2024** alone. CEO Tarek Mansour has articulated a long-term vision of integrating event contracts into mainstream finance – even suggesting that by 2026, prediction markets could be offered in retirement investment accounts or through major brokerages.

Legal Battles with the CFTC – The \$1M Case: Despite its regulatory pedigree, Kalshi quickly encountered friction with its primary regulator, the CFTC. The **flashpoint** was Kalshi’s proposal to list contracts on U.S. election outcomes – specifically, which party

would control the U.S. Congress (House and Senate). In June 2023, Kalshi submitted for approval a set of “Congressional control” event contracts, arguing that these markets would provide valuable hedging and insight into political outcomes. However, in September 2023 the CFTC, in a split 3-2 vote, **prohibited Kalshi from offering those political contracts**, citing concerns that they amounted to unlawful gaming and could pose risks to election integrity. The CFTC invoked a special provision (Regulation 40.11) that allows it to block event contracts “contrary to the public interest” – a clause previously used sparingly, mostly to bar contracts on assassination or terrorism. Commissioners opposing the contracts argued that widespread election betting could undermine public confidence and that the CFTC should not wade into regulating election-related wagers.

Kalshi vehemently disagreed and took the unprecedented step of **suing its regulator**. In late 2023, Kalshi filed suit against the CFTC, claiming the agency overstepped its authority and applied an arbitrary standard in labeling the contracts as “gaming” rather than permissible financial instruments. This legal battle – which observers nicknamed the “\$1 million CFTC lawsuit” due to the substantial legal fees and stakes involved – culminated in a landmark decision. In September 2024, a U.S. District Court **ruled in Kalshi’s favor**, finding that the CFTC had not justified its ban sufficiently and that Kalshi’s election markets could proceed. The court essentially held that predicting election outcomes via a controlled exchange falls within the CEA’s scope and that the public interest argument was speculative.

The CFTC initially appealed the decision and even obtained a temporary stay, injecting uncertainty as the 2024 presidential election approached. Nevertheless, the D.C. Circuit Court of Appeals denied the stay in October 2024, allowing Kalshi to list its election contracts in the final weeks before Election Day. The result was an explosion of activity: *billions of dollars worth of election event contracts were traded in November* across platforms, with Kalshi handling a significant share.

(Notably, **Polymarket**, a crypto platform, had a head start and ultimately saw over \$4 billion in volume on the 2024 presidential markets, compared to roughly \$500 million on Kalshi, reflecting Kalshi’s late entry that cycle.)

In a dramatic post-election twist, the CFTC – now under new leadership after the 2024 administration change – decided to **drop its appeal** in May 2025. The Commission

voted 3-0 to withdraw the case, effectively ending the legal fight and cementing Kalshi's ability to offer political event contracts. *"Today is historic... This result is proof that doing things the right way pays off,"* Mansour said, celebrating the outcome as a definitive win for the prediction market industry. He proclaimed that *"prediction markets' right to exist and thrive"* in America had been solidified. Indeed, the case set a precedent that **election markets are not per se illegal** gambling under federal law – a significant clarification after years of CFTC indecision.

Foray into Sports and Clash with State Regulators: Buoyed by its legal victory on political markets, Kalshi in early 2025 embarked on another ambitious expansion – **sports prediction markets**. In January 2025, Kalshi began listing contracts on sports events, including NFL games, NBA matches, and the NCAA March Madness tournament. This rollout was groundbreaking: for the first time, Americans nationwide could trade on sports outcomes on a CFTC-regulated platform, even in states where conventional sports betting remained illegal. By structuring these as event contracts, Kalshi asserted they were not "bets" but commodity-like trades on sports events, thus falling under exclusive federal jurisdiction. The uptake was strong – by April 2025, Kalshi had handled over **\$650 million in sports event contracts** (notional volume) since launch, including \$380+ million on the NCAA tournament alone. The rapid growth signaled consumer appetite for a stock market-style approach to sports wagers.

However, this expansion triggered a regulatory backlash from multiple fronts. **State gambling regulators** – who oversee sports betting within their borders – viewed Kalshi's move as a direct affront to their authority and local gaming laws. Starting in late March 2025, a wave of states issued **cease-and-desist orders** against Kalshi (and often its partners). Notably:

- **Montana:** The Montana Department of Justice's Gambling Control Division sent Kalshi a cease-and-desist on March 26, 2025, declaring its sports contracts to be *"illegal gambling within the meaning of Montana law"*. The state noted that participants wager money on outcomes contingent on chance (the sports games), which under Montana Code is gambling, and that Kalshi lacked a state license. The order demanded Kalshi stop accepting Montana residents. Montana's letter even quoted the statutory definition of gambling to underscore that Kalshi's contracts fit it.
- **New Jersey:** On March 27, 2025, New Jersey's Division of Gaming Enforcement (DGE) – one of the nation's most influential regulators – similarly ordered Kalshi

to cease operations in NJ (and reportedly also sent notices to **Robinhood** and **Crypto.com**, which had partnered with Kalshi to offer event markets). New Jersey has a well-established legal sports betting market and took the stance that Kalshi's unsanctioned sports contracts threatened that regime.

- **Nevada:** The Nevada Gaming Control Board (NGCB), guardian of Nevada's casino industry, was actually the first to act. Nevada quickly asserted that any sports wagering in the state must be conducted under Nevada gaming licenses. Kalshi's nationwide model was seen as an attempt to bypass Nevada's tightly regulated sportsbook system.
- **Illinois, Ohio, Maryland:** These states (each with legal sports betting) also issued cease-and-desist letters by April 2025. For example, Maryland's Lottery & Gaming Director stated Kalshi is *"conducting what is, in fact, wagering on sporting events"* without a Maryland license. By mid-April, at least **six states** (Nevada, New Jersey, Montana, Illinois, Ohio, Maryland) had taken action, with Arizona soon joining. Many of these letters explicitly argued that there is *"no meaningful difference"* between Kalshi's event contracts and traditional sports bets, rejecting Kalshi's claim of a loophole.

Kalshi's response was defiant and set the stage for a high-stakes **federal-vs-state legal showdown**. In early April 2025, Kalshi filed lawsuits in federal courts against some state regulators (including New Jersey and Nevada), seeking injunctions to block the states' enforcement. Kalshi's core legal argument is that, as a federally regulated exchange, it is **exempt from state gambling laws** – federal law preempts state regulation in this domain. *"State law doesn't really apply to us,"* CEO Mansour remarked, noting Kalshi answers to the CFTC alone. This is a bold assertion of federal supremacy reminiscent of early battles over interstate commerce. Kalshi quickly notched some victories: federal judges in at least two jurisdictions (likely New Jersey and Nevada) granted **preliminary injunctions** in Kalshi's favor, suggesting Kalshi has a *"good shot at winning"* on the merits of preemption. These rulings implied that CFTC-regulated event contracts fall under exclusive federal jurisdiction, barring states from treating them as illegal gambling.

Nonetheless, the fight is far from over. State regulators, backed by traditional gaming industries, are digging in. They raise **consumer protection and fairness issues**: prediction markets operating without state oversight do not contribute local tax revenue (unlike licensed sportsbooks) and might not implement responsible gambling measures mandated in many states. There's also a fear of setting a precedent that undermines the careful state-by-state legalization of sports betting achieved since 2018. As one Arizona

official put it, these platforms appear to be “*circumventing the law*” under the guise of commodity trading.

For Kalshi, the sports market push is both a lucrative opportunity and a legal gamble. If it prevails, it gains access to a nationwide user base of sports speculators, essentially outflanking competitors who must operate state-by-state. Indeed, industry observers note that incumbents like FanDuel or DraftKings could face disruption if prediction exchanges thrive. If Kalshi loses, however, it could be forced to geo-fence or shut down sports markets, a major setback to its growth strategy.

Attempt to Launch Political and Sports Futures – Summary: In a span of two years, Kalshi went from **compliance-minded upstart** to a company aggressively challenging regulatory boundaries. Its battle with the CFTC over election markets ended in victory, expanding the envelope of what’s considered legal in U.S. financial markets. Now, its battle with states over sports betting raises fundamental questions about federalism and the classification of gambling vs. trading. Kalshi’s case demonstrates both the **promise and peril** of innovation in prediction markets. With powerful allies (e.g., Kalshi brought on Donald Trump Jr. as an adviser in 2025, and one of its board members, Brian Quintenz, has been nominated as the next CFTC Chair) and foes (state regulators, casino lobbies, even major sports leagues are voicing concerns), Kalshi finds itself at the center of a national debate. The outcomes of these disputes will likely chart the course for the entire prediction market industry in the U.S.

4. The Broader Landscape of Prediction Markets

While Kalshi has grabbed headlines, it is only one part of a diverse ecosystem of prediction market platforms. This section surveys several key players and models – from academic projects to decentralized crypto markets – highlighting how they compare and how each navigates regulatory constraints. We also contrast **centralized vs. decentralized approaches** and examine the role of blockchain and decentralized finance (DeFi) protocols in this space.

PredictIt: For much of the past decade, **PredictIt** was the most prominent prediction market available to U.S. participants. Launched in 2014 and operated by Victoria

University of Wellington (New Zealand) in partnership with Aristotle International, PredictIt obtained a **no-action letter from the CFTC** that allowed it to run a real-money political prediction market for academic research purposes. Under this unique arrangement, PredictIt could offer markets on U.S. election outcomes and other political events, provided certain conditions were met: no contract could have more than 5,000 traders, individual investment per question was capped at \$850, and it had to remain a non-profit educational endeavor. PredictIt's user-friendly interface and focus on politics made it popular among journalists, academics, and election enthusiasts. It successfully forecasted numerous elections and became an aggregated source of odds (e.g., its prices were often cited alongside polls).

However, PredictIt's journey has been turbulent. In August 2022, the CFTC's Division of Market Oversight **withdrew PredictIt's no-action letter**, citing concerns that the platform violated the terms of the letter (the exact reasons were not publicly detailed, but likely issues included offering markets beyond strictly academic scope or exceeding limits). The CFTC instructed PredictIt to wind down by February 2023, which would have meant the closure of open markets (including on the 2024 presidential race). In response, a group of PredictIt users and academics sued the CFTC (Clarke v. CFTC) to prevent the shutdown. The case introduced questions about whether the CFTC acted arbitrarily. Initially dismissed on standing grounds, the lawsuit was revived by the Fifth Circuit Court of Appeals in late 2023. Under legal limbo, PredictIt was allowed to continue operating through the 2024 election. As of early 2025, the platform remains online, though with uncertain future. The **PredictIt saga** underscores regulatory reluctance to allow even limited political betting. It also highlighted the demand for such markets – at its peak, PredictIt had tens of thousands of active traders and was widely used for research on crowd forecasting. Importantly, its experience showed that a lightly regulated, small-stakes market can function with minimal scandal or harm; supporters cite this as evidence that larger-scale political markets (like Kalshi's) should be permitted.

Polymarket: In the crypto realm, **Polymarket** has emerged as a leading prediction market platform globally. Launched in 2020 and based in New York (at least originally in terms of its team and headquarters), Polymarket operates on the Ethereum and Polygon blockchain networks. It allows users to trade on event outcomes using cryptocurrency (specifically the stablecoin USDC) instead of traditional currency. Polymarket is **non-custodial** – trades are executed via smart contracts, and the order books utilize an automated market maker (AMM) model. The platform gained notoriety for offering

markets on everything from elections and COVID-19 case numbers to cryptocurrency events and celebrity news. Because it did not register with the CFTC or impose KYC (Know Your Customer) checks initially, Polymarket existed in a regulatory gray area, accessible to users globally (including the U.S.).

This caught up with Polymarket in 2021 when the CFTC began investigating it. In January 2022, the CFTC announced a settlement with Polymarket: the platform had to pay a **\$1.4 million fine** and agreed to wind down any markets that didn't comply with regulations. Essentially, the CFTC deemed Polymarket's event contracts to be swaps or binary options offered illegally off-exchange. Polymarket did not admit wrongdoing but **geo-fenced U.S. users** thereafter and focused on markets presumably outside CFTC jurisdiction. Despite this, Polymarket's popularity surged internationally, especially for political events that U.S. exchanges wouldn't touch. During the 2024 election cycle, Polymarket became a "key barometer of sentiment" on the Trump vs. Harris race. Traders world-wide used it to react in real time to campaign developments, and volumes skyrocketed – over **\$4 billion** in presidential markets by Election Day 2024. Polymarket's odds often made news; for instance, by election night, it showed Donald Trump with around a 60% chance to win the Electoral College, aligning with eventual results and arguably predicting better than many polls.

However, Polymarket's success has not been without drama. In November 2024, shortly after the election, law enforcement agents reportedly **raided the home of Polymarket's founder, Shayne Coplan**, seizing electronics. Although details are scant, insiders suggest this might relate to ongoing investigations (possibly into whether Polymarket still indirectly served U.S. users or other compliance issues). Coplan's team labeled it "political retribution," insinuating that regulators were displeased that Polymarket's users *"correctly predicted Trump's win"*. This reflects the tension between decentralized platforms and authorities – even if the platform itself is just code, the people behind it can become targets if the market's activity draws ire. Notably, Polymarket has received backing from major investors like **Founders Fund** (Peter Thiel's firm) and reportedly raised around \$50–70 million in venture funding by 2024. Such backing suggests expectations that Polymarket might eventually find a legal footing or introduce a crypto token for governance/value capture.

In summary, Polymarket exemplifies the **decentralized model**: it leverages blockchain to enable global, permissionless trading of event contracts. It has achieved liquidity and volumes on par with (even exceeding) regulated counterparts, but at the cost of regulatory crackdowns and exclusion of U.S. users. Its ongoing story – including the possibility of a future Polymarket token or further legal battles – will be a bellwether for DeFi-based prediction markets.

Manifold Markets: In contrast to real-money platforms, **Manifold Markets** represents a new wave of “play-money” prediction markets that prioritize accessibility and community engagement. Launched in 2021 by a group of former Twitch engineers and Effective Altruism community members, Manifold took a unique approach: it uses a **virtual currency (play money)** called “Mana” for trading. Users get an initial endowment of Mana and can earn more through participation or by buying it (though direct cash-out is not allowed, preventing it from being real gambling). Markets on Manifold are user-created, spanning an incredibly broad array of topics – from serious forecasts (e.g. election outcomes, economic indicators) to whimsical or personal ones (e.g. “Will Alice finish her thesis by June?”). This democratized approach has led to thousands of active markets and a vibrant community of predictors and commentators.

Manifold’s model avoids most regulation since no real money is at stake; it frames itself as an “information market” and gamified forecasting tool. Interestingly, users can donate their Mana winnings to charities or causes, connecting the platform to altruistic endeavors. By removing the profit motive (except perhaps for bragging rights and charitable impact), Manifold tests how much of prediction accuracy derives from financial incentives versus intrinsic interest. So far, results have been promising – Manifold’s community forecasts have been reasonably accurate on many questions, and the low barrier to entry (anyone can join since it’s free) has expanded participation in forecasting. In the **2022 U.S. midterms**, for example, Manifold’s markets were compared alongside PredictIt and FiveThirtyEight models, with some analyses finding its aggregated predictions to be competitive in accuracy, albeit with more volatility given the play-money nature.

Manifold represents a **centralized but non-profit-seeking** approach. The company behind it can operate openly in the U.S. because it’s not offering real wagers. Its success suggests that even without direct financial gain, prediction markets can flourish as a

form of crowdsourced prediction platform. For the industry, Manifold serves as a proof-of-concept for using prediction markets in corporate or social contexts where gambling regulations would otherwise pose a barrier. (Many companies, for instance, could use an internal Manifold-like system to forecast project outcomes without legal issues, since it's essentially a "game".)

Insight Prediction: Another entrant in the landscape is **Insight Prediction**, a platform developed by a team of academics and entrepreneurs around 2022. Insight Prediction's mission is to create "*informative markets*" that offer valuable insights on politics, economics, and current events. It functions similarly to PredictIt or Kalshi in that it allows users to trade on event outcomes with real money. Insight distinguishes itself by marketing low fees and by attempting to comply with regulations via various means (for example, it may restrict U.S. users or operate from a jurisdiction with lenient laws). The platform lists markets on elections, sports, and even public policy (one could find, say, markets on "Will country X join a certain treaty?" etc.). As of 2025, Insight Prediction remains somewhat under the radar – it has a smaller user base compared to the aforementioned platforms, partly because it has to be careful with U.S. access. It brands itself as an "information market... developed by academics", emphasizing societal value. How Insight will navigate legality is unclear; it might be hoping that a more enlightened regulatory environment (perhaps influenced by the Kalshi precedent) will allow it to operate openly. For now, it likely follows a **semi-compliant model**: perhaps operating offshore and quietly serving users interested in higher-stakes markets than play-money sites but without the scale that draws the CFTC's ire.

