



Prediction Markets

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Prediction markets are financial contracts tied to the outcomes of future events, including elections, economic developments, and sporting competitions. Contract prices reflect the market's estimated probability that an event will occur. Although prediction markets date to 1988, their recent expansion into sports has created substantial regulatory controversy.

The central legal question is whether prediction markets constitute gambling or financial services. Companies such as Kalshi, Polymarket, Robinhood, and Crypto.com argue that their products fall under federal regulation by the Commodity Futures Trading Commission (CFTC). States contend that sports-related

contracts resemble conventional sports betting and should be subject to state gambling laws.

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The dispute involves numerous stakeholders, including financial institutions, gaming companies, professional sports leagues, college athletics, federal regulators,

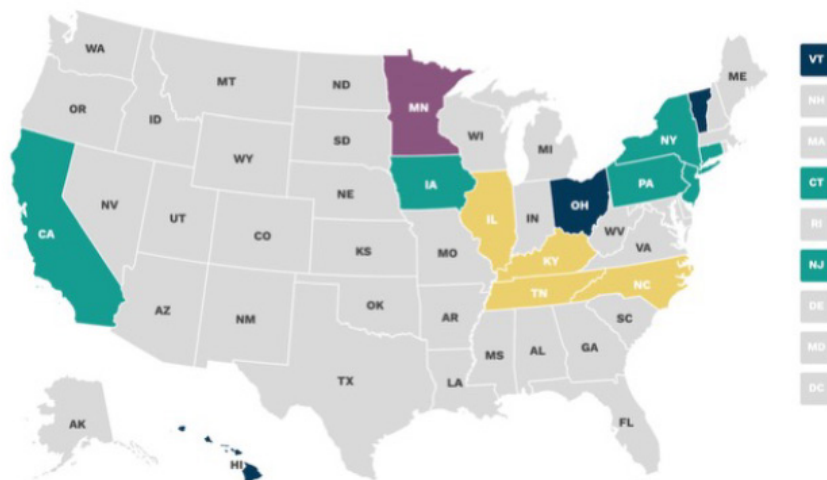
and state governments. Traditional financial exchanges are particularly concerned that restrictions on sports prediction markets could inadvertently affect legitimate financial contracts involving economic indicators, commodities, and weather.

Federal courts have issued conflicting decisions about regulatory authority; one federal appellate court favored federal jurisdiction, while two others supported state authority. The disagreement could ultimately require resolution by the U.S. Supreme Court.

States have adopted different legislative approaches. Approximately 20 states have pursued legal action against prediction market operators, while 15 introduced legislation in 2026. Some have attempted outright prohibitions, while others have considered taxation, consumer protections, or further study.

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Which States Considered Prediction Market Legislation in 2026



Source: MultiState. Data as of September 15, 2026.

North Carolina offers an alternative approach, allowing federal regulation to continue while imposing a 6% state tax on certain prediction market activities. Connecticut has pursued a study process to evaluate regulatory options before adopting comprehensive legislation.

Mr. Yates emphasized the importance of distinguishing sports-related contracts from traditional financial derivatives. Broadly written legislation could unintentionally disrupt established financial markets while attempting to regulate products that resemble sports gambling.

Sports prediction markets raise particular concerns about competition integrity. Contracts involving individual athletes' performance may create opportunities for manipulation, match-fixing, and improper use of confidential information. These risks can be greater when contracts concern specific actions rather than the overall outcome of a game.

Consumer protection is another major policy concern. Potential safeguards include minimum age requirements, deposit limits, restrictions on insider trading, and measures to prevent exploitation of vulnerable participants. Such protections might be adopted without completely prohibiting prediction markets.

Mr. Yates recommended that lawmakers clearly identify the specific problems they intend to address before developing legislation. States should consider whether their primary objectives involve taxation, consumer safety, sports integrity, or establishing regulatory authority.

Conclusion

Prediction markets occupy an increasingly contested intersection of financial regulation, sports gambling, and state authority. Mr. Yates advocates a measured regu-

latory approach that distinguishes legitimate financial products from sports-related speculation, protects consumers, and preserves market integrity.

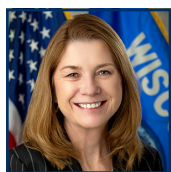
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Until federal and state jurisdiction is clarified, policymakers should prioritize carefully defined legislation and practical consumer safeguards rather than sweeping restrictions that could produce unintended economic consequences.

