Prediction Markets Face New Compliance Era as Federal Oversight Intensifies

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Over the last several years, prediction markets (venues where traders buy and sell binary contracts tied to real-world events) have moved from the margins of academia into a federally supervised market structure. Depending on where your interests lie, you may have noticed these prediction markets come even more into the mainstream—whether you are predicting sports outcomes, Golden Globes winners, or how geopolitical events unfold. Supporters view prediction markets as democratized polling that may broadly and accurately demonstrate public sentiment. Yet detractors view prediction markets as crowdsourced gambling subject to potential manipulation and requiring greater oversight.

Overseas, prediction markets have flourished in the absence of meaningful regulation. In the United States, the Commodity Futures Trading Commission (CFTC) has increasingly been recognized as the primary regulator for these "event contracts." Operators that treat themselves as exchanges subject to core CFTC principles have worked to build a credible compliance posture. At the same time, crypto-native and offshore platforms have attracted attention for liquidity and speed but also drawn scrutiny over insider-sensitive markets. This has given rise to a new legislative push to bar trading by public officials in possession of material nonpublic information. Against this backdrop, founders and investors exploring prediction markets desire an integrated compliance architecture to allow them to bring offshore operations to the U.S. and build here without fear of arbitrary enforcement. An optimal regulatory framework would address registration, market integrity, material nonpublic information (MNPI) controls, know your customer (KYC) and anti-money laundering (AML) safeguards, and a state preemption strategy.

What Are Prediction Markets?

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Prediction markets list yes/no contracts that settle at $1 if the specified event occurs and at $0 if it does not; prices between $0.01 and $0.99 reflect the crowd's implied probability of the outcome and update continuously with order-book dynamics. Such markets are not to be confused with typical sportsbooks. Prediction market platforms match buyers and sellers rather than acting as the house.

The CFTC opened a durable pathway for U.S. prediction markets when it approved Kalshi as a designated contract market (DCM) in November of 2020, effectively placing event contracts inside the federal derivatives perimeter and subjecting them to the same core principles that apply to futures exchanges (i.e., market integrity, surveillance, financial safeguards, participant protections). That approval reframed prediction markets from "wagering" toward regulated commodities derivatives, enabling exchange-grade compliance to become the default for operators seeking U.S. legitimacy.

Recent Attention from Regulators and Innovators

In early 2026, the CFTC launched an Innovation Advisory Committee (replacing the Technology Advisory Committee) and explicitly invited executives from both regulated and crypto-native platforms, including Kalshi and Polymarket, to advise on AI, blockchain, and modern market structure. The composition of that committee underscores how prediction markets are now part of a broader discussion about fit-for-purpose rules across digital assets and event contracts, while also reflecting a procedural path for market participants to shape future rulemaking.

Still, challenges remain. In January 2026, Rep. Ritchie Torres of New York announced the Public Integrity in Financial Prediction Markets Act, designed to prohibit federal elected officials, political appointees, and executive-branch employees (and, in some versions, certain staff) from trading contracts tied to government policy, official actions, or political outcomes when they possess material information not available to the public or could reasonably obtain it through their roles. Rep. Torres announced this bill following reporting on a high-profile Polymarket trade that profited

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on the capture of Venezuela's Nicolás Maduro, reigniting concerns that event markets could be exploited by individuals with privileged access to government operations. At this time, the bill is at an early stage and has not yet progressed through committee.

Tarek Mansour, Kalshi's CEO, has publicly backed the proposal and frequently emphasizes that Kalshi currently enforces MNPI bans modeled on NYSE/Nasdaq policies, including surveillance for manipulation and insider misuse. This stance aims to draw a bright line between CFTC-regulated exchanges and offshore or unregistered venues, reinforcing the theme that U.S. prediction markets are converging on traditional financial-market compliance rather than tolerating gray-area behavior. Polymarket, by contrast, has not made a formal endorsement of the bill but has focused on distribution partnerships that elevate prediction data in mainstream media—moves that can drive adoption but raise parallel questions about governance, resolution, and insider risks in politically sensitive categories.

Considerations for Prediction Market Operators

Moving forward, prediction markets that operate within the jurisdiction of the U.S. should consider implementing policies and procedures that align with other federally regulated exchanges. For instance, operators can maintain a detailed rulebook for market listings and resolution sources; institute a surveillance program that can detect wash trading, cornering, spoofing, timing anomalies, and coordinated social-signal manipulation; and implement a formal MNPI regime with attestations, restricted lists, and escalations when red flags appear. A credible compliance posture also means having robust KYC/AML controls (including sanctions screening and risk-scored monitoring), segregation of customer funds, daily reconciliations, and capital adequacy. Operators, moreover, can prevent heartburn caused by state-level friction by documenting federal registration, event-contract characteristics, and preemption arguments, being mindful that some states continue to test the boundaries of their gambling statutes against CFTC-regulated venues.

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As an initial step, if not undertaken already, operators of prediction markets should consider having a formal MNPI policy that narrows permissible trading by government insiders and potentially influences how private-sector insiders with event-specific information (e.g., corporate actions, ratings decisions) must abstain or disclose. Building policy scaffolding now, adopting protocols that tag government-affiliated accounts, instituting elevated review protocols, and prohibiting trading in covered markets with acute MNPI risks will pay dividends if legislation advances.

Operators should continue to plan to navigate the competing dynamics between ever-evolving federal and state law. Even with federal registration, operators may face state challenges framed as consumer protection or gaming concerns. A durable preemption strategy, paired with transparent communications and media-data governance (to avoid inadvertent conflicts or MNPI dissemination through editorial channels), will be essential to scale without regulatory surprises.

Prediction market operators who embrace surveillance protocols, MNPI regimes, KYC/AML rules, auditable tokenization, and sophisticated resolution standards will be in a better position to create a competitive moat as the sector institutionalizes. In the near term, the proposed insider-trading legislation is likely to set clearer lines for government actors and intensify expectations that event-contract venues operate with traditional market-integrity controls.

All signs indicate that predictions markets are quickly gaining mainstream traction. Rather than build the bike while riding it, operators should take proactive measures now to align with regulatory expectations as government oversight ramps up. If you have questions or need help building a compliance architecture that will withstand scrutiny, please contact the authors or any attorney with the firm's Data, Digital Assets & Technology team.

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