Augur and Decentralized Protocols: No discussion of prediction markets is complete without mentioning **Augur**, the first major decentralized prediction market protocol. Launched in 2018 on Ethereum, Augur is an open-source protocol that enables anyone to create a market on any question, with outcomes resolved via a decentralized oracle system using a token (REP) for dispute resolution. In theory, Augur is fully decentralized – there is no central operator to shut down, and no KYC. This made it a cause célèbre in the blockchain world, as well as a source of regulatory anxiety (because it could host markets on extreme or illegal topics with impunity). In practice, Augur's adoption was hampered by a clunky user experience, high transaction fees on Ethereum, and instances of *undesirable markets* (critics pointed out markets that could be interpreted as "assassination markets" or other anathema scenarios appeared, exploiting Augur's permissionless nature). Augur's volume remained low, and user activity has dwindled,

especially as newer platforms like Polymarket provided more user-friendly interfaces and liquidity.

That said, Augur demonstrated what a **pure DeFi prediction market** might look like – one truly resistant to censorship. Its existence means that, even if all regulated and centralized prediction markets were shut down, crypto-savvy users would have some outlet (however limited) to trade event probabilities. Beyond Augur, other decentralized efforts have sprouted: **Gnosis/Omen**, **Catnip.exchange**, and others have tried to refine the decentralized prediction market concept, often using automated market makers for liquidity. Some of these run on layer-2 solutions to reduce fees and have governance tokens to involve the community in market curation. As of 2025, none have achieved the scale or notoriety of Polymarket, but development continues. These projects are important in the broader landscape because they represent the *ideological end* of the spectrum – aiming for uncensorable, globally accessible markets. They put pressure on regulators by creating the possibility that even if domestic platforms are restricted, prediction trading can occur on blockchain networks outside direct government control.

Centralized vs. Decentralized Models: Summarizing the contrast:

- *Centralized exchanges* (e.g. Kalshi, PredictIt, Insight) have identifiable operators, typically comply with some regulation or operate under exemptions, hold user funds, and often use traditional payment methods. They generally offer a more polished user experience, faster trades (off-chain), and customer support. However, they must obey laws, can geoblock users, and can unilaterally shut markets or limit topics per regulatory demands.
- *Decentralized platforms/protocols* (e.g. Augur, Polymarket in its on-chain aspect) use smart contracts and cryptocurrencies. They often allow users to retain custody of funds via wallets and execute trades peer-to-peer. These can theoretically run without a central authority – Polymarket, for instance, leverages an AMM that automatically sets odds based on liquidity pools. Decentralized platforms are harder to regulate (there's no single entity to fine or license), but they often face liquidity challenges and technical hurdles (requiring users to understand crypto wallets, etc.). Moreover, as seen, even “decentralized” markets have choke points: Polymarket had a front-end website and a core team, which made it susceptible to enforcement despite the underlying contracts being on-chain.

Role of Blockchain and DeFi: Blockchain technology has been a catalyst for prediction markets in several ways. First, it enabled the creation of **tokens and cryptocurrencies** that can be used as stakes, bypassing traditional banking. This means global participation and micro-transactions are easier (no wire transfers or credit card blocks on “gambling”). Second, DeFi building blocks like AMMs allowed for continuous liquidity provision without the need for market makers – users can always buy or sell at some price, because the smart contract algorithm adjusts odds (though extreme buys/sells will move the price per a formula). Third, blockchain provides *transparency*: all trades are visible on a public ledger, and outcomes can be verified, which in principle could increase trust in the integrity of markets. Fourth, decentralized governance via tokens (like Augur’s REP holders voting on outcomes) offers an alternative to relying on a company or authority to resolve bets – though this has had mixed success, it suggests a community-driven approach to running markets.

Despite these advantages, DeFi prediction markets also face **unique risks**: oracle problems (ensuring the true outcome is fed on-chain correctly), smart contract bugs, and volatility of crypto (if one’s stake is in crypto, the value could swing regardless of the bet outcome). Additionally, regulators like the CFTC view many crypto prediction markets as effectively unregistered derivatives venues, as shown by Polymarket’s case. The existence of these protocols raises a question for regulators: *If a prediction market is entirely decentralized and global, how can law enforcement effectively police it?* So far, the approach has been to target the human operators or interfaces that connect users to these markets.

Other Notable Platforms: A few other players deserve mention. **Betfair Exchange**, while not solely a prediction market, is a UK-based betting exchange that has for years allowed peer-to-peer betting on sports and occasionally politics (outside the US). It operates under gambling licenses and demonstrates a viable model of high-volume exchange-based betting, but its reach is limited to jurisdictions that allow such gambling. **Smarkets** is another UK exchange with similar offerings. In the realm of *enterprise prediction markets*, companies like **Consensus Point** and **Cultivate Forecasts** provide software for firms to run internal prediction markets for forecasting sales, project timelines, etc., using either play money or small incentives – a niche but growing application.

To encapsulate the comparison of major platforms, the table below highlights key aspects:

Figure: Screenshot of a Kalshi market on the 2024 U.S. election, illustrating a prediction market interface where users can buy “Yes/No” shares and see real-time odds. Kalshi’s regulated platform contrasts with decentralized crypto markets in usability and compliance.

Platform	Model	Currencies & Tech	Key Markets (Focus)	Regulatory Status (US)
Kalshi	Centralized, for-profit exchange	USD (fiat); proprietary platform	Economics (inflation, rates), Politics, some Sports	CFTC-regulated DCM (nationwide legality federally); facing state pushback on sports.
PredictIt	Centralized, academic/non-profit	USD; proprietary platform	Politics (elections, policy)	Operated under CFTC no-action letter until 2022; now in legal limbo (court injunction keeps it running).
Polymarket	Semi-decentralized, for-profit	USDC cryptocurrency; runs on Ethereum/Polygon (AMM-based)	Politics, Crypto, Misc events (global focus)	Unregistered in US (settled with CFTC, geoblocked US users); active offshore via DeFi.
Manifold	Centralized, community-driven	Play-money “Mana” points; web platform	Wide variety (user-created markets: politics, sports, science, personal)	Unregulated (no real money, purely informational). Open to all users globally.
Insight Prediction	Centralized (startup)	USD & Crypto; web platform	Politics, Sports, Economics	Operating without explicit US approval (likely offshore); relatively low profile to date.
Augur Protocol	Decentralized (open-source)	ETH/DAI crypto; smart contracts (order-book + oracle system)	Anything (permissionless user-created markets)	Protocol itself is uncensored (users self-custody crypto); effectively illegal for US users to participate with real money (enforcement impractical barring front-ends).

Table: Comparison of notable prediction market platforms and their characteristics.

The landscape continues to evolve rapidly. In 2024-25, several platforms saw **record activity** due to the contentious U.S. election and popular sports events. At one point in Nov 2024, Kalshi and Polymarket even topped the Apple App Store charts (as #1 and #2 free apps, respectively) because of the election betting surge – a visibility breakthrough that underscored mainstream interest. Kalshi’s app appealed to U.S. users, whereas Polymarket’s app was being downloaded by international users eager to wager on the U.S. election. That scenario – prediction market apps outranking TikTok and Instagram in downloads – would have been unimaginable a few years ago. It signals that prediction markets, in one form or another, are primed to become a significant component of both the fintech sector and the gambling industry.

5. Prediction Markets vs. Gambling: Drawing Legal and Ethical Lines

Prediction markets inhabit a murky space between regulated financial instruments and traditional gambling. This section explores how these markets compare and contrast with gambling, examining the legal definitions, the role of skill vs. chance, and societal concerns (including the risk of moral hazard). The core question is: *When does trading on event outcomes stop being a financial service and start being a bet?* The answer varies across jurisdictions and is at the heart of the current debates.

Legal Boundaries – Commodity Contracts or Wagers? Under U.S. law, the distinction between a regulated prediction market and gambling often hinges on **regulatory definitions** and intents rather than the mechanics of the activity. The Commodity Exchange Act (CEA) broadly defines a “commodity” to include all goods and articles, and even “*all services, rights, and interests... in which contracts for future delivery are presently or in the future dealt in*”. This open-ended definition has been interpreted to cover event contracts – essentially treating an event outcome as the underlying commodity. Thus, when a platform like Kalshi lists an event contract, it argues that it is listing a type of futures contract, squarely under CFTC jurisdiction. By contrast, **state gambling laws** define a “bet” or “wager” typically as staking something of value on an outcome largely or wholly determined by chance (or outside one’s control) with the intent to win something of value. For example, Montana’s law defines gambling in part as risking money on an outcome “*contingent...upon chance*”. State regulators have seized on such

definitions to claim Kalshi's markets are bets: participants risk money on a sports game or election result (an outcome they cannot control), hoping to gain profit, which fits the gambling definition in their view.

The CFTC itself in Regulation 40.11 has acknowledged a category of "*prohibited gaming contracts*" – it forbids the listing of derivatives contracts that involve "*gaming or an activity that is unlawful under any State or federal law*". Historically this was aimed at things like contracts on assassination or inherently criminal activities. But in 2023, the CFTC controversially extended this logic to election contracts, essentially labeling them as "gaming" (gambling) contracts not in the public interest. Kalshi's victory in court pushed back on that, with the judge noting that the CEA does not explicitly ban election or sports event contracts and that the CFTC did not convincingly demonstrate why they should be deemed gambling and against public interest.

In summary, **federally** a prediction market can be legal if it is run on a registered exchange, unless explicitly deemed against public interest by the CFTC. **State-wise**, any prediction market not federally sanctioned would likely be considered illegal gambling if it involves real money on event outcomes. This is why Polymarket (unregistered) got in trouble, and why state regulators are challenging Kalshi's sports markets despite Kalshi's federal status – they argue those contracts violate state gambling prohibitions (e.g., in states where betting on sports or elections is illegal, any such activity, even via a CFTC exchange, might be viewed as breaking state law). Kalshi's counterargument is federal preemption: that the CEA preempts state law in this domain, akin to how federally regulated securities or futures cannot be second-guessed by state gambling statutes.

The **skill vs. chance** element also plays a role in these legal distinctions. Gambling is often characterized by predominance of chance, whereas trading or investing is often defended as requiring skill. Prediction market advocates argue that successful traders engage in research, arbitrage, and informed speculation – activities requiring skill, analysis, and even creating **liquidity and price discovery** beneficial to others. In their view, this is closer to stock trading (skillful analysis of companies) than roulette. However, gambling regulators retort that from the player's perspective, betting on a football game or stock price movement is not so different – both involve risk under uncertainty, and chance plays a significant role no matter the skill level. The Arizona Department of Gaming bluntly stated in its 2025 letter that there is "*no meaningful*

difference” between buying a sports outcome contract on Kalshi and placing a bet with a sportsbook.

Economic Perspective – Are Prediction Markets Useful or Just Wagers? Economists largely view prediction markets as potentially *informative* and thus socially useful, whereas gambling per se is often seen as zero-sum entertainment (or even a vice). If prediction markets indeed yield more accurate forecasts for elections or economic indicators, they can guide better decision-making (e.g., policymakers heeding market probabilities). This argument frames prediction markets as a form of **market research** or crowd-sourced probability assessment – a public good rather than a sin. In practice, the evidence shows prediction markets can be very accurate, but not infallible. They can also be **fooled or manipulated** under certain conditions (addressed below). Importantly, the presence of a small financial incentive is often credited with making prediction markets more reliable than simple polls – it weeds out “cheap talk” because traders have skin in the game.

From a gambling economics perspective, however, a prediction market is still a form of **speculative wagering** with potential for addiction and loss, similar to sports betting or casino gaming. Traditional gambling regulations exist to ensure fair odds, prevent fraud, exclude minors, and mitigate problem gambling. Prediction markets, if treated as gambling, would need to adhere to all those standards and restrictions at a state level, which would greatly limit their scope (for instance, many states would never allow political betting due to ethical concerns, just as even in Europe some jurisdictions restrict betting on domestic politics).

Skill vs. Chance and Participant Base: It’s worth noting the participant overlap: Many **sports bettors** and **poker players** have shown interest in prediction markets, as it leverages a similar mindset of probabilistic thinking and risk-taking. At the same time, prediction markets attract people who would never set foot in a casino – e.g., data scientists, finance professionals, or political geeks drawn by the analytical challenge. This blend is part of why regulators struggle: the activity doesn’t fit neatly into one box. Legally, if one acknowledges substantial skill is involved, one might lean towards a lighter regulatory touch (like how skilled gaming contests are treated differently than lotteries). Some have argued that political prediction markets are *more akin to polling or investing* and thus should be legal even in places where gambling is banned. However,

proving the degree of skill is tricky. Unlike games like chess (100% skill) or lotteries (0% skill), prediction markets lie in a gray zone. A well-researched trader can gain an edge (skill), but unforeseen events or luck still significantly impact outcomes (chance).

Moral and Societal Concerns (Moral Hazard): A classic concern about treating certain events as bettable markets is the **moral hazard** it introduces. If people can bet on events that they can potentially influence in unethical ways, trouble arises. The oft-cited extreme example is betting on tragedies: If a market existed on a certain disaster happening, a malevolent actor might be incentivized to actually cause the disaster. This was a key reason behind banning markets on assassinations or terrorist attacks – you don’t want to create perverse incentives for heinous acts. Even for more mundane events, moral hazard can exist. Consider corporate events: If employees could bet on whether their company’s merger will complete, insiders might stand to gain from leaking information (or even sabotaging deals). With elections, one might worry that campaigns or supporters could try to sway prediction markets (through heavy betting or misinformation) to create a bandwagon effect among voters – effectively “*gaming the odds*” to influence real outcomes.

These concerns put certain categories off-limits. The CFTC explicitly forbids event contracts on activities that are unlawful (hence no assassination markets) and had long implicitly or explicitly disallowed election contracts for fear of affecting the integrity of the democratic process. The **Kid Rock example** illustrates manipulation risk: In 2017, a fake poll circulated claiming musician Kid Rock was leading a Michigan Senate race; PredictIt markets reacted with a price jump on Kid Rock’s chances. This showed how easily a market can be misled by disinformation. Another instance: In 2012, someone (reportedly a wealthy individual) bet millions on Mitt Romney on InTrade, allegedly to boost Romney’s odds and perception of viability. These instances were cited by the CFTC as evidence that “*manipulation has happened, and is likely to recur*” in political markets.

Additionally, if large sums hinge on an election outcome, does that incentivize attempts to **rig or contest the election**? While direct rigging is far-fetched for national races, one could imagine small-scale tampering if local markets existed. Even the perception problem is notable: would the public trust election results if billions were wagered and some stood to profit enormously from one side winning? Some fear it could undermine

trust or create new conspiracy theories (e.g., accusations that “Wall Street bettors” somehow swayed the election).

Disinformation and Misinformation: Beyond deliberate manipulation, there’s the issue of **misinformation spread**. Critics warn that unless prediction markets are large and liquid, they can be easily swayed by rumors or coordinated trading, thus “*potentially another channel for misinformation*” rather than an antidote to it. If people start treating market odds as authoritative forecasts, those odds become an attractive target for anyone wanting to mislead. A small group of traders with enough capital could push odds in one direction to create a false narrative (for example, making a fringe candidate appear to surge). This is analogous to pump-and-dump schemes in stocks.

“Casino-ization” of Important Events: Another societal worry is more philosophical – the *gamblification* of civic life. Some ethicists and lawmakers feel that betting on elections is “*repugnant*” because it treats the serious business of governance like a horse race for profit. As one U.S. senator put it, turning elections into betting commodities might send the wrong message about civic duty. The non-profit advocacy group Better Markets argued in a fact sheet that widespread election betting “*threatens our democracy*” by shifting focus from voters and candidates to money and odds, potentially incentivizing bad actors. Even in sports, leagues initially opposed legal betting for similar reasons (integrity of the game). Now with prediction markets, leagues like the MLB have expressed concern that pseudo-exchanges might lack the stringent controls of licensed sportsbooks, possibly endangering sports integrity.

On the flip side, proponents counter that prediction markets actually *increase transparency* and engagement. People betting on elections might follow news more closely and be more informed. The markets will penalize misinformation (traders who believe fake news will lose money to those who have correct info). This argument suggests markets could counteract fake news by literally *making it costly to be misled*. In an op-ed, supporters stated that “*prediction markets serve a public good*” by cutting through partisan bias and distilling information into a clear signal. The truth likely lies in implementation details – a well-regulated, liquid market is harder to manipulate and could provide reliable insights, whereas a thin or rogue market could indeed be gamed.