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DISCUSSION



Senator Mary Felzkowski (President of the Senate, Wisconsin): Are there any federal regulators, such as the Commodity Futures Trading Commission (CFTC), that perform any of the safety and age-gating or consumer protections around these markets?

Mr. Yates: No. Event-contract platforms have been able to operate under existing financial-services regulations, with participation generally available to individuals aged



18 and older. Congress is now examining concerns about insider trading and the use of confidential information as these markets expand.

The primary user demographic appears to be adults aged 25–35. However, event contracts may attract younger users because the minimum age is sometimes 18, compared with 21 for sports betting in some states. Aligning age restrictions across these markets may help address this regulatory gap.

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Senator Amy Sinclair (President of the Senate, Iowa): Do you see a potential for federal or state regulations governing event contracts affecting agricultural commodity futures markets?

For an agricultural state, overlapping regulations could create complications for farmers who rely on futures contracts to hedge against price fluctuations and manage the risk of future crop sales.

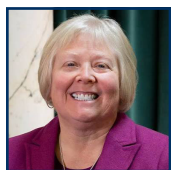
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– Sen. Amy Sinclair, Iowa

Mr. Yates: Legislation must clearly distinguish sports betting from prediction markets to avoid unintended regulatory consequences. Broad definitions of prediction markets or event contracts could create complications for farmers, the energy sector, and other industries that use these markets to hedge business risks.

Many states have adopted generic definitions that may capture a wide range of activities. To develop appropriate regulations, lawmakers should consult not only prediction-market companies and industry associations, but also farmers, educational institutions, and others who use these markets for legitimate business or educational purposes. Clear definitions and broad stakeholder input are essential to avoid unnecessary regulatory burdens.



Senator Valarie Lawson (President of the Senate, Rhode Island): I'm concerned about how much prediction markets have grown, how they are likely to evolve, and how states should respond. My central concern is that

these markets may be diverting activity—and potential tax revenue—from state-regulated sports betting. What should we know in order to develop an appropriate regulatory and revenue strategy?

Mr. Yates: Billions of dollars are being traded through prediction markets. Some companies avoid operating in states where sports betting is legal, so legalizing sports betting may help redirect activity into regulated markets. However, states must consider how to capture tax revenue without imposing rates so high that platforms withdraw or drive consumers toward illegal markets.

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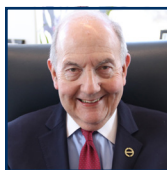
Before legislating, states should clarify their goals: Raising revenue, protecting consumers, or understanding how prediction markets operate. Unlike traditional sportsbooks, prediction markets often facilitate peer-to-peer contracts, with participants taking opposing positions rather than betting against the house. Excessive taxation of these platforms could undermine their viability, making it important to understand their business model before establishing regulations.



Senator Bill Ferguson (President of the Senate, Maryland): Can you speak to iGaming and the intersection between iGaming and prediction markets?

Mr. Yates: The growth of prediction markets parallels the modernization of gaming through technology, including online gaming (iGaming) and digital lotteries (iLottery). Although prediction markets have existed since 1988, greater accessibility, technological advances, and growing public acceptance of sports betting have expanded their appeal. However, prediction markets remain distinct products with different uses.

One potential development is the introduction of near-instantaneous contracts, similar to betting on the next pitch in a baseball game or even individual slot-machine outcomes. Currently, prediction markets generally focus on events further in the future. Moving toward instant outcomes could significantly change the market and the platforms' business models.

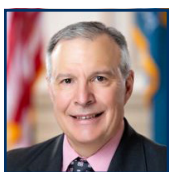


Senator Martin Looney (Senate President Pro Tempore, Connecticut): Connecticut faced a unique situation because existing agreements with Native American tribes governing casino

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operations required the state to negotiate with them before legalizing additional forms of gambling. Those negotiations were completed when the state legalized sports betting.

Public support for legalizing sports betting in Connecticut reflected its perceived inevitability and the desire to keep revenue within the state. Many residents viewed it as preferable to allow people to wager legally and tax the activity rather than lose that revenue to neighboring states.



Senator David Sokola (Senate President Pro Tempore, Delaware): I want to push back a little on the idea that there's no "house" making a profit in prediction markets. If the University of Delaware plays Connecticut in

football, and Senator Looney and I make a private wager on who wins the coin toss, there's no house involved. But if we place that same wager through Kalshi or another prediction market platform, the company is making money – it is "the house." How transparent are those fees? Where does that revenue come from, and how does that affect the distinction between gambling and prediction markets?

