

Alert | Futures & Derivatives



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CFTC Regulatory Developments on Prediction Markets and Event Contracts

Go-To Guide:

- CFTC is actively **seeking public comment** on the regulation of prediction markets and event contracts, with a focus on core principles, public interest, and potential manipulation risks.
- Prediction markets have grown substantially in popularity and in the process have garnered attention due to insider trading and public policy concerns.
- CFTC retains authority to prohibit event contracts deemed contrary to the public interest, including those involving unlawful activity, terrorism, assassination, war, gaming, or similar activities.
- Recent developments from the CFTC provide some clarity and guidance regarding the framework in which prediction markets operate and regulation of the event contracts they offer.

Summary of Recent Regulatory Developments

Prediction markets are electronic trading platforms where participants buy and sell interests in the outcome of certain future events, including elections, sports, or economic indicators. Prices in prediction markets are considered to represent the aggregate probability of an event occurring, based on buying and selling activity of the participants. Events available for trading on prediction markets are known as event contracts and are typically offered with binary “yes” or “no” outcomes. Examples could include whether

inflation will exceed a certain level by a certain date, or whether a particular candidate will win a certain election.

Certain event contracts may fall under the definitions of “commodity” or “swap” under the Commodity Exchange Act, as amended (CEA) and its rules and regulations. These event contracts are subject to the jurisdiction and oversight of the Commodity Futures Trading Commission (CFTC). The CFTC first designated a prediction market as being subject to CFTC regulation in 2004. These markets received modest attention prior to the November 2024 presidential election, when event contracts were more limited. Following the election, prediction markets have experienced explosive growth in volume and investor interest.

CFTC classifies prediction markets as “designated contract markets” (DCMs). DCMs are required, among other things, to comply with certain “core principles” set forth in the CEA and in particular the following:

- Core Principle 3 – a DCM may only list trading contracts that are not readily susceptible to manipulation
- Core Principle 4 – a DCM is responsible for preventing market manipulation, price distortions, and disruptions in the settlement of contracts
- Core Principle 12 – DCMs must establish and enforce rules to protect markets and participants from abusive practices, and promote fair and equitable trading.

DCMs may list event contracts either by self-certifying that these contracts comply with core principles, or by submitting a certification request to the CFTC. In either case, the DCM provides CFTC staff with detailed analysis regarding compliance, settlement methodology, and resistance to manipulation.

CFTC has recently taken the following regulatory actions with respect to prediction markets:

1. Withdrawal of Proposed Rules - Event Contracts (Feb. 6, 2026)

The CFTC formally withdrew its June 2024 proposed rules concerning event contracts, particularly those involving “gaming.” The withdrawal was in part a consequence of ongoing state regulatory actions and litigation regarding CFTC jurisdiction over event contracts and application of the swap and commodity definitions under the CEA. The withdrawal may reflect CFTC’s possible willingness to permit an expanded range of event contracts on prediction markets.

2. Advance Notice of Proposed Rulemaking – Prediction Markets (March 11, 2026)

CFTC issued an Advance Notice of Proposed Rulemaking (Notice) seeking public comment on the regulation of event contract derivatives traded on prediction markets. The Notice requests comment and input addressing, among other things:

- Application of statutory core principles and CFTC regulations to prediction markets
- Types of event contracts that may be prohibited as contrary to the public interest
- Economic cost-benefit considerations.

The Notice indicates that CFTC is particularly focused on the rapid growth and diversity of event contracts, including those based on financial indices, economic indicators, weather, and political or

sporting events. CFTC is currently reviewing several pending applications for DCM registration, and CFTC staff has received multiple inquiries from entities considering applying for registration.

3. CFTC Staff Advisory 26-08 - DCMs and Event Contracts (March 12, 2026)

The CFTC's Division of Market Oversight issued a prediction market advisory outlining regulatory requirements for DCMs listing event contracts, with special attention to sports-related contracts.

Key points include:

- DCMs must comply with statutory core principles, including Core Principles 3, 4, and 12
- Real-time monitoring and robust surveillance are required
- Event contracts, especially those settled on outcomes controlled by individuals or small groups (e.g., sports officiating), may pose heightened manipulation risks
- DCMs are encouraged to engage proactively with CFTC staff and relevant sports leagues or governing bodies to ensure settlement integrity and compliance safeguards against manipulation.

As part of the withdrawal of proposed rules on Feb. 6, CFTC noted that it may develop future regulatory guidance through new proposed rules. The Advisory and Notice issued on March 11 and March 12, respectively, signal the first steps toward developing and potentially adopting new rules to regulate prediction markets.

CFTC's concerns are not just relegated to prediction markets themselves, but also to the conduct of participants trading on prediction markets. In this regard, CFTC's Division of Enforcement issued an advisory on Feb. 25, 2026, regarding two internal DCM enforcement cases involving misuse of nonpublic information and fraud by participants on certain prediction markets. This advisory confirmed that where appropriate, CFTC will continue to investigate and prosecute violations of the CEA by participants in prediction markets. The Enforcement Division noted that it will continue to coordinate with prediction markets regarding referral of appropriate potential violations of the CEA to the CFTC for investigation.

Both prediction markets and participants in these markets must be mindful of CFTC concerns. As attention grows over insider trading and public policy concerns with certain events contracts, CFTC may take an even more proactive stance.

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