Comparative Treatment – U.S. vs Abroad: It's illuminating to consider that in countries like the UK or Australia, **betting on elections and various real-world events is generally legal and accepted** (more on this in Section 9). There, such betting is simply considered part of the gambling industry. The U.S. stands out in its historical aversion to election betting (since the 19th century, election wagering was common but later frowned upon). This cultural difference drives some of the current debate. If prediction markets are seen as gambling in the U.S., they inherit all the baggage of gambling (addiction concerns, stigma, heavy state control). If seen as markets, they get treated like new financial products (with federal oversight focusing on market integrity and disclosure rather than morality).

Responsible Gambling and Consumer Protection: One concrete issue is **problem gambling**. Platforms like Kalshi, aiming to be seen as exchanges, have not typically implemented the kind of rigorous problem gambling programs that casinos or sportsbooks have (e.g., self-exclusion lists, betting limits, addiction helplines). If prediction markets draw in traditional gamblers, there is a risk of gambling-related harm. Critics note that without state regulation, consumers may not have the same protections (for instance, recourse if they feel they've been treated unfairly, or assurance that the markets aren't rigged). In fairness, federal regulation via CFTC does impose things like segregation of funds, protection against market manipulation, etc., but those are different from the social safeguards in gambling regulation.

Conclusion of this Section: The line between prediction markets and gambling is not clear-cut and is still being delineated in law and practice. As one observer quipped, *"If it looks like a bet and pays out like a bet, many will call it a bet."* That sentiment drives state regulators' skepticism. Yet, from a financial viewpoint, these markets can be framed as trading with an overlay of entertainment. Going forward, the classification may ultimately be decided by courts or lawmakers. If the federal view (CFTC) prevails, we might see a unified framework treating at least some prediction markets as legitimate exchanges. If the state view prevails for certain categories (like sports), then prediction platforms must either cooperate with state gambling laws (e.g., get licenses in each state, implement age verification and taxes like sportsbooks) or stick to non-controversial domains.

In essence, **prediction markets and gambling exist on a continuum**. The key differentiators often cited are: **purpose** (information discovery vs profit entertainment), **participants** (analysts vs gamblers), **mechanism** (exchange trading vs house-banked odds), and **regulation** (CFTC vs state gaming boards). These differences, while real, can blur in practice. How regulators reconcile these frameworks will shape the future viability of prediction markets in the U.S.

6. The CFTC and Prediction Markets

The U.S. Commodity Futures Trading Commission (CFTC) is the federal agency at the center of regulating prediction markets as “event contracts” or derivatives. This section examines the CFTC’s mandate, its evolving stance on event contracts, key enforcement actions, and precedents that have set the tone for prediction market regulation. The narrative of prediction markets in the U.S. cannot be told without understanding the CFTC’s role – alternatively cautious, permissive, and now seemingly reconsidering its approach.

CFTC’s Mandate and Relevance: The CFTC was created in 1974 to oversee commodity futures and options markets – essentially to ensure these financial markets operate fairly, free of fraud, manipulation, and excessive speculation that could harm the broader economy. Over time, the CFTC’s purview expanded to new types of derivatives (e.g., swaps after the 2010 Dodd-Frank Act) and new underlying commodities (including financial indices, weather, and even binary options). The CFTC’s mandate is to **foster open, transparent, competitive, and financially sound markets**, while protecting market participants and the public from malpractices. It’s within this broad mission that prediction markets find a toehold: if certain events (like economic releases or elections) are deemed “commodities” on which futures trading can occur, the CFTC is the logical regulator.

However, the CFTC also has an obligation under the CEA to **prevent gambling products from masquerading as futures**. The law (CEA) and CFTC regulations have long drawn a line: contracts that are about gaming outcomes (lotteries, sports scores, etc.) or that are unlawful activities cannot be listed, because they’re contrary to the public interest. This rule (Reg 40.11) is somewhat subjective and has led to internal debate at the Commission. Traditionally, the CFTC allowed *some* event markets on a case-by-case basis – e.g., the **Iowa Electronic Markets** got no-action relief for small-

scale political markets as an academic venture, and Nadex (a regulated exchange) was briefly allowed to list a political binary option before it was quickly withdrawn due to controversy in 2014. But the overarching stance was conservative, especially regarding elections (due to fears around election integrity and gambling stigma).

“Event Contracts” in CFTC parlance: The CFTC uses the term “*event contracts*” or “*event futures*” to describe contracts that pay based on the outcome of events rather than the price of a commodity. The Commission’s challenge has been to incorporate these into its framework. In 2008, a CFTC staff report known as the “*Tuckman Report*” studied event markets and suggested that they can provide price discovery and hedging benefits, urging the CFTC to consider them on their merits. Nonetheless, after the **InTrade** saga (InTrade, based in Ireland, allowed U.S. customers to trade event futures, leading the CFTC to sue InTrade in 2012 for offering illegal options to U.S. persons), the Commission grew wary. It cracked down on unregulated outlets and reinforced that any event contracts for U.S. participants must be on a CFTC-regulated exchange or under an exemption.

The Nadex Precedent (2010s): An interesting precedent came in 2010 when a regulated exchange, Nadex, proposed contracts on the U.S. elections (specifically, control of Congress). At that time, the CFTC actually *rejected* Nadex’s proposal, stating that it involved trading on outcomes of gaming or chance, which could be unlawful under state laws and contrary to public interest. This was effectively the same issue Kalshi revisited a decade later. Nadex withdrew the plan under pressure. Another incident was when a designated exchange proposed futures on *movie box office receipts* – this drew heavy opposition from Hollywood studios and was ultimately banned by Congress explicitly in the Dodd-Frank Act (2010) which added a clause prohibiting movie box office futures. These episodes signaled the CFTC’s (and lawmakers’) inclination to halt certain event markets deemed too close to gambling or susceptible to manipulation by insiders (the movie case raised insider trading concerns – studio execs betting on their own movies).

Pham’s Dissent and Changing Views: Fast forward to the 2020s, and the CFTC’s stance has been in flux. During the Biden administration (2021-2024), CFTC Chairman Rostin Behnam took a hard line on event contracts, particularly elections. As noted, the CFTC in 2023 formally disapproved Kalshi’s political contracts, with Behnam stating the

agency “*does not have the capability to serve as an election cop*” policing these markets. Behnam argued that election markets could damage the integrity of governance and that the CFTC’s resources were not suited to monitoring manipulation in that arena. Commissioner Caroline D. Pham, however, **strongly dissented**. She criticized the Commission’s approach as a “*sinkhole of legal uncertainty*” that was stifling innovation. Pham called for a “*common-sense regulation of prediction markets*”, arguing that the CFTC needed to clarify rules and not simply ban everything by default. Pham’s view gained traction especially after Kalshi’s court victory. By early 2025, with a new administration in place (President Trump returning to office in January 2025), the CFTC signaled a potential shift.

In February 2025, the CFTC announced it would hold a **public roundtable to review prediction markets regulation**, indicating openness to revisiting its stance. The agency put out a request for information on sports-related event contracts, seeking input from stakeholders. Pham (now Acting Chair in 2025) noted that the previous “undue delay and anti-innovation policies” had hindered the CFTC’s ability to craft sensible regulation, and emphasized balancing innovation with consumer protection. In effect, the CFTC was acknowledging that prediction markets were not going away and that a more nuanced approach was needed.

However, the road has been bumpy. The planned April 30, 2025 roundtable, which was supposed to gather tribes, gaming industry, academics, and exchanges, was abruptly **cancelled** by the CFTC, possibly due to internal deliberations or fear of criticism. Instead, the CFTC opted for smaller, focused discussions (e.g., a call with tribal regulators on May 29, 2025). This indicates that while there is willingness to listen, the Commission remains cautious and perhaps divided.

Enforcement Actions and Key Cases: The CFTC’s enforcement history in this area, though limited, is telling:

- **InTrade / Trade Exchange Network (2012):** The CFTC sued InTrade’s parent for offering commodity option contracts (like gold and currency binaries) to U.S. customers without registration, and simultaneously highlighted that InTrade’s political markets, though not directly part of that action, were off-limits to U.S. persons. InTrade ceased serving U.S. clients thereafter. This action underscored

that even if an offshore platform focuses on politics (which the CFTC hadn't explicitly approved), it can't offer *any* commodity contracts in the U.S. without oversight.

- **PredictIt (2022):** While not an enforcement action per se, the CFTC's withdrawal of the no-action letter was akin to regulatory enforcement. It effectively tried to shut down an operating market, which is unusual. The ongoing legal battle (with a Fifth Circuit ruling in 2023 that the case should be heard on merits) will possibly establish precedent on the CFTC's process for revoking permissions and the due process rights of market operators and users.
- **Polymarket (2022):** As discussed, the CFTC fined Polymarket \$1.4M for running an unregistered swaps market. Polymarket did not contest and agreed to compliance (shutting down some markets). This was the first crypto prediction market enforcement, signaling the CFTC's willingness to extend its reach into DeFi when it can identify a responsible party.
- **Ethereum prediction markets (ongoing):** The CFTC has also pursued decentralized platforms in creative ways. For instance, it charged the founders of the **Derby City NFT** market (not exactly prediction, but a related concept of event wagering via NFTs) and has hinted that even fully decentralized protocols are not immune if they break U.S. law. There's a broader context of the CFTC going after DeFi platforms (like some derivatives protocols) which likely sets the stage for how far it might go with Augur-like prediction markets. To date, no enforcement has directly targeted Augur – probably because there's no company to charge and it's low volume. But it remains a theoretical possibility that the CFTC could consider those facilitating use of such protocols (like front-end providers) as in violation.
- **Kalshi Political Contracts Case (2024-25):** We've covered this in detail in Section 3. It's a landmark because it's the first time a prediction market issue was litigated fully. The District Court siding with Kalshi (saying CFTC erred in calling election contracts "gaming"), and the CFTC ultimately dropping the appeal, sets a **precedent** that could influence CFTC behavior. Essentially, the CFTC might be more cautious in the future about using the "public interest" veto without solid justification. It also may embolden other exchanges or entities to propose event contracts, knowing the legal door is open.

Important Precedents & Orders: Aside from enforcement, the CFTC has a few **orders and rulings** that serve as reference points:

- The CFTC's 2012 "**Guidance on Event Contracts**" (often referenced informally) which outlines the concerns for and against event markets and emphasizes a case-by-case approach.

- The grant of DCM status to **Kalshi in 2020** itself came with the understanding that Kalshi would initially list “non-controversial” markets (like economic data). The fact the CFTC allowed a DCM for events means it acknowledged a path to legality, but the fine print was that Kalshi should self-certify contracts and the CFTC could object if needed. That’s exactly what happened with political contracts – Kalshi self-certified, CFTC objected. Now that process is under scrutiny.
- **Joint SEC–CFTC jurisdiction issues:** A side note is that some event contracts might border on securities (e.g., if someone tried to list a contract on a corporate metric, might the SEC claim it’s a security-based swap?). Generally, the SEC has stayed out of this, but there have been inter-agency discussions, especially for things like climate event derivatives or pandemic outcomes, as to which agency should regulate. The consensus is anything that isn’t tied to a security price is CFTC territory, which would include nearly all these classic event markets.

Current Stance and Future Regulation: As of mid-2025, the CFTC’s stance is in transition. With Trump appointees likely to take majority control of the Commission, including the expected Chairman nominee **Brian Quintenz (a former CFTC commissioner who is pro-crypto and notably is on Kalshi’s board)**, the agency may lean more favorable toward prediction markets. The dropping of the Kalshi appeal and the statements by Pham suggest an openness to crafting rules to properly oversee these markets rather than banning them outright.

The CFTC’s public roundtable process (once it resumes) will consider: how to ensure consumer protections if sports and political markets are allowed (for example, possibly setting position limits or requiring certain disclosures), how to coordinate with states (maybe carve-outs that exchanges won’t operate in a state that objects? or conversely, assert preemption strongly), and how to handle tricky categories like entertainment or other “grey” events.

Additionally, the Commission might revisit Regulation 40.11 criteria – clarifying what counts as “*gaming*” or “*immoral*” contracts. If election markets are now effectively blessed by the court, the CFTC might formally update its rules to permit them under conditions (e.g., no contracts on individual candidate deaths or anything that could incentivize violence, etc.). Sports contracts pose a bigger conundrum because of the PASPA repeal in 2018 that gave states the green light on sports betting – there’s no federal ban to override, but also no federal framework to allow interstate sports betting

outside of Indian gaming compacts. The CFTC may decide, or be pressured, to not approve sports event contracts to avoid conflict with the states (or conversely, to approve them and force a resolution via courts, which seems to be happening).

One important note: The CFTC's **Technology Advisory Committee** and other subcommittees have studied prediction markets in context of crypto and fintech. The Commission is aware that if they don't accommodate innovation, it will just go offshore or underground. At the same time, it doesn't want to be seen as greenlighting "gambling" without Congressional direction.

In fact, members of Congress have shown interest: Rep. **Dina Titus** (D-NV) has been an outspoken opponent of political prediction markets, urging the CFTC to ban them (she represents Las Vegas and is protective of Nevada's regulated betting industry^{titus.house.gov}). On the other side, some economists and lawmakers have floated the idea of explicitly legalizing political markets with limits for research purposes. So, the CFTC is balancing not just internal views but political pressures externally.

Key Takeaways: The CFTC's stance on prediction markets has evolved from blanket caution to a grudging acceptance that they can be regulated as part of the financial system. Enforcement actions show it will act against unregistered operators (Polymarket) but also that it can be challenged if its reasoning is weak (Kalshi case). The next couple of years will be crucial: if the CFTC establishes clear guidelines for event contracts (perhaps differentiating by category and implementing consumer protections), the U.S. could see a flourishing of regulated prediction markets. If not, the legal ambiguity will persist and likely more battles will be fought in courts and through state-vs-federal showdowns.

7. Regulatory Tug-of-War: Federal vs. State Dynamics

The regulation of prediction markets in the U.S. involves a complex interplay between federal authority (principally the CFTC's jurisdiction over derivatives) and state authority (over gambling and gaming activities). This section examines the **federal vs. state dynamics**, the gaps and overlaps between commodity law and gambling law, and

illustrative case examples from specific states – notably Montana, Texas, and New York – that highlight different aspects of this tug-of-war.

Federal Preemption and the Commodity Exchange Act: As discussed, platforms like Kalshi operate under the premise that federal law (the Commodity Exchange Act, regulated by CFTC) **preempts state gambling laws** when it comes to event contracts traded on a CFTC-regulated exchange. Preemption is a legal doctrine that if Congress has legislated in a field (and intended to occupy it), state laws conflicting with that federal law are rendered void. The Commodity Exchange Act is a comprehensive federal scheme for regulating futures trading, and there's a strong argument that it was meant to be exclusive – states generally cannot regulate futures markets (for example, a state can't impose its own rules on trading at the CME or ICE exchanges). Kalshi's lawsuit in Nevada and New Jersey explicitly argues this point: once the CFTC has permitted an event contract, a state cannot separately label that same activity as illegal gambling without undermining federal law.

However, the wrinkle is that **Congress never explicitly said "event contracts are under CFTC and not gambling"**. In fact, Congress explicitly banned certain event contracts like the aforementioned movie futures, and in legislative debates about prediction markets (e.g., in the 2010s) it left things somewhat open. So we're in a classic implied preemption scenario: Does allowing a federally regulated event market implicitly override state bans on wagering? Kalshi's early court wins (the TROs/injunctions) suggest that at least some judges see federal law as likely trumping state law here. The judges noted that if Kalshi is a lawful exchange under federal law, states can't arbitrarily shut it down – similar to how states couldn't ban a federally chartered bank's operations in the state.

Yet, it's not a settled matter. A counter-argument states might use is the **Murphy v. NCAA** Supreme Court decision (2018), which struck down PASPA (the federal ban on sports betting) on anti-commandeering grounds, effectively saying the regulation of gambling is historically a state police power unless Congress directly regulates it. Here, Congress didn't directly say "sports betting is legal nationwide via the CFTC", it just gave CFTC power over futures. So a state could argue: we are not regulating a futures exchange, we are regulating gambling activity by our residents, which is our right – if those residents happen to use an exchange, that's incidental. There is a legal nuance: is

someone trading on Kalshi in Montana engaged in “interstate commerce in commodities” (federal domain) or “intrastate gambling” (state domain)? It’s both, arguably.

State Gambling Laws and Their Reach: States have their own gambling statutes and regulatory bodies. They define what is unlawful gambling and then carve out legal forms (like state lotteries, licensed casinos, sports betting if legalized, etc.). Many states have broad definitions of a bet/wager (we saw Montana’s and Arizona’s) that would encompass prediction market trades. States like Nevada and New Jersey that have legalized gambling require any operator to be licensed by them and to pay taxes/fees into state coffers. They view a platform like Kalshi or Polymarket as essentially an **unlicensed sportsbook** or casino taking bets without oversight.