Mr. Yates: Prediction market platforms generate revenue primarily through brokerage and transaction fees, much like traditional financial services platforms. Some operate as direct exchanges, while others use companies such as Kalshi to provide back-end services. Fees may be charged between the exchange, the hosting platform, and the customer.



Senator Ronald Kouchi (President of the Senate, Hawaii): Although Kalshi operates as a peer-to-peer prediction market, it charges disclosed transaction fees, similar to fees on financial trades. However, participants do not know who

holds the opposing contracts or whether those individuals can influence the outcome. This lack of transparency raises concerns about potential conflicts of interest and market manipulation, particularly when participants have inside knowledge or control over the events being predicted.

Mr. Yates: Another concern is the potential involvement of major financial institutions, including banks, that may be investing substantial amounts in particular event contracts. Individual customers may not know

who is on the other side of their wagers. This raises important regulatory questions about transparency and the identities of market participants. While brokerage and transaction fees should be disclosed to customers, the involvement of large institutions and the sources of money flowing into these markets are not necessarily transparent.

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Senator Garlan Gudger (Senate President Pro Tempore, Alabama):

Alabama is in a different position because we don't even have a state lottery. We anticipate a new governor who may support comprehensive

gambling legislation, and we want to give voters the opportunity to decide. Now prediction markets have introduced an entirely new dimension to gambling, attracting people who previously had no interest in betting. For example, my wife has no interest in sports betting, but she might wager on what Melania Trump will wear to an event. Prediction markets are drawing in entirely new groups of participants, and billions of dollars are already flowing through these platforms.

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Mr. Yates: There are some models such as North Carolina's prediction market legislation, which is considered one of the better models by the industry,

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although its definitions need greater clarity, particularly regarding which activities should be regulated. New York and New Jersey offer useful provisions addressing insider trading and consumer protections. However, no state has developed a comprehensive model.

About 15 states have introduced legislation, with six or seven passing measures addressing taxation, consumer protections, or restrictions on minors. This patchwork approach creates regulatory challenges, raising questions about federal versus state jurisdiction. Connecticut's ongoing study may help identify a more comprehensive approach.

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Senator Rob Wagner (President of the Senate, Oregon): Kalshi has hired lobbyists in our state and expressed a willingness to be regulated and taxed. However, we anticipate that tribal gaming interests may push for an

outright ban, potentially following Minnesota's approach.



Senator Bobby Joe Champion (President of the Senate, Minnesota): Our state has banned prediction markets outright. The legislation drew support and opposition from both parties, with concerns about gambling addiction

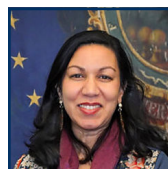
playing a significant role. The law is now the subject of litigation.

Initially, prediction market companies resisted state regulation, arguing that they were already regulated by the Commodity Futures Trading Commission (CFTC) and threatening litigation rather than engaging with state legislators. More recently, however, these companies have shifted their approach, expanding their state-level teams and becoming more willing to discuss regulation with lawmakers.

Mr. Yates: Prediction market companies are increasingly hiring state lobbyists and engaging with legislators. These discussions should include not only major platforms like

Polymarket and Kalshi, but also farmers, engineers, and small businesses that may use prediction markets to hedge financial risks.

Open dialogue can help states develop appropriate regulations and tax policies. Companies have shown a willingness to consider certain regulations, including taxes and contributions to problem gambling prevention and treatment funds.



Senator Kesha Ram Hinsdale (Senate Majority Leader, Vermont): Gambling addiction was a major factor in passing our state's sports betting legislation, which provided additional funding for prevention and treatment. We continue

to evaluate how effectively those funds are being used.

Prediction markets raise new concerns about gambling addiction, particularly when combined with smartphone dependency and social isolation. Unlike traditional gambling, these platforms allow people to wager from home on virtually anything, including the weather. Increased competition may also encourage companies to target younger audiences.

These concerns will make it difficult to persuade legislators to support prediction markets simply as a way to bring illegal gambling into a regulated system. States may need stronger consumer protections, such as prohibiting credit card payments, raising minimum age requirements, and establishing safeguards against gambling addiction before the problem becomes unmanageable.

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Mr. Yates: States need to work with prediction market companies and other stakeholders to address gambling addiction and establish appropriate safeguards. Sports betting offers several models, including requiring companies to contribute a fixed annual amount or a percentage of revenue to problem gambling prevention and treatment funds.