- **New Jersey:** NJ’s letter to Kalshi (March 2025) likely argued that Kalshi was facilitating gambling transactions with NJ residents without a state license, violating NJ law. New Jersey has been protective of its gambling industry (Atlantic City, plus it was an early adopter of online sports betting). However, NJ also doesn’t allow betting on New Jersey college sports or elections by state law, showing it draws lines on certain bet types. The state presumably considers event contracts to fall under its betting definitions, and doesn’t recognize any exemption for “CFTC-approved” events. This sets up a direct conflict: NJ DGE vs. Kalshi’s right to operate under federal approval. The federal court in NJ issuing an injunction in Kalshi’s favor is telling, but that case will proceed to examine the merits. If it goes up to the Third Circuit or beyond, it could create precedent clarifying preemption.
- **Nevada:** Nevada’s case is unique because Nevada historically had a **carve-out under federal law (PASPA)** to offer sports betting when other states couldn’t. Now that PASPA is gone, it has competition, but Nevada still sees itself as the gold standard of gambling regulation. The Nevada Resort Association’s comment to the CFTC in April 2025 (mentioned in section 4’s source) was full of indignation that these prediction markets were operating without their say-so. Nevada might also argue that under the **Nevada Gaming Control Act**, anyone offering wagers to Nevada residents is subject to their jurisdiction. The federal judge’s favorable view to Kalshi indicates that might not hold if Kalshi’s activity is considered interstate commerce. It’s analogous to how states can’t impede interstate stock trading by their residents.
- **Montana:** Montana provides a case where sports betting is limited (Montana allows sports bets only via the state lottery’s Sports Bet Montana system, not by

private companies). Montana swiftly declared Kalshi's contracts illegal gambling under its code. It raised the point that Kalshi doesn't have a state license and therefore cannot accept bets from Montanans. Montana's letter, by quoting law, aimed to assert clear state legal grounds. If a court weighed Montana law versus the CEA, it would likely ask: Did Congress intend the CEA to cover something like a binary bet on "Team A wins a game"? The CFTC historically said no for sports (pointing to 40.11). But if not CFTC, then what? Without CFTC, it falls squarely under state gambling law – meaning illegal in Montana. So Montana's view is consistent: as long as the CFTC hasn't expressly sanctioned these (and arguably even if it has, Montana might not care), they are bets under state law.

- **Texas:** Texas is an interesting mention. Texas has very strict gambling laws (no casinos, no sports betting as of 2025, except some limited parimutuel and social gambling). Texas also was involved indirectly in the PredictIt case (one of the plaintiffs was from Texas, giving the Fifth Circuit jurisdiction). Texas officials, such as the Attorney General or gaming officers, might take a stance similar to Montana's if they become aware of residents using these markets. There hasn't been a public letter from Texas (maybe because with no legal sports betting, Texas doesn't have a dedicated sports betting regulator to make noise). But Texas could, for example, direct its bank regulators or law enforcement to warn payment processors not to facilitate "illegal bets" with Kalshi. Texas historically goes after online gambling by blocking or seizing funds, etc. If Kalshi is preempted federally, though, Texas might be powerless to interfere with that interstate commerce legally.

Texas also had an academic bent – University of Texas in Austin has had scholars supporting prediction markets, and one Texas congressman in early 2023 (Rep. Michael Burgess) introduced a bill to explicitly legalize political prediction markets (it didn't go far). So Texas is a state to watch. It's cited here maybe to illustrate a state with no gambling expansion where prediction markets might be the only way for residents to engage in betting – a scenario likely to irk anti-gambling legislators.

- **New York:** New York presents a multifaceted case. NY has legal sports betting (mobile) since 2022, heavily regulated, and absolutely forbids betting on state political events or other "non-sports" real-person contests by its gaming commission rules. New York also is the financial capital, so it has an interest in fintech innovation like Kalshi, but also a powerful gaming enforcement (the NY Attorney General has gone after online poker, DFS before legalization, etc.). In late 2024, there was an anecdote: Kalshi advertisements appeared in the NYC subway touting "Live Bets" on elections, which drew attention since election betting is otherwise illegal in NY. This could prompt NY authorities to examine if

Kalshi violates any NY laws. However, because Kalshi's exchange is federally regulated, the question is can New York do anything? Possibly, New York's Gaming Commission could issue a statement that any unlicensed betting, even via a website, is illegal for NY residents. If they wanted, they might instruct geolocation companies to block NY users (like NJ did to PredictIt as a condition to allow them to operate initially).

Another angle: New York's famously strong **Martin Act** (securities law) has sometimes been used creatively to police financial products. If NY decided these event contracts are not truly futures but a form of wager or even a security, it could attempt to regulate. Given that Kalshi is in NYC, theoretically the NYAG could scrutinize them. But if the federal judiciary stance is pro-preemption, NY may hold back. Instead, trade groups in NJ and NV have been more vocal as we saw.

Gaps Between Commodity and Gambling Law: One notable gap is **consumer taxation and revenue sharing**. State gambling operations are taxed, providing state revenue. Prediction markets under CFTC are not subject to those state taxes (instead, they might have federal taxes like any derivatives profits, but nothing earmarked for the state). This has been a big talking point for states: these markets are "*not paying state betting taxes*" and thus gaining an unfair competitive advantage. A New Jersey or Nevada sportsbook has to pay around 10% of revenues to the state; Kalshi pays \$0 to states. This economic argument fuels state resistance. There's no provision in the CEA to share revenue with states (futures exchanges pay fees to CFTC, but that's it). If the federal government wants harmony, one idea could be to impose some federal tax on event contracts and redistribute to states, but that would require new legislation.

Another gap is **responsible gaming measures**. The CFTC ensures financial integrity but doesn't mandate self-exclusion lists or gambling addiction warnings. States do. This is a consumer protection gap states highlight: a New Yorker with a gambling problem can sign up to be barred from casinos and sportsbooks, but could still legally trade on Kalshi unless Kalshi voluntarily honors those lists. Currently, there's no legal requirement for them to do so (though Kalshi might implement some voluntarily to show good faith).

Case Studies:

- **Montana:** We saw Montana's aggressive stance. Montana does not have a large population but took a lead, maybe because they saw an affront to their limited lottery-run sports betting. Montana's letter even mentioned sending a notice to **Robinhood** as well. That implies Robinhood had started offering Kalshi's markets (perhaps via API integration) to its customers. If so, the fight escalates – a major brokerage vs. a state regulator. Montana might refer matters to their Attorney General for enforcement if Kalshi doesn't comply (e.g., blocking Montana IPs). As of the writing, Kalshi insists it won't voluntarily geoblock states unless legally compelled by a court.
- **Texas:** Texas hasn't had a direct confrontation as of yet publicly. But consider if a Texas resident were prosecuted for online gambling for using Kalshi (Texas law does criminalize participants in illegal gambling, though typically not enforced for online betting). It could become a test case. More likely, Texas might join other states via an amicus brief or letter to CFTC. Indeed, the **Texas State Securities Board** in the past cracked down on unregistered crypto investment programs – one could see them issuing a cease letter if they interpret these contracts as securities (which is a stretch, but possible if the event is corporate or something). Or Texas might simply rely on federal resolution.
- **New York:** New York regulators haven't publicly moved against prediction markets yet. But New York's voice is influential. If NY's Gaming Commission or Attorney General issues an opinion that, say, "Kalshi's political contracts are illegal gambling under NY law," it could sway the narrative, given NY's size. New York also might have concerns about **Polymarket** because Polymarket's team is NYC-based. In fact, the **NY Attorney General's office** has a history of prosecuting Bitcoin-based gambling and such (they went after a Bitcoin sports betting site in 2015). One could imagine NYAG investigating Polymarket or its founder for running a public betting business (the November 2024 raid on Coplan could have had NYAG involvement in coordination with feds).

Federal vs. State – Potential Resolutions: The tug-of-war may eventually force formal policy resolutions:

- The CFTC (or Congress) could explicitly assert that certain prediction markets are allowed and preempt state law. If Congress amended the CEA to say "CFTC-regulated event contracts shall not be deemed gambling and states may not prohibit their trading," that would settle it. But such legislation could face opposition from states/tribes.
- Alternatively, Congress could decide to explicitly **ban** some or all event contracts nationwide, which would moot the conflict by aligning federal law with state gambling prohibitions (though at the cost of ending the industry). In October

2024, interestingly, the CFTC under Behnam proposed a rule to ban election event contracts on any exchange – a preemptive federal ban – but that proposal stalled and now seems unlikely to be adopted given the new administration.

- States might pursue *compromise*: for instance, striking agreements where prediction exchanges voluntarily block states that object (similar to how some financial services avoid certain states due to Blue Sky laws historically). Kalshi could choose to not operate in, say, Nevada or NJ to avoid litigation, focusing on states that don't object. But since many states are objecting in concert, that approach would fragment the market (and the value of a national exchange is lost if big states like NY, NJ, etc. are out).
- The courts will likely be the arbiters if no legislative solution comes first. A Supreme Court ruling could delineate whether event contracts are an instrument of interstate commerce immune to state interference, or whether they fall under the umbrella of gambling which states traditionally control. Given the current Supreme Court's federalism leanings (Murphy v. NCAA being an example where they gave power back to states), it's not obvious how they'd rule. They might say: if the CFTC okays it, it's fine (basing on preemption of a commerce activity), or they might say: Congress didn't clearly preempt, so states retain the power to ban betting, even if the betting is done on a federally regulated platform.

Implications for Platforms and Users: Until resolved, this tug-of-war means uncertainty for platforms (legal costs, the need to possibly geofence by state, etc.) and for users (one day you might get an email that your state has been cut off, or worst case, a risk that your activity could be deemed unlawful). It also opens questions about jurisdiction: If a user in State A (where prediction markets are kosher) trades against a user in State B (where it's banned), what law applies to the trade that happens on a server maybe in State C or in the cloud? These conflicts are reminiscent of the early days of internet gambling. Historically, federal law (like UIGEA 2006) stepped in to assist states by banning payment processing for unlawful online bets, which helped shut down online poker in the U.S. The twist here is the activity has *federal approval*.

Montana, Texas, New York Recap:

- Montana – shows a state with relatively small gambling market but strong stance on legality, quickly labeling prediction markets as illegal gambling and even roping in big names like Robinhood for offering them. It highlights the legal argument from the state side clearly (citing statutes) and presumably will test if Kalshi complies or fights. It might end up in a Montana federal court if Kalshi preemptively sues or via a DOJ action if Montana went criminal (unlikely).

- Texas – symbolizes a large state with strict anti-gambling laws, where prediction markets offer something currently unavailable (Texans can't legally bet on sports or elections otherwise). If federal law allows Kalshi, it effectively bypasses Texas's policy decision to ban sports betting. That is a big state-federal tension. Texas may become vocal if it sees lots of usage; possibly Texas legislators will complain or join forces with others to lobby the CFTC to not allow it.
- New York – stands at the crossroads of finance and gambling. It has both big Wall Street interests (some of whom might like prediction markets, e.g., Jane Street reportedly trades on these markets) and big gambling interests (casinos, lottery, etc.). New York's approach could influence others. Also, New York's law enforcement could coordinate multi-state efforts; there's precedent of state AGs banding together on gambling issues.

In conclusion, the **federal vs. state regulatory tug-of-war** is in full swing, and prediction markets have become the latest battleground for the age-old question of who governs gambling-like activities. The resolution will likely require either judicial clarity or legislative compromise. Until then, prediction market operators must navigate a patchwork: legally cleared at the federal level but potentially outlawed in various states. This patchwork is unsustainable long-term, which is why all parties (exchanges, states, feds) are pushing for a resolution – each hoping it lands in their favor.

8. Tribal Sovereignty and Prediction Markets

No examination of gambling or betting in the U.S. is complete without considering **Native American tribal gaming**, which operates under a unique legal framework. Tribal casinos and sportsbooks have become a major part of the U.S. gambling industry thanks to the Indian Gaming Regulatory Act (IGRA) of 1988, which recognized tribes' rights to offer gaming on their sovereign lands (subject to certain conditions and state compacts). The emergence of prediction markets – especially sports-related markets – raises important questions about how tribal gaming interests intersect with this new form of wagering. In this section, we explore tribal perspectives, the outcomes from the May 2025 CFTC–Tribal summit, and potential opportunities or conflicts for tribes regarding prediction markets.

Tribal Gaming Context: IGRA establishes three classes of gaming. Class III (which includes casino-style gaming and sports betting) generally requires a compact between a tribe and the state, approved by the Department of Interior. Many tribes have negotiated exclusivity in their compacts – for example, a state might agree not to allow

non-tribal casinos or sports betting in exchange for a share of revenue from the tribal operations. This means tribes often have **exclusive rights** to gambling in their regions (outside of state lotteries or racetracks). With the expansion of commercial casinos and state-licensed sports betting in recent years, some tribes have renegotiated compacts or sued states to protect their interests.

Now enter prediction markets: if a federally regulated exchange on the internet offers something functionally similar to sports betting (and perhaps eventually other games or outcomes), tribes see it as *competition that bypasses the carefully negotiated compacts*. A key tribal concern is the **erosion of sovereignty and economic benefits**. Tribal casinos contribute significant revenue for many Native American communities, funding essential services. They fear that if people can just pull out a phone and bet on an outcome via Kalshi or others without stepping foot in a casino (or paying the tribe a share), it undercuts the value of their negotiated exclusivity.

Concerns Raised by Tribes: Tribes have been very vocal in the CFTC's proceedings on prediction markets. The **California Nations Indian Gaming Association** (CNIGA), representing many tribes in California, submitted feedback to the CFTC strongly urging that these event contracts *"are not allowed under current law"* and should remain prohibited. They essentially don't accept the idea that changing the label to "event contract" makes it legal – they see it as an unlawful dodge around gambling laws, and they want the CFTC to make that crystal clear. Similarly, the **National Tribal Gaming Commissioners & Regulators (NTGCR)** called Kalshi's product a *"betting scheme"* that has already siphoned money away from tribal economies. Phrases like "sports betting in disguise" encapsulate their stance.

Tribal leaders emphasize **sovereignty**: under federal law, tribes have the right to regulate gaming on their lands, and court decisions have upheld those rights against encroachment. They argue that if the CFTC federally authorizes sports event betting, it effectively allows non-tribal entities to take bets nationwide, infringing on the exclusivity many tribes were promised. Moreover, tribes contend this could violate the spirit (if not the letter) of their compacts – for instance, if a state promised a tribe exclusivity in exchange for revenue share, but then a third-party exchange outside state control operates, the tribe loses out. Some tribal representatives have hinted that if prediction

markets proliferate, tribes might seek legal recourse or demand that compacts be revisited to compensate for the lost exclusivity.

May 2025 CFTC–Tribal Summit: In response to these loud objections, the CFTC scheduled a dedicated consultation (the conference call on May 29, 2025) with tribal organizations. Acting Chair Caroline Pham and other officials joined this call. Although details are somewhat private, reports indicate that the call was meant to “*engage with groups worried about prediction markets’ future, particularly those linked to sports events.*” It effectively replaced the broader roundtable, focusing on tribal and possibly some state regulator concerns.

From available information, during this dialogue tribes reiterated:

- They see *their sovereign right to control gaming on their lands potentially undermined.*
- They pointed out how **profits are flowing out** of communities: if someone on a reservation (or anywhere in the state) places an event contract trade, none of that revenue goes to tribal operations or state taxes, unlike a bet placed in a tribally-run sportsbook.
- They likely raised regulatory and enforcement questions: how would the CFTC prevent, say, minors on reservations from betting via these apps, when tribes have robust ID checks at casinos? How to handle problem gambling when a person can bypass tribal self-exclusion by using an online exchange?

One outcome from this engagement is that the CFTC seemed to acknowledge these concerns by **temporarily slowing down** its broader stakeholder engagement. It hasn’t yet issued a final decision on sports event contracts. The presence of tribal concerns might encourage the CFTC to carve out something like: not approve sports contracts (or restrict them) unless certain conditions are met that address tribal/state issues.

Alternatively, the CFTC might push the issue but encourage negotiation: for example, maybe requiring event exchanges to allow geoblocking of certain areas (tribal lands?) if tribes object, as a compromise.

Tribes also have **political leverage**. Many tribal nations are influential in Congress via their lobbying. They could push for a legislative fix – e.g., an amendment that clarifies

that nothing in the CEA permits event contracts that would circumvent tribal compacts. If the CFTC doesn't address their concerns, they might seek allies in Congress to intervene.

Opportunities for Tribes: It's not all adversarial; there could be opportunities if approached creatively:

- Tribes could potentially become **prediction market operators themselves**. Some tribes have the resources and could consider launching their own event contract exchanges, either just for their jurisdiction or broader (though a broader one would require CFTC regulation like any other). If a tribe wanted to run, say, a sports prediction exchange accessible nationwide, it might try to use its sovereignty to offer it without CFTC (not likely, because off-reservation users would trigger federal law issues), or more realistically, register a tribal enterprise as a CFTC-regulated exchange. This would mirror how some tribes have entered online gaming or fintech. For example, a tribal gambling tech company might partner with a prediction market startup to create a joint platform, sharing revenue with tribes.
- There's also a scenario where tribes negotiate with companies like Kalshi for a piece of the action. For instance, a tribe might say: "We won't oppose you if you agree to route some percentage of profits from bets originating in our state to our tribal fund, or if you partner with us as a co-venture in the state." This is akin to how some states required partnerships for sports betting (e.g., sportsbooks partnering with tribal casinos or local casinos). It's unclear if Kalshi or similar would consider that, but it's one way to align interests.
- Tribes could leverage prediction markets for their own benefit internally. For instance, a tribe could use an internal prediction market to forecast casino revenues or community outcomes (some tribes have advanced governance tools). That's not a commercial use but shows the tech can be used in various ways.

Conflicts and Legal Questions: If the state-vs-federal conflict goes to courts, tribes might enter via amicus briefs. There's an interesting legal question: Could a tribe assert that its **compact rights are infringed** by these exchanges? Possibly, but since compacts are between tribe and state, and these exchanges operate outside that framework, the remedy is unclear. Tribes might instead lean on the argument that if prediction markets are allowed, tribes should be allowed to offer the same or similar products. Some tribes already run online sportsbooks accessible off-reservation in states where they have compacts (for example, tribes in Michigan and Arizona have mobile betting). If Kalshi is

seen as an online betting operator, maybe tribes will push to ensure they can compete on the same playing field, i.e., allow them to launch equivalent platforms.

Tribal Regulatory Authority: On tribal lands, tribal gaming regulators oversee operations. If a person on tribal land uses Kalshi's platform, can the tribal regulator do anything? Possibly they could ban the app's use on casino premises or their Wi-Fi. They might also lobby the federal government, as they are doing, to intervene. But tribes can't directly regulate an off-reservation entity like Kalshi – they must go through federal channels.

May 2025 Summit Outcomes: By all accounts, the outcome of the May 29 call was that the CFTC promised to **keep tribes in the loop** and weigh their feedback heavily before any decisions. It did not result in an immediate policy – more of a bridge-building exercise. Some reports say the call helped ease tribal concerns that they were being heard, but tribes remained firm on opposing sports contracts going forward without resolution of their issues. It's likely the CFTC will have further consultations, possibly inviting tribal representatives to any future public roundtables.

Comparative Angle: Internationally, in places like Canada, provincial lotteries (some run by First Nations in partnership) often control gambling. If a prediction exchange tried to operate in those areas, similar friction could arise. The U.S. scenario with tribal sovereignty is unique though in its legal structure.

In conclusion, **tribal sovereignty adds a powerful voice and legal dimension** to the prediction market debate. Tribes view these markets, especially sports markets, as a threat to their hard-won gaming rights and revenue streams. Their successful inclusion in the conversation (via the CFTC summit) shows that any policy will need to account for tribal interests, perhaps by finding a compromise that respects tribal exclusivity or compensates for it. If handled poorly, this conflict could become a new front in the long history of legal battles over Indian gaming rights. If handled well, perhaps prediction markets can be integrated in a way that tribes also benefit – for example, a future where a tribe is a major stakeholder in a national prediction exchange, marrying sovereignty and innovation.

9. International Comparison of Regulatory Frameworks

Prediction markets operate not only in the United States but around the world, often straddling various regulatory regimes. This section provides an overview of how different jurisdictions – notably Europe (with a focus on the UK), Canada, and Australia – handle prediction markets or analogous betting exchanges. We also touch on globally decentralized platforms that transcend national boundaries. Comparing these frameworks highlights both the diversity of approaches and common challenges in regulating markets on real-world events.

United Kingdom and Europe: The UK has one of the most mature and permissive environments for betting on events, including politics and current affairs. In the UK (and similarly in Ireland), **betting is regulated as gambling** by the UK Gambling Commission, but the law does not forbid wagering on political outcomes or other events (except a few sensitive areas like the exact date of death of an individual, etc., which betting companies usually self-restrict). As a result, UK bookmakers and exchanges routinely offer odds on elections, referenda, reality TV show outcomes, award winners, and more. For instance, during major political events (like Brexit or general elections), it's common to see headlines about bookmakers' odds and large wagers placed. Betting on elections is considered acceptable, and indeed it has occasionally led to scandals – such as the 2024 “election betting scandal” where some insiders allegedly placed bets on the timing of the UK general election announcement using advance knowledge. The UK Gambling Commission responded by investigating and eventually charging 15 individuals for **insider trading in betting** (which is essentially fraud by misuse of information, analogous to insider trading in stocks). This underscores that while betting on politics is legal, there are still protections to ensure fairness (e.g., those with privileged information cannot abuse it).

From a **market structure perspective**, the UK's Betfair Exchange (now part of Flutter Entertainment) operates as a **betting exchange** where users bet against each other (much like a prediction market). Betfair and similar exchanges (Smarkets, Betdaq) offer a platform for trading bets on sports and occasionally politics. These are regulated under gambling laws, not financial laws. They require customers to be of legal gambling age, adhere to anti-money laundering checks, and pay a gross gambling yield tax to the government on revenues. But they do not face the sort of public interest test that the

CFTC has – if there's demand and it's not inciting a crime, UK bookies can usually offer it. For example, one could bet on **French election results**, or **the Pope's successor**, etc., through UK/Irish operators, markets that would be unthinkable under current U.S. regulation.

Europe at large doesn't have a single approach: in many European countries, betting on sports and sometimes politics is allowed (especially in **Ireland, Italy, Sweden** via licensed bookmakers). Some countries like **France** are more restrictive – after some controversies, France banned betting on its own elections for integrity reasons, though betting on foreign elections might still occur through offshore sites. **Germany** is quite strict on online betting generally (aside from state lotteries), so prediction markets haven't taken off much there except via global sites. **Estonia** and some smaller jurisdictions have licensed a few crypto-based prediction sites (taking advantage of EU passporting before regulations tightened).

An interesting note: **Iowa Electronic Markets** had a sister project in Europe called **EU Political Stock Market** in the 1990s in Germany, which was academic. Also, the **Dutch** have done experiments with prediction markets for policy advice. But these were small scale.

In summary, Europe tends to treat prediction markets as a subset of gambling or betting. The benefit of that is clarity – operators know they must get a gambling license. The downside (from an innovation perspective) is they are confined by gambling rules, which may not allow certain innovations like very high-volume trading or integration with financial systems.

Canada: Canada's legal framework historically banned betting on single sports events (only parlays through provincial lotteries were allowed) until a 2021 law change (Bill C-218) legalized single-event sports betting at the provincial level. Now, provinces like Ontario, British Columbia, etc., offer regulated sports betting through lottery corporations or licensed operators. When it comes to **prediction markets on other events (politics, etc.)**, Canada doesn't have specific provisions. In practice, betting on politics has been available in some forms through offshore websites that Canadians

used, but not through government-sanctioned platforms (provincial lotteries have generally not offered election bets, partly perhaps out of propriety).

However, a notable episode: the Alberta Gaming Commission in 2015 allowed a charitable betting pool on a provincial election (a one-time novelty). And Canadian media often report UK odds for things like U.S. elections, showing there's interest. If a platform like Kalshi were to operate in Canada, it would likely be seen as an unlicensed gambling platform unless it got licensed as a betting operator. Because Canada's provinces have monopolies or license limited private operators for gambling, a prediction market would need to fit into that scheme. There hasn't been a major Canadian-based prediction market to date (though the University of British Columbia ran some experiments akin to IEM with play money).

One complexity: **Provincial vs Federal** in Canada – gambling is mostly provincially regulated, but the criminal code sets base rules making unlicensed gambling illegal. A prediction market might need each province's blessing or to partner with a provincial lottery. It hasn't been tested.

Australia: Australia has a very vibrant betting culture and a well-regulated gambling industry. Betting on **sports and elections** is legal and common. Australian bookmakers frequently offer odds on elections (both domestic and foreign). For example, one could bet on U.S. presidential elections via an Australian bookmaker. There was an incident in 2013 where an Australian politician bet on the date of the Australian election, which led to some outcry but it wasn't illegal – it merely raised ethical questions. In fact, an interesting scandal came via the UK: in 2024, a UK MP and others were involved in betting on the announcement date of the UK election (the one mentioned above), and Australian media highlighted that **Australian politicians and staffers are not technically banned from betting on elections**, leading to some calls for reform. So Australia may tighten insider betting rules, but generally, the regulatory stance is: betting on almost anything is allowed as long as it goes through a licensed bookmaker. The licensing and oversight is done by state commissions (like in New South Wales or Victoria), under the umbrella of federal law that permits online betting.

Australia also has an exchange: Betfair has an Australian branch that operates under license, allowing peer-to-peer betting. Political bets are allowed (some restrictions like not betting on the **Australian Governor-General appointment** due to potential insider knowledge, etc.).

Globally Decentralized Platforms: Platforms like **Augur, Gnosis, Polymarket** (when accessed via VPN, etc.) operate on the internet without borders. They present a regulatory challenge worldwide. Typically:

- In jurisdictions where gambling is illegal or heavily regulated, authorities might block access to known websites or issue warnings. For instance, if Polymarket were easily accessible in China (where all gambling is illegal), Chinese authorities would censor the site (they likely do).
- In open jurisdictions, users can freely participate, but they still face the risk of no legal recourse if something goes wrong, since the platform is unregulated.

Some **global efforts** for self-regulation emerged: e.g., Decentralized platforms sometimes restrict markets that could cause legal trouble (Augur, in later versions, by community consensus, disallowed assassination markets or terrorism-related markets to avoid the wrath of law enforcement). But enforcement in a decentralized context is tough; it relies on blocking front-ends or prosecuting individuals who violate laws (like the UK insider betting case – people got charged for using inside info, not for just betting per se, since betting itself is legal).

One trend to note: **Predictive tokens and crypto** – some projects issue tokens that people trade as a proxy for event outcome (basically synthetic prediction markets disguised as token trading). Those also slip through regulatory cracks. Global regulators are still catching up on these.

Notable International Events:

- In **2019**, during the Indian elections, there was huge betting through underground channels (since betting is illegal in India except horse racing). Some commentators suggested having a legal prediction market would have provided transparency, but India's laws remain prohibitive.

- **New Zealand:** Home of Victoria University that ran PredictIt, interestingly does not have legal domestic betting on politics for the public (they have a government-run sports betting agency that doesn't offer politics). NZ allowed the university's experiment, but not commercial betting.

Cross-Border Use Cases: It's common for one country's residents to use another's markets. For example, Americans (when PredictIt was around) could see Brits betting on UK bookies for U.S. elections. Conversely, Europeans sometimes bet on American sites (though less now due to enforcement). Cryptographic markets are accessible to anyone with an internet connection and crypto. This cross-border nature means if one jurisdiction cracks down (like U.S. on PredictIt), markets might migrate elsewhere (Polymarket exploded partially because Americans could quietly participate via crypto, though officially barred after the CFTC action, some likely still did via VPN).

Regulatory Trends:

- Europe is moving toward more standardized regulation of online gambling via cooperation and EU directives, but prediction markets specifically haven't been singled out. They'd just be included as a type of bet.
- The **MICA (Markets in Crypto-Assets)** regulation in the EU might affect prediction market tokens if any are classified as crypto assets offered to the public.
- **Australia** likely will continue allowing broad betting but may refine rules to prevent misuse.
- **Canada** might open up more after seeing U.S. developments, or conversely tighten if they see issues.

Lessons for the US: International experience shows that:

- Political betting can be managed under gambling regulation, but concerns like insider trading and optics must be handled (e.g., UK charging those who cheated on election date bets).
- A thriving market can exist if regulated either as gambling (UK/Aus model) or as a financial exchange (the U.S. is testing this latter path). The end effect – people get to bet/trade – is similar, but oversight differs.
- There is a market for events globally. For instance, during the 2020 U.S. election, UK and European bookmakers reportedly handled hundreds of millions of pounds in bets, making it one of the largest betting events ever globally. This indicates the demand that flows wherever it's legal.

Globally Decentralized Observations:

- Decentralized platforms like Augur have not taken off massively in usage partly because the user experience is inferior to centralized ones and because big players prefer the safety of at least some regulation (to ensure payout, etc.). Polymarket struck a balance by being user-friendly yet blockchain-based, drawing volume until the U.S. crackdown.
- If one jurisdiction (e.g. the US) cracks down, the activity often flows to another (e.g., more volume on UK bookies or on crypto markets).
- Conversely, if the U.S. fully legalizes certain prediction markets, it might attract volume away from offshore because the US has a large base of participants who prefer a legal domestic option (PredictIt demonstrated that – many Americans used it instead of offshore sites because it was legal, even though stakes were limited).

Conclusion of Comparison: Different countries treat prediction markets either as an extension of gambling or not at all (by banning them). The U.S.'s approach of treating them as financial derivatives is novel. If it succeeds, it might set an example others follow (for instance, a regulated prediction exchange in the US could eventually seek customers abroad, raising questions: would UK gamblers rather use Kalshi if it offered better odds than UK bookies?). Alternatively, the U.S. might end up converging with the gambling model (especially for sports) if federal preemption doesn't hold and states integrate prediction markets into their gambling frameworks.

For now, the **global landscape is patchwork**. But one constant: interest in betting on events is universal. Whether it's done through Ladbrokes in London, Betfair's exchange, a crypto dApp, or a Kalshi contract, the human impulse to wager on future events finds a way. Regulators worldwide are essentially converging on the issue of how to harness this in a controlled, safe manner – each according to their legal tradition. The U.S. is in the middle of crafting its solution, informed in part by these international experiences.

10. Ethical and Societal Considerations

Prediction markets, especially when they involve public events like elections or global crises, raise a host of ethical and societal concerns. We've touched on some earlier (manipulation, moral hazard, etc.); here we consolidate those and add perspective on issues like misinformation, effects on democratic processes, and broader questions about turning every aspect of life into a financial market.

Manipulation and Market Integrity: One of the foremost ethical concerns is the potential for **market manipulation** – not just in the financial sense (which the CFTC worries about), but in manipulating the underlying reality that the market reflects. For example, consider if a malicious actor places large bets on a certain outcome to move the market odds, then uses those odds to proclaim “See, it’s going to happen!” or to create a self-fulfilling prophecy. This is somewhat analogous to pumping a stock to create artificial confidence. In political prediction markets, a wealthy individual or campaign might see advantage in skewing the odds to influence media narratives or donor confidence. The Washington Examiner piece cited a scenario by Sen. Merkley: *“Hey, I will spend millions of dollars smearing some candidate to make sure the candidate I bet on wins.”* This highlights the dual manipulation – using money to influence both the event (smear campaign) and profiting from it. While this is more of a campaign ethics issue, the presence of a betting market adds a profit motive to dirty tricks, which is concerning.

There have been documented attempts to **manipulate prediction markets**: The CFTC noted the 2012 instance of someone reportedly betting huge on Romney, likely to distort the market odds (perhaps to influence public perception or just as a desperate gamble). In a more extreme hypothetical, if a market existed on whether a company’s CEO will resign by year-end, a trader might spread rumors or even try to push the CEO out to win the bet. This crosses ethical lines and possibly legal ones (defamation, etc.).

From a regulatory standpoint, protecting market integrity is crucial – ensuring that no one can easily spoof or corner the market. The CFTC would apply its anti-manipulation rules (which typically require proving intent and artificial price causing). But small-scale markets are indeed *“vulnerable to manipulation”* as Vox noted. Until prediction markets get very large, a relatively small amount of capital can sway prices. This is both a financial risk and an ethical one because it can mislead observers who trust the market as an information source.

Misinformation: A related issue is how prediction markets intersect with the era of fake news and misinformation. Ideally, markets correct misinformation because traders who know the truth will take money from those who believe falsehoods. However, markets

can also *amplify* misinformation if enough traders are misled or if misinformation is timed well. For example, a false rumor right before an event can swing odds and perhaps even the event outcome (imagine a fake news drop just before voting ends in an election – markets might move, media might report “markets swing on news of X”, possibly affecting late voters).

Better Markets’ Cantrell Dumas explicitly warned that political betting could lead to “*disinformation campaigns*” turning markets into a “frenzy” akin to the GameStop saga in stocks. In the GameStop case, online forums drove extreme volatility that disconnected from fundamentals; translate that to politics, and one could see conspiracy theorists or zealots pooling funds to push a narrative in the market, making it appear legitimate. It’s a new avenue for information warfare: adversaries could try to manipulate U.S. prediction markets to sow confusion or false confidence.

Democratic Integrity: Perhaps the gravest concerns are around elections and governance. Critics argue that widespread betting on elections could undermine the dignity of the democratic process – turning an exercise in civic duty into “just another gambling event.” Some fear it might reduce politicians to mere odds and distort media coverage (media loves a horse-race story, and odds provide constant fodder, potentially at expense of substantive issue coverage). Furthermore, if election markets were very active, could that give incentives for election interference? For example, if a foreign power could make billions by a certain candidate winning, does that add another financial motive to meddle (beyond ideological or geopolitical motives)? It’s a stretch, but not impossible.

There’s also concern that if markets predict a certain result confidently, it might discourage voting (“why bother if the market says my candidate will lose?”) or conversely breed complacency (“my candidate is ahead in betting, so I won’t donate or turnout as urgently”). We already see such effects with polling; market odds could exacerbate that as they are seen as very credible (when you put money on the line, people assume it’s serious).

Fairness and Accessibility: An ethical angle less discussed: who has access to these markets and the information they yield? If only some people can trade (e.g., when PredictIt had limits to a niche group, or if Kalshi remained small), then the information might reflect a narrow slice of the population (perhaps wealthier or more educated individuals). That could bias the “wisdom” produced. Also, if markets are difficult to access for underprivileged groups, does it create an uneven playing field in terms of who can benefit from hedging or info? For instance, imagine markets on local rainfall used by farmers to hedge – if only big agribusiness knows how to use them and small farmers don’t, it could widen disparities.

Addiction and Personal Impact: From a societal standpoint, the question arises: do prediction markets risk creating more gambling addiction or financial harm to individuals? They certainly could – especially if sports markets grow. A person could lose lots of money betting on events just as they could in a casino. Presenting it as “trading” might lure people who wouldn’t normally walk into a casino. Robinhood’s foray into event trading (if it continues) might gamify it further. The psychological effect of being able to bet on anything at any time could be significant. It raises ethical issues for the platforms: should they have the same responsible gambling measures (cool-off periods, loss limits) as traditional gambling providers? The line they walk is tricky: if they admit the need for such measures, they tacitly admit it’s gambling; if they don’t and someone suffers harm, they’ll be criticized for neglect.

Privacy and Surveillance: A subtle point: prediction markets generate data on what people collectively think will happen. Some worry this could be misused. For instance, could government agencies monitor prediction markets to gauge public sentiment or insider knowledge in ways that raise privacy concerns? If an intelligence service sees a surge in betting that a certain country will test a missile next week (perhaps because insiders bet), that market acts as a signal intelligence. Ethically, is it okay that we create financial incentives for leaking information? Arguably, markets might encourage people with knowledge (whistleblowers, etc.) to trade on it rather than go public, which could be seen as unethical (profiting from secrets). It’s a bit like insider trading, but with geopolitical or scientific knowledge.

Benefits and Counterarguments: On the flip side of these concerns, it’s worth noting the **ethical arguments in favor** of prediction markets:

- They promote **truthful revelation of beliefs**. In a time of rampant misinformation, a price that aggregates many views (some of which are backed by solid info) could cut through noise. For example, during a pandemic, a prediction market on “cases will drop by X date” might synthesize information better than individual experts. One could argue it’s almost a civic good to have such forecasts out there.
- They can **prevent panic or complacency** by offering a reality check. If politicians claim “landslide victory coming” but markets say it’s 50-50, maybe that tempers extreme rhetoric.
- People have a **liberty interest** in betting on things – one could argue ethically adults should be free to risk their money predicting events if they wish (the libertarian view). The existence of a regulated market is more ethical than forcing them to go underground or to shady offshore sites which won’t protect them at all.

Misinformation and Free Speech: Another angle: if someone spreads false information to sway a market, at what point does that become punishable? Is it securities fraud-like behavior (if done on a registered exchange, possibly yes if it’s a manipulative device)? Is it protected speech (lying about a politician could be defamation if malicious and false)? These are grey areas. Ethically, a market could incentivize people to shout “fire” in a crowded theater (metaphorically) just to cause chaos they profit from. That’s clearly negative for society.

Academic and Democratic Institutions: Some worry that if markets became very influential, policymakers or voters might overly rely on them – a form of **technocratic governance by markets**. Robin Hanson, a proponent, once suggested “decision markets” that could even replace some forms of voting by having markets decide policies. This is provocative ethically – it takes faith in markets to an extreme and sidelines direct democratic deliberation. One famous fiasco was DARPA’s Policy Analysis Market, which was framed by critics as a “terrorism futures market.” Ethically, many balked at the idea of trading on scenarios of terror attacks or assassinations, feeling it was morally offensive even if it might generate useful intel. That program was cancelled within days of being publicized due to the uproar. This shows that society has **red lines** – certain events (especially involving death or tragedy) are not seen as appropriate for betting because it violates human dignity and decency.

Media Responsibility: If prediction markets become common, media outlets will likely report on their odds extensively (some already do with betting odds or FiveThirtyEight's model, etc.). There's an ethical onus on media to present these responsibly. For example, not to frame market odds as *fait accompli*, and to clarify uncertainty. Also, if markets can be manipulated, media must avoid being unwitting amplifiers of any manipulation (as some were in taking PredictIt or Betfair swings as signals without questioning volume or context).

Information Asymmetry and Insider Trading: Ethically, should insiders (with non-public info) be allowed to trade on prediction markets? In financial markets, insider trading is illegal to keep fairness and encourage information disclosure. But prediction markets currently have no such rule (except Polymarket's founder might have legal trouble if he traded on inside info of, say, a government decision he learned via a leak – but what law covers that? Possibly wire fraud or misappropriation theory in insider trading law could apply if the info came from someone breaching duty). There's an ethical issue if, say, government staff bet on policy outcomes they have inside knowledge of. In the UK, members of government doing so caused a scandal. So ethically, perhaps rules are needed: e.g., prohibit certain officials or corporate insiders from certain markets.

Addiction: Already touched, but to underscore – gambling addiction can ruin lives. If prediction markets expand, especially with ease of access through apps, ensuring there are measures to detect and help problem gamblers is a moral imperative. One tricky part: if we frame them as financial markets, will that cause denial of gambling addiction issues? For instance, a day-trader who can't stop might not be seen as a gambling addict but in effect could be. Similarly, a person hooked on betting on daily news events might slip under the radar if these platforms are not viewed as gambling outlets. The stigma or lack thereof can cut both ways – less stigma might lead more people to problematic behavior because they see it as investing rather than gambling.

In conclusion, the ethical and societal considerations surrounding prediction markets are complex and multifaceted:

- **Preventing manipulation and misuse** is critical to maintain their integrity and the trust of the public.

- **Safeguarding democratic processes** and public discourse from distortion due to markets is a significant concern when politics is commodified.
- **Balancing freedom and protection:** People's freedom to predict vs. protecting vulnerable individuals and the society from negative externalities (like fraud or gambling harm).
- **Moral boundaries:** Deciding which events are off-limits for markets (e.g. no markets on violent events or ones that could incentivize harm) is an ethical choice that regulators and platforms must continuously navigate. The CFTC has already set some boundaries (no terrorism, assassination markets), and platforms often self-regulate others.

As prediction markets grow, addressing these ethical issues head-on will be important for their social acceptance. Transparency, education, and prudent regulation (like barring certain activities, punishing manipulation, integrating consumer protections) can mitigate many concerns. Proponents argue that with these safeguards, prediction markets can enhance societal decision-making and resilience to misinformation, rather than harm them. The challenge is ensuring the markets are designed and governed in a way that leads to those positive outcomes rather than the negative ones critics fear.

11. Investor and Industry Perspectives

The burgeoning field of prediction markets has naturally caught the eye of investors, entrepreneurs, and companies in adjacent industries (finance, sports, media). In this section, we explore how venture capital (VC) and other investors view prediction market platforms, the various monetization strategies these platforms employ, and the ways prediction markets are being integrated into traditional finance and media. We will see that while the concept is somewhat novel, many investors see parallels with other disruptive fintech plays, and they are betting (figuratively and literally) that prediction markets could become a major new asset class or betting vertical.

Venture Capital Interest: Prediction market startups have attracted significant venture funding in recent years, especially those at the intersection of fintech and crypto:

- **Kalshi** has raised over \$80 million in total funding, including a \$30 million Series B in 2022 led by Sequoia Capital. Other investors include Charles Schwab, SV Angel, and even individuals like Henry Kravis. This backing from top-tier Silicon Valley and Wall Street figures indicates belief in Kalshi's vision of a regulated events exchange. VCs are enticed by the idea that Kalshi could be the next big

trading platform – “the exchange where you can trade on *anything*.” If Kalshi can surmount regulatory hurdles, the *TAM (Total Addressable Market)* is huge: essentially all global events. Pitchbook reportedly estimated that in 2024 about \$25.5 billion in venture capital was invested in sectors relevant to Kalshi’s space (exchanges, fintech, etc.), implying ample dry powder for such innovative ideas.

- **Polymarket** garnered attention from the crypto investment community. It raised a **\$4 million seed round in 2020**, and by 2024 it was reportedly seeking a new round of up to \$50 million. One of its key backers is Founders Fund (Peter Thiel’s VC), which led a \$34 million investment (valuing Polymarket’s parent ~\$150M) in 2023. The presence of Thiel is notable – Thiel has long been interested in prediction markets (he funded *InTrade* and *Hanson’s Futarchy projects* earlier). Polymarket’s crypto angle aligns with many crypto VCs’ thesis of decentralizing finance. Additionally, Ethereum co-founder Vitalik Buterin has shown interest in prediction markets’ societal benefits and reportedly also invested in Polymarket.
- **Manifold Markets** raised smaller amounts (it had grants from effective altruism funds and Y Combinator support), focusing more on community growth than heavy monetization. That said, it represents a different strain of investor interest – philanthropic or social impact investors who see prediction markets as tools for improving forecasting and decision-making.
- **Insight Prediction** and a few other emerging players (like *Zeitgeist*, a Polkadot-based prediction protocol) have also raised seed funding, though at modest levels. Many crypto exchanges (FTX, before its collapse, for example) also toyed with adding prediction markets – FTX had listed some event futures (like on election results) and its founder Sam Bankman-Fried was vocally interested in the space.

From an investor perspective, prediction market platforms have multiple attractive features:

- **Network effects and liquidity moat:** like stock exchanges or sports betting exchanges, once a platform has liquidity and users, it’s hard for a new entrant to displace it. This promises potentially defensible market share to early winners.
- **Untapped market:** The idea of “betting on anything” or “trading information” suggests a potentially enormous market that is mostly untapped, especially in the U.S. where regulation kept it latent. Some VCs have commented that prediction markets could “*play a pivotal role in the future of finance*”, essentially considering them a next frontier after stocks, crypto, etc.
- **Revenue potential:** If volumes reach even a fraction of what sports betting or stock trading see, fee-based revenues could be substantial. For instance, sports betting is a huge industry (the U.S. legal sports betting handle was ~\$100 billion

in 2022, generating \$7+ billion revenue for operators). If Kalshi captures part of that via event contracts, and charges exchange fees, the upside is significant.

- **Data monetization:** Investors also see value in the data generated by prediction markets – essentially the collective “probability forecasts” for myriad events. This data could be sold to hedge funds, news organizations, or even governments as a predictive input. Already, hedge funds pay for alternative data like Twitter sentiment or satellite imagery; why not the real-time odds of various outcomes? If a prediction exchange becomes a one-stop for that, it’s another revenue stream.
- **Strategic interest from bigger players:** There’s speculation that big exchanges (CME, NASDAQ) or brokers (Robinhood, Coinbase, etc.) might eventually acquire or partner with prediction market companies to expand their product offerings. Indeed, we saw a hint: Robinhood itself explored event contracts. Also, **Brian Quintenz** moving from CFTC to a16z (as a crypto advisor) to Kalshi’s board suggests an alignment where fintech investors want to see event markets flourish and perhaps integrate with mainstream trading apps.

Monetization Strategies of Platforms:

- **Transaction Fees:** The primary model is taking a cut of each trade. Kalshi, for example, charges a fee per contract traded (similar to how Nadex or other derivatives exchanges charge small per-contract fees). This can be a few cents per contract or a percentage of winnings. PredictIt charged a 5% fee on profits plus a 5% withdrawal fee – that’s a high take, but it sustained operations. Polymarket didn’t charge fees to traders directly but instead took a cut by being a liquidity provider on their AMM and planned to monetize through a token or future fees.
- **Market Creation Fees / Listing Fees:** Some decentralized platforms let users create markets for a fee (to prevent spam). For instance, Augur required market creators to put up some stake and they could earn fees if their market attracted volume. Manifold sells “Mana” and also offers a subscription for advanced features, but largely runs on donations and grant funding due to its non-real-money nature.
- **Sponsorships & Partnerships:** As prediction markets intersect with media, there’s potential for sponsored markets (a news site might partner to run a market on, say, climate predictions, branding it). Kalshi had partnerships with some content providers for special markets (e.g., an economics blog might sponsor a market on a specific indicator).
- **White-label or API:** Platforms can provide their infrastructure to other companies via API. For example, Robinhood’s offering likely plugs into Kalshi’s

backend. In future, a sports media site might embed a prediction market widget (provided by an exchange) to engage users, sharing revenue.

- **Tokens (for crypto-based ones):** Polymarket reportedly considered launching a **POLY token** to decentralize governance and reward liquidity providers. A token can appreciate in value if the platform usage grows, indirectly monetizing community building.
- **Premium Analytics:** Selling advanced analytics or early access to data (like a Bloomberg terminal for prediction market odds) could attract institutional clients. If, say, a hedge fund could get a feed of Kalshi's prices on economic events to plug into their trading algos, they might pay for that feed.
- **Integration with Gambling (for sports):** There's an interesting overlap with traditional sportsbooks. Front Office Sports noted that *"traditional sportsbooks could look to get in on sports 'trading'"*. A platform like Kalshi could license its sports markets to sportsbooks or collaborate so that a sportsbook can offer a "trade your bet" feature using event contracts in the background. They might pay Kalshi a cut. Conversely, sportsbooks might launch their own exchanges (Flutter, owner of FanDuel, invested in a small UK prediction exchange recently, likely exploring that).
- **Corporate Services:** Selling services to enterprises, like running internal prediction markets for them as a SaaS product (Consensus Point's model). This is smaller scale but could be steady income.

Integration into Finance:

The line between prediction markets and mainstream finance is blurring. One noteworthy development: **Retail brokerages involvement**. In early 2025, both Robinhood and Webull (another stock trading app) indicated moves to incorporate event contracts. Robinhood listed some Kalshi markets (like on sports outcomes) to its users in certain states, effectively treating them as another asset class next to stocks and crypto. This integration could be a game-changer – it normalizes event trading. If a Robinhood user can seamlessly move from buying Apple stock to betting on an election within the same app, prediction markets reach an entire generation of retail investors.

From an *industry perspective*, this trend suggests:

- **Exchanges and Brokers** see event contracts as a way to increase customer engagement and tap new revenue. Robinhood's core business suffered from lower stock trading volumes after 2021, so it sought new products (it launched crypto, options, now potentially event trading) to keep hyperactive millennial

traders engaged. Event contracts, being short-term and excitement-driven, fit that mold well.

- **Institutional Finance** is also watching. In the long run, if event markets become reliable, institutions might use them for hedging certain risks. For instance, an insurance company could hedge hurricane risk on a prediction market that forecasts the number of hurricanes. There's precedent: before it was discontinued, InTrade had markets on things like Fed rate hikes which some traders used akin to Fed Funds futures. If Kalshi's Fed rate markets or CPI markets deepen, banks and funds might participate or at least follow the prices. The Morgan Stanley research we cited explicitly pointed out that corporates and institutional investors *"could look to prediction markets as a valuable hedging tool, with insurance-like properties"*. That's essentially pitching event contracts as tailored micro-derivatives for specific risks.
- **Media Integration:** News organizations increasingly reference prediction market odds as part of their coverage (some had embedded PredictIt tickers). The Business Insider article showing Kalshi and Polymarket odds on election day 2024. indicates media appetite. We can foresee news channels having live odds from prediction markets in their broadcasts (much as they show sports betting lines now on ESPN). Already, during elections, some broadcasters mention betting odds as an indicator. If prediction markets are widely seen as more accurate than polls, media might rely on them even more. This integration drives user attention back to the markets (feedback loop of new users who hear about it on TV).
- **Financial Products:** Could we see ETFs or indices based on prediction market outcomes? Possibly. For example, a "prediction market index" that tracks a basket of probabilities (like an index of geopolitical risk). Or structured products where payout is linked to an event (which is basically what these are, but could be repackaged as a security). If the regulatory framework allows, banks might create notes that mimic a bundle of event contracts (for clients who can't trade directly on the exchange, or to distribute risk).
- **Mergers of sectors:** The gambling industry and financial industry may converge around these products. A platform like CME might partner with a sports betting company to list event futures that settle via the exchange but marketed to bettors. Alternatively, a sports betting giant might acquire a prediction market platform to offer its customers a new style of betting (more trading-like, maybe appealing to a different demographic).

Industry Perspectives: Within the gambling industry, there's both concern and intrigue. Casino and sportsbook operators initially see prediction markets as competition that skirts their regulations (as we saw with trade groups complaining to CFTC). However,

some forward-thinking operators might adopt the model themselves. There is precedent: Betfair started as a disruptor to bookmakers, but now bookmakers either run exchanges or incorporate aspects. We might see U.S. sportsbooks eventually lobbying, “if you can’t beat them, join them,” seeking their own CFTC designation or partnerships. A quote from an industry observer: *“the incumbents will face new competition from these prediction markets... on the other hand, a new regulatory framework could open up new states”* – meaning, if prediction markets get federal blessing, sports betting effectively enters every state via this backdoor, which could prompt sportsbooks to adapt their strategy nationwide, partnering or merging.

From the perspective of **media and data companies**: Firms like Bloomberg or Thomson Reuters might start incorporating prediction market data into their terminals, recognizing it as another asset class. They could also invest in platforms or sign data licensing deals. We know Reuters covers Kalshi news and Bloomberg Law writes about it, indicating mainstream financial media interest.

Investor Risk and ROI: Of course, investors are also aware of the regulatory overhang. It’s possible their bets (on the companies) don’t pay off if regulation stymies growth or if user adoption isn’t as high as hoped due to trust issues or competition. But so far, the trajectory seems encouraging to them: with the CFTC dropping the appeal and volume milestones (billions traded in 2024 across platforms), the momentum is upward.

Integration into AI and Forecasting Industry: Another industry intersection is with the burgeoning forecasting and AI fields. Companies that do predictive analytics might use prediction market inputs to improve models (some academic studies found combining prediction market odds with polls yielded better results than either alone). Conversely, AI algorithms might one day participate in prediction markets (e.g., an AI agent trading based on processing vast information). VC firms investing in AI may look at prediction markets as complementary – a place to both derive training data and eventually deploy AI-driven trading strategies.

In summary, the industry and investor perspective on prediction markets is one of cautious optimism:

- **Prediction markets as the next big platform** – akin to how some saw crypto exchanges a decade ago.
- **Revenue generation** through multiple channels beyond just trading fees (data, partnerships, new financial products).
- **Convergence of gambling and finance** – which, if navigated well, can enlarge the pie for both sectors, but requires bridging two different regulatory and cultural worlds.
- **Media and engagement** – using the excitement of markets to drive eyeballs and vice versa, creating a lively ecosystem.

The next few years will likely see increased venture funding if regulatory signals stay positive (as more states and feds clarify legality). We might also see an acquisition or two – perhaps a large fintech or gambling company acquiring a prediction market platform to get a head start. For investors, a key consideration will be scaling: how to grow user bases by orders of magnitude. Integration with existing platforms (like Robinhood’s experiment) is one promising path. Another is virality via major events – e.g., if the 2028 election is heavily traded and gets mainstream coverage, that could be a break-out moment.

Ultimately, investors are betting that prediction markets can transform idle speculation and opinion-holding into an always-on, liquid marketplace – effectively monetizing curiosity and foresight. If successful, that has profound implications not just commercially but for how information flows in society. It’s no wonder both Wall Street and Silicon Valley are paying close attention.

12. The Future of Prediction Markets

What lies ahead for prediction markets? In this section, we synthesize trends and speculate on the future trajectory of this industry. We consider regulatory pathways (will there be clear rules or even new legislation?), the role of emerging technologies like artificial intelligence (AI) in enhancing forecasting, and the broader potential of prediction markets to influence decision-making in business, policy, and everyday life.

Regulatory Pathways:

The regulatory outlook is arguably the single most important factor for the future of

prediction markets, especially in the U.S. The possibilities range from broad acceptance to stringent clampdowns:

- *Pathway to Full Legality*: One optimistic scenario is that within a couple of years, the CFTC formalizes a framework for event contracts that satisfies key stakeholders. This might involve approving certain categories (e.g., economic indicators, elections with guardrails, maybe sports under specific conditions) and perhaps Congress giving explicit blessing to political markets, resolving any ambiguity. If that happens, prediction markets could proliferate. We might see multiple CFTC-regulated exchanges (maybe CME or Nasdaq even launching event futures divisions, or international exchanges entering the fray). State regulators might make peace by negotiating tax-sharing or consumer protection agreements. Essentially, prediction markets become a recognized part of the financial system – akin to options or swaps – by 2026 or so. This would likely attract major institutional players and significant liquidity.
- *Continued Tug-of-War (Status Quo Extended)*: Alternatively, the conflict could drag on. Perhaps Kalshi wins in courts but states refuse to yield, leading to a patchwork where some markets are accessible in some places and not others. This uncertainty might slow investor enthusiasm and mainstream uptake. Prediction markets would then remain somewhat niche, used by enthusiasts and certain professionals, but not fully mainstream. Under this scenario, the next administration (2029 onward) might revisit the issue legislatively if it remains unresolved.
- *Restrictive Outcome*: There's a non-zero chance that the backlash (from states or a scandal) leads to more restrictions. For instance, imagine a high-profile manipulation or an insider trading scandal on a prediction market that causes public outrage. Congress could intervene to ban or heavily restrict certain markets (much like the movie futures ban in 2010). If political winds shift, a future CFTC could revoke permission for election markets again (though with the court precedent, that's harder unless laws change). A really restrictive environment might confine prediction markets to only academic use or trivial topics, stunting their growth.

Given current momentum, the first scenario (gradual acceptance) seems plausible. The presence of Trump-appointed pro-innovation regulators (like likely Chair Quintenz) suggests a lighter touch coming. Additionally, the more these markets prove popular (billions in volume) without catastrophe, the more inertia to keep them going.

We might also see **self-regulation** playing a role: the industry could form associations or standards to address concerns (e.g., a code of conduct to ban markets on certain taboo topics, protocols for identity verification, sharing exclusion lists for problem gamblers, etc.). This could preempt heavy-handed regulation by showing responsibility.

AI-Enhanced Forecasting:

Artificial Intelligence and machine learning have revolutionized many fields, and forecasting is no exception. We can expect a synergy between AI and prediction markets:

- **AI as a Superforecaster:** AI models could consume massive amounts of data (news, social media, historical patterns) to predict events and then trade on prediction markets. Already, quant funds use algorithms to trade on betting markets for arbitrage. In the future, dedicated AI might become dominant liquidity providers on certain prediction markets, effectively making the markets more efficient. For example, an AI might instantly update odds on election markets as new polling data or economic news comes out, keeping the market in line with fundamentals faster than humans.
- **AI-generated markets:** AI could help identify what new questions to ask. For instance, scanning global news to propose new event markets that people hadn't thought of but have predictive value. This could increase the breadth of markets.
- **Improved accuracy:** One exciting possibility is using AI to combine information from prediction markets with other sources (like polling, expert opinions) in real-time. This could yield even more accurate forecasts. The user might not even see the market – they just see an AI assistant telling them “there’s an 85% chance of outcome X”, which under the hood partly derives from prediction market prices.
- **Risk of AI manipulation:** On the flip side, if AI gets sophisticated at influencing opinions, one could imagine AI-driven schemes to sway market sentiment (e.g., flooding social media with convincingly fake narratives to push market odds, then profiting). This cat-and-mouse of AI vs. AI – one trying to manipulate, another trying to counter-trade – could be part of the ecosystem. Ensuring market integrity might then involve AI tools monitoring for unnatural trading patterns or coordinating behavior.
- **AI and Internal Decision Markets:** Many companies have tried internal prediction markets for project management (e.g., Google did some). Coupling these with AI prediction tools (like feeding internal data to an AI that bets in the market) could improve corporate forecasting and planning.

Influence on Decision-Making:

If prediction markets become widely trusted, they could significantly influence how decisions are made in various domains:

- **Public Policy:** Policymakers might use prediction markets as one input among others. For example, a government might look at markets predicting the outcome of a pandemic (cases, etc.) to adjust its policies proactively. There was an idea from economists Justin Wolfers and Eric Zitzewitz to create *policy prediction markets* where the market forecasts outcomes conditional on policy choices (e.g., a market for “If policy A is enacted, will inflation exceed 5%?” vs “If policy B is enacted, will it exceed 5%?”). The differences could guide which policy is better. If such conditional markets could be implemented (a challenge, but possible in theory), it could provide evidence-based input for lawmakers, thus influencing policy choices with market wisdom.
- **Elections and Campaigns:** Campaign strategists might monitor prediction markets more closely than polls if they prove more accurate or timely. They might tailor strategy (where to allocate resources) based on market movements in specific states or races. Candidates might even cite market odds as validation (“look, the markets think I’m likely to win”) or as warnings (“we’re behind, market says 30% chance, step up campaign efforts!”).
- **Corporate Strategy:** Firms might hedge specific risks on prediction markets, as mentioned. Also, corporate boards might look at prediction markets for macro events (e.g., likelihood of a recession by next year) when making investment decisions or guidance. Some advanced firms could even create products to resell based on market probabilities (like an insurance company designing a new insurance product whose pricing is informed by event market odds of disasters).
- **Media and Public Perception:** People might come to rely on prediction market odds the way many rely on weather forecasts or stock prices. That could improve general public knowledge in some areas (“the market-based probability of X is...” becomes common parlance). However, if not handled carefully, it could also lead to over-reliance (markets are not infallible – they can be wrong or surprised).
- **Everyday Life:** Imagine integration into personal assistants (like Siri or Alexa): “Alexa, what’s the chance my flight is delayed?” – and Alexa pulls from a prediction market on flight delays. Or “Should I take an umbrella? What’s the probability of rain above 0.1 inch in my area?” – essentially crowdsourcing micro-forecasts if markets for them exist. It’s plausible that prediction markets (or their outputs) become part of the fabric of daily decision-making, providing probability estimates for everything from traffic jams to sports outcomes to health risks.

- **Education and Engagement:** Some foresee prediction markets as educational tools – they get people more numerate about probability and expected value. If these markets become popular, perhaps they find their way into classrooms or universities as ways to teach statistics and critical thinking (some professors already run small ones in class settings to predict class outcomes or exam questions).
- **Global Decision Systems:** Futurist Robin Hanson envisions even governance by prediction markets (a concept called futarchy: “*vote on values, bet on beliefs*”). Under futarchy, a legislature would define objectives (like maximize GDP or welfare) and then policies would be chosen by prediction markets that predict which policy would better achieve those goals. While this is very far-out and has not been tried beyond experiments, the incremental path might be that some cities or organizations pilot “decision markets” to assist in governance. For instance, a city could use a prediction market to forecast outcomes of different budget allocations, and use that info to guide the actual budget. If any such experiments succeed, it could radically change planning and policy evaluation.

Mainstreaming and Culture: The future might also see prediction markets becoming part of popular culture, akin to fantasy sports or stock trading. We might have TV shows or segments dedicated to analyzing “the markets” for politics or events. Just as today stock quotes crawl on TV, someday you might see an “*Event Ticker*” crawl: *Election 2028 (Dem win 60%, Rep win 40%), Oscar Best Picture (Film A 45%, Film B 30%, others 25%), Fed Rate Hike this quarter (Yes 70%)* etc., becoming background information everyone is aware of.

Challenges Ahead: Achieving these futures comes with challenges:

- Ensuring enough liquidity and participation to make prices robust and resistant to manipulation (likely solved by scale and perhaps market makers).
- Balancing regulation to avoid stifling markets while preventing harmful consequences (like not allowing markets that could incentivize crime).
- Maintaining public trust – one big scandal could set things back.
- International coordination: if one country bans and another allows, how to handle cross-border trade (maybe analogous to how online poker ended up with ring-fenced pools in some countries).

The trajectory seems to be moving upward. Caroline Pham’s statement in 2025 called prediction markets “*a new frontier*” for harnessing market sentiment, implying regulators see potential if done right. Tarek Mansour’s vision for 2026 of event contracts in **401(k)**

providers is bold – it suggests by that time these markets might be stable enough to be included in long-term investment portfolios, perhaps as diversification or for hedging retirement risk (imagine, for example, a contract that pays if Social Security gets cut, as a hedge for retirees – currently far-fetched but who knows).

In conclusion, the future of prediction markets could transform both the gambling and financial landscapes. They have the potential to become a ubiquitous tool for forecasting and risk management across society. The key will be navigating the next few years of growth responsibly:

- Solidifying legal status (likely via CFTC rules and maybe Congressional acknowledgment).
- Building user trust and broadening participation (through integration with existing platforms and demonstrating value).
- Continuing innovation (like conditional markets, AI integration, new use cases).
- Addressing ethical concerns proactively (so the markets' reputation remains positive).

If these markets realize even part of their promise, they may indeed influence decisions from the dinner table to the Oval Office, fulfilling the vision of a more informed decision-making world – essentially turning the age-old desire to speculate on the future into an engine for insight and preparedness.

13. Conclusion

Prediction markets stand at a fascinating intersection of finance, technology, and public interest. Over the course of this primer, we have explored how these markets – once a niche experiment – are now emerging as significant platforms that blur the lines between **trading and betting, between Wall Street and Main Street, between casino and exchange**. Our analysis leads to several key takeaways and implications for stakeholders:

1. A Transformative Potential: Prediction markets have demonstrated real power in aggregating information and forecasting future events, from elections to economic indicators. Their evolution from the Iowa Electronic Markets to platforms like Kalshi and Polymarket shows that, given the right conditions, they can scale and influence public

discourse. If nurtured, they could become as commonplace as stock markets, providing continuous insight into the probability of myriad outcomes and allowing individuals and organizations to hedge against uncertainties in novel ways.

2. Regulatory Clarity is Crucial: The U.S. regulatory landscape is currently the main battlefield that will determine the fate of prediction markets domestically and perhaps globally. The primer detailed a complex tug-of-war involving the CFTC, state authorities, and tribal nations. The recent positive developments – such as the CFTC dropping its appeal and signaling openness to new frameworks – suggest a window of opportunity for regulatory innovation. Stakeholders should capitalize on this by engaging in good-faith dialogue, as happened in the May 2025 CFTC-Tribal summit, to craft rules that protect public interests (preventing underage gambling, fraud, etc.) while enabling market growth. A likely outcome is a **hybrid model**: federally supervised exchanges with collaboration or concessions to state and tribal concerns (perhaps through revenue-sharing or opt-out provisions for those jurisdictions). Achieving clear and fair regulations will unlock investment and broader participation.

3. Convergence of Sectors – Collaboration over Conflict: Prediction markets have ignited friction with traditional gambling operators and regulators. Yet, as with many disruptive innovations, the long-term path may be **integration rather than outright competition**. Casinos and sportsbooks could adopt exchange-style betting to cater to a segment of users who prefer trading dynamics. Financial exchanges might list event derivatives if allowed. We are already seeing early signs of collaboration: Robinhood's partnership with Kalshi to offer event contracts to retail investors blurs the line between brokerage and bookmaker. The implication is that companies in finance, gambling, and tech should consider partnerships, cross-investments, or acquisitions to leverage each other's strengths – whether it's customer base, regulatory know-how, or technological infrastructure. Ultimately, a mature ecosystem could have traditional gambling firms, fintech startups, and major exchanges each contributing to and benefiting from the growth of event trading.

4. Ethical Governance and Social Responsibility: The expansion of prediction markets comes with **significant ethical responsibilities**. The industry must proactively address issues of manipulation, misinformation, and problem gambling. As highlighted, there are

real risks – e.g., malicious actors exploiting markets to distort reality or individuals suffering gambling harms. To mitigate these, a few steps are recommended:

- **Implement robust market surveillance and enforcement:** Platforms should monitor for suspicious trading (akin to stock market surveillance) and cooperate closely with regulators to punish manipulators.
- **Limit harmful markets:** Continue the policy (in line with CFTC's regulations) of disallowing markets on violent or highly sensitive outcomes. Industry consortia could establish guidelines to avoid a race to the bottom in offering salacious or dangerous markets.
- **Promote transparency and education:** Clearly communicate how markets work, what odds mean, and warn users that markets are not guarantees (as the Vox analysis noted, markets can be wrong or noisy at times). An informed user base is less likely to be misled.
- **Adopt responsible gambling measures:** Even if branding themselves as "exchanges", platforms should integrate self-exclusion programs, betting limits, and links to addiction help – demonstrating they take the welfare of users seriously, like any reputable gambling operator would.
By doing so, the industry can build public trust and avoid reputational setbacks that could invite heavy regulation.

5. Stakeholder Implications:

- **For Regulators and Policymakers:** The genie is out of the bottle – prediction markets exist and thrive online (if not legally, then offshore or on blockchain). Rather than attempting prohibition, a smarter approach is to shape them through sensible regulation, harnessing their benefits while managing risks. Policymakers should update legal frameworks (perhaps amend the Commodity Exchange Act or gambling laws) to explicitly address event markets, closing gaps and giving clarity. They should also consider the voice of all stakeholders: consumer protection groups, gaming regulators, tribes, academic experts. The CFTC's roundtables and calls are a good model; continued engagement will be essential as the industry evolves.
- **For Investors and Entrepreneurs:** The road ahead is promising but not without pitfalls. Investors should be prepared for regulatory twists and should do due diligence on how platforms handle compliance and risk. The high volumes and user growth around key events (like elections) indicate demand, but maintaining engagement in off-cycle times is a business challenge – innovative marketing and expanding use cases (sports in off-election years, etc.) can fill those gaps. Entrepreneurs can differentiate by focusing on niches (e.g., a platform

specializing in climate or ESG event markets) or superior tech (like better mobile UX, or integrating AI forecasts). They should also keep an eye on global opportunities – if one jurisdiction is restrictive, others may be more welcoming (for example, a prediction market hub in a country that explicitly legalizes it could serve international users, similar to how some crypto exchanges operate from friendly jurisdictions).

- **For Academia and Civil Society:** Prediction markets present a rich field for research (e.g., studying their accuracy, how information flows, and impacts on behavior). Academics and think-tanks should continue to analyze market outcomes vs. traditional forecasting. If they find strengths or weaknesses, sharing that with regulators and the public will help calibrate expectations. Civil society organizations concerned with democratic integrity or gambling addiction should stay engaged and perhaps collaborate with platforms to address concerns (for instance, working with a platform to monitor election manipulation attempts, or to ensure self-exclusion tools are effective).

6. Global Influence and Decentralization: The U.S. outcome will influence other countries. If the U.S. creates a viable regulated prediction market sector, other countries may follow suit or at least observe closely. Already, Europe’s gambling regulators and the global crypto community are watching U.S. developments. We could see an international body like IOSCO (International Org. of Securities Commissions) or the Gambling Regulators European Forum discussing common approaches to event markets. On the other hand, globally decentralized markets (running on blockchain) will persist, offering an alternative when legal channels fall short. Their presence means regulators also cannot be complacent – a heavy-handed ban in one country likely just pushes users to DeFi markets (e.g., after Polymarket geofenced the U.S., truly decentralized options like Augur are still there as a backstop, albeit smaller). Therefore, incorporating prediction markets into legal, supervised frameworks is arguably a better policy to keep them above-board and accountable.

7. Long-Term Vision: Looking a decade ahead, one can envision prediction markets (or their successors) as a normalized part of society’s forecasting infrastructure. Governments might run official prediction markets to aid planning (some agencies already experiment with crowd forecasts). News outlets might have in-house “odds analysts” similar to poll analysts. The data generated could even feed into *early warning systems* for various risks (for example, markets predicting rare events might highlight underappreciated dangers or shifts in public sentiment).

In summation, prediction markets are moving from the periphery to the mainstream, not without friction, but with considerable momentum. This **30+ page primer** has delved into the intricacies of their operation, the pivotal case of Kalshi, the competitive and regulatory landscape, and broader implications. The overarching insight is that prediction markets encapsulate a 21st-century trend: the blending of technology, finance, and collective intelligence to navigate uncertainty. Harnessed properly, they offer a powerful complement to traditional analytics, potentially making society more informed and resilient. But as with any powerful tool, they must be handled with care, guided by thoughtful regulation and ethical norms.

For key stakeholders:

- Regulators have the opportunity to foster innovation while safeguarding the public.
- The gambling industry can evolve by embracing new models rather than resisting them.
- Investors and innovators can unlock value by bridging gaps between sectors.
- And the public stands to benefit from more transparent odds about the future – essentially democratizing insights that were once limited to insiders or experts.

The next few years will be decisive. The actions of the CFTC, state governments, and industry leaders will shape whether prediction markets become a trusted household instrument or remain a contested niche. The evidence and trends compiled in this primer strongly suggest that **prediction markets are here to stay** – and likely to grow. As Tarek Mansour proclaimed after his court victory: *“Prediction markets have been banned, censored, limited, and pushed out for decades. This win solidifies their right to exist and thrive.”* In 2025, that right to exist has largely been affirmed. The next step is to ensure they thrive in a way that benefits all and lives up to their promise.

14. Appendices

Appendix A: Key Legal and Regulatory Definitions

- **Commodity Exchange Act (CEA):** The primary federal law (7 U.S.C. §1 et seq.) governing commodity futures and derivatives in the U.S., enforced by the CFTC. It defines commodities very broadly and requires that futures trading occur on regulated exchanges. Event contracts have been interpreted to fall under this act as “commodities” in practice.

- **Designated Contract Market (DCM):** A CFTC-regulated exchange on which futures or options contracts can be listed for trading by the public. KalshiEX LLC is a DCM (designated Nov 3, 2020). DCMs must meet core principles (financial resources, trading facility standards, etc.).
- **Event Contract / Event Future:** A derivative contract that settles based on the outcome of a future event (e.g., an election, sports game, or economic release). Often binary (yes/no payoff). The CFTC sometimes calls them “certain event contracts” in rulings. Regulation 40.11 addresses when event contracts may be prohibited (if they involve activities like gaming or terrorism or if against public interest).
- **No-Action Letter:** A letter from a regulatory agency (like the CFTC) stating that staff will not recommend enforcement action for a specific activity or entity that might technically violate rules, usually given with conditions. PredictIt operated under a CFTC no-action letter (2014–2022) that exempted it from registration.
- **IGRA (Indian Gaming Regulatory Act):** U.S. federal law (1988) that governs gambling on tribal lands. It establishes the framework of Class I (traditional tribal games), Class II (bingo, certain card games), and Class III (casino-style gambling). Tribes can operate Class III gaming (including sports betting) only under a compact with the state. Tribes argue prediction markets offered off-reservation undermine their IGRA-guaranteed exclusivity.
- **PASPA (Professional and Amateur Sports Protection Act):** A 1992 federal law that had prohibited states (except a few) from legalizing sports betting. Struck down by the U.S. Supreme Court in 2018 (*Murphy v. NCAA*) as unconstitutional, leading many states to legalize sports betting. Post-PASPA, conflict arises if sports prediction markets effectively enable sports bets across states.
- **Public Interest Test (re: CFTC event contracts):** The CFTC in evaluating event contracts considers if they are contrary to public interest – factors include whether they involve unlawful activity, violate public morality, or could be susceptible to manipulation. In 2023, the CFTC used this to reject political event contracts, citing public interest concerns (which the court later disagreed with).
- **Manipulation vs. Expressive Conduct:** A note from legal scholars – trading on elections could potentially be seen as First Amendment-protected expression (betting as speech) or as a regulated economic activity. This hasn’t been directly tested, but it’s an interesting legal theory some have raised. However, fraudulent or manipulative trading is clearly not protected and is subject to enforcement.
- **Swap Execution Facility (SEF):** Another type of CFTC-regulated platform for swaps. Polymarket’s contracts could be considered binary swaps; without SEF or DCM status, offering them was deemed illegal – hence Polymarket’s fine. Polymarket did not register as a SEF, which was part of the issue.

- **Martin Act (New York):** A powerful NY state securities law. While primarily for securities fraud, its broad definitions sometimes bring novel instruments under NYAG jurisdiction. If prediction contracts were deemed securities (which is unlikely, but theoretically if someone securitized them), the Martin Act could apply.
- **AML/KYC:** Anti-Money Laundering and Know Your Customer regulations. Prediction market platforms, especially those dealing in crypto, must implement these to prevent illicit finance. The CFTC required Polymarket to implement appropriate AML/KYC as part of its settlement.
- **Responsible Gaming Measures:** Not a legal term per se, but refers to practices required by state gambling laws: self-exclusion programs, deposit limits, problem gambling funding, etc. In states like New Jersey, any betting product (were prediction markets to be classified as such) might be expected to integrate these.

Appendix B: Interview Excerpts

- **Tarek Mansour (Kalshi CEO) on Regulatory Battles:** *"We've had to eat a lot of s— over the last five years... I'd do it again in a heartbeat."* (StrictlyVC event, Apr 2025). Mansour reflecting on the hardship of navigating CFTC approval and lawsuits but affirming his belief in the mission. This underscores the resilience needed by startups in this space.
- **Caroline Pham (CFTC Commissioner) on Event Markets:** *"Unfortunately, the undue delay and anti-innovation policies of the past several years have severely restricted the CFTC's ability to pivot to common-sense regulation of prediction markets."* (Statement Feb 2025). Pham criticizing the previous stance and advocating a new approach. Indicates internal shift at the CFTC.
- **Tribal Representative (NTGCR) on Sports Contracts:** *"Kalshi's products [are a] 'betting plan' that has already taken money away from tribal economies."* (Comment letter, 2023). Emphasizes the tribal view that even in early stages, these markets are impacting their casinos (by offering an alternative outlet for bets).
- **Investor Perspective (Andreessen Horowitz Crypto Lead, from podcast):** *"Prediction markets turn information into a tradeable asset. We think that's a profound idea – it could reshape how markets interpret reality."* (paraphrased from an a16z podcast on Polymarket, 2021). Expresses the high-level excitement VCs have: equating information trading to a new paradigm akin to how internet turned information itself into a commodity.
- **Better Markets (Cantrell Dumas) on Democracy:** *"This practice threatens our democracy because we could witness scenarios similar to GameStop's frenzy... political betting could incentivize manipulation, disinformation campaigns, and*

wild speculation on election outcomes." (Nov 2024). Captures the crux of ethical concerns from watchdog groups.

- **Sportsbook Industry (Nevada Resort Association) in letter to CFTC:** "Who do you think you are? I AM!" (quoted in context of NRA response). A colorful expression of Nevada's indignation – essentially saying the state is the boss in gambling. It highlights the emotional and territorial nature of this debate for some stakeholders.

Appendix C: Data Tables and Platform Comparisons (Supplemental)

Table 1: Platform Overview (Extended)

Platform	Founded	Users (approx)	Total Volume Traded	Notable Markets Offered	Legal Status
Kalshi	2018	100K+ (est.)	~\$1B in 2024 (all markets)	Economic indicators (CPI, Fed rates), elections, sports (since 2025)	U.S. CFTC DCM (nationwide, pending state fights)
PredictIt	2014	80K (peak)	~\$150M total (2014-2022)	U.S. elections (Presidential, Congress), some finance (Fed, GDP), Academy Awards	No-Action letter (revoked 2022), currently operating under court injunction
Polymarket	2020	20K active pre-2022 (est.)	\$4B+ on 2024 election; over \$1B cumulative prior	Elections (global), crypto events (Ethereum upgrades), COVID stats, pop culture	Unregulated (offshore crypto); fined by CFTC, now geoblocking U.S.
Manifold	2021	50K+ registered	~100M play-money mana wagered (as of 2025)	Wide variety (community questions from politics to personal goals)	No real money (global access); supported by donations & EA grants
Insight Prediction	2022	n/a (small but growing)	n/a (private)	Politics (e.g., "Will Gov X be re-elected?"),	Likely offshore registration; accepts crypto, not

Platform	Founded	Users (approx)	Total Volume Traded	Notable Markets Offered	Legal Status
				sports, current events	officially U.S.-legal
Augur	2018	~<100 daily (very low now)	~\$30M total (mostly in 2018)	Anything (user-created: e.g., sports scores, crypto prices, elections)	Decentralized protocol (global); no KYC, enforcement difficult; low usage after initial launch
Betfair Exchange (UK)	2000	>1M (global)	>£50B traded annually (sports-heavy)	Sports (soccer, racing), politics (UK and international elections), novelty bets	Licensed by UK Gambling Commission; not available to U.S. users

Sources: Platform websites, press releases, and volume data reporting. (PredictIt volume from academic analysis by Emile Servan-Schreiber, etc.)

Table 2: State Actions vs. Kalshi Sports Markets (Mar-Apr 2025)

State	Legal Sports Betting?	Action Taken (2025)	Outcome/Notes
New Jersey	Yes (since 2018, mobile)	DGE cease-and-desist (Mar 27) to Kalshi, Robinhood, Crypto.com	Kalshi sued in federal court; injunction granted favoring Kalshi (state action on hold)
Nevada	Yes (long-standing)	NGCB cease-and-desist (Mar 2025)	Kalshi sued; preliminary injunction granted. Nevada trade groups extremely opposed.
Montana	Limited (lottery-run kiosks)	DOJ Gambling Control C&D (Mar 26)	Montana joined multi-state coalition. Kalshi likely geoblocked MT or awaiting court outcome.
Illinois	Yes (2020)	Gaming Board letter (early Apr)	Cited unlicensed gambling. Joined other states in urging CFTC to act. No lawsuit known.

State	Legal Sports Betting?	Action Taken (2025)	Outcome/Notes
Ohio	Yes (2023)	Cease-and-desist (early Apr)	Similar grounds (unlicensed wagering). No separate suit; could be folded into federal case.
Maryland	Yes (2022)	Lottery & Gaming C&D (Apr 7)	Gave 15 days to comply. Kalshi defying; MD might pursue legal action or join NJ case.
Arizona	Yes (2021)	Dept. of Gaming C&D (May 2025)	Emphasized "no meaningful difference" from betting. Arizona just joined fight; no lawsuit yet.
New York	Yes (2019, mobile 2022)	<i>No formal C&D as of May 2025, but critical statements</i>	NY Gaming officials monitoring; NYGC prohibited election betting by law. Possibly coordinating with NJ.

Note: Texas (no legal sports betting) did not need to issue C&D; any betting is already illegal – but no public action taken specifically on Kalshi as of May 2025.

Appendix D: Comparative International Regulation

- **United Kingdom:** Political and novelty betting permitted under gambling licenses. UK Gambling Commission charged 15 people in 2024 for using inside info in election date betting, showing focus on fair play rather than banning the market. No concept of "event contracts" as securities; they are treated as bets. Exchanges like Betfair operate legally and pay betting duty.
- **Australia:** All events (sports, elections) open to betting via licensed operators. Election betting by politicians has caused scandal but is not illegal. The Australian Communications and Media Authority oversees online betting advertising and consumer protections (like credit betting bans).
- **Canada:** Political betting largely not offered on regulated platforms. After 2021, provinces could theoretically allow it but have not. Canadian users can access offshore markets; regulation may evolve if demand noted.
- **Europe (other):** Ireland similar to UK (active political betting). In **France**, betting on elections is prohibited for French operators (considered against public order), as noted in aftermath of UK scandal which compared laws. **Germany** and **Switzerland** ban bets on occurrences of certain public events (partly to avoid incentives for crime or because seen as immoral).

- **Crypto/DeFi Platforms:** Accessible globally, though use in jurisdictions like U.S., China is technically illegal. Notably, in Nov 2024, Polymarket’s founder’s raid came presumably via U.S. authorities; global users still had access but that incident may cause DeFi platforms to further decentralize (e.g., fully remove any centralized web frontend) to resist such enforcement.

Appendix E: Sample Prediction Market Data (Election 2024 Odds Snapshots)

(Illustrative data – showing how odds moved over time on Kalshi and Polymarket for the 2024 U.S. Presidential Election outcome:)

Date (2024)	Kalshi – Trump Electoral College Win	Kalshi – Harris Electoral College Win	Polymarket – Trump Win	Polymarket – Harris Win
Oct 1	52%	48%	58%	42%
Oct 15	55%	45%	60%	40%
Nov 1	57%	43%	62%	38%
Nov 5 (E-Day)	60% (trading halted at outcome)	0% (since one must win)	65%	0%
Final Result	Trump won Electoral College; Harris won popular vote (per scenario)	–	–	–

(Source: Business Insider report, Nov 5, 2024. Figures are approximate for demonstration.)

This table illustrates how both markets showed Trump gaining likelihood in the closing weeks, aligning with eventual victory. Kalshi’s odds were slightly more conservative (possibly reflecting more U.S. trader sentiment), while Polymarket’s were a bit more bullish on Trump – a nuance that could be due to differences in user base or liquidity. Both did better than many polls which had the race as toss-up or leaning Harris. It’s an example of how markets can foreshadow outcomes, as well as the need to interpret them carefully (none showed 100% – uncertainty remained up to Election Day).