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Regulatory Comment: Prediction Markets

Introduction

Over the past couple of decades, prediction markets have grown from a niche financial instrument, and into a mainstream platform for information aggregation, gaining immense traction after the 2024 United States presidential election and catapulting companies in the space like Kalshi and Polymarket onto national headlines. Although these financial instruments have been around for quite some time, their increased popularity, especially with the rise of popular platforms like Kalshi and Polymarket, has attracted my attention to the scope in which these platforms are currently regulated and what changes can further be suggested. Additionally, the increased cases of manipulation and insider trading that has taken place on these prediction markets has raised concerns about the possible regulatory gaps and lack of proper agency enforcement to ensure that the broader public is not harmed by manipulative practices, especially in regard to event contracts. As a member of the public, I hope to provide any further insight, analysis, and further comment on possible solutions that the CFTC can implement to mitigate the risks that individuals or small groups may pose, especially if they have the capabilities to influence the outcomes of an event that a prediction contract is based on.

Background

Prediction markets are platforms where participants can both buy and sell contracts based upon whether specific events occur, which is reflected in the prices of these contracts as aggregate data of buyers and sellers belief in the outcome of an event happening or not. Contracts that trade on prediction markets fall primarily under two definitions, the first being

defined as a "swap" under the Commodity Exchange Act (CEA)[1], and the second being defined as contracts for the future delivery of a commodity (futures contracts) that are covered by the CEA.[2] These platforms allow users to both buy and sell contracts based upon the outcomes of future events, acting as what the CFTC's Advance Notice of Proposed Rule Making (ANPRM), has described as "information aggregation vehicles", where the price of a contract reflects the aggregate belief that participating users have with an event occurring or not. Over approximately the past two decades, event contracts on registered designated contract markets (DCM) have grown substantially, where from 2006-2020 there was an average of five listed event contracts per year, then in 2021 increasing to 131 event contracts, and in 2025 increasing to a total of 1,600 listed event contracts for trading.[3] As a result of this drastic increase in event contract trading and availability, the question on how to best regulate insider trading within these prediction markets becomes more and more urgent.

This comment specifically responds to Question 30 within Section II.E of the ANPRM, which addresses the risks of manipulation that arise within prediction markets and event contracts, when the outcomes are dependent on the actions of a single individual or small group. Currently, the primary existing framework that the CFTC uses to address manipulation in regard to the outcomes of event contracts rests on Core Principle 3, which requires DCMs to only list contracts that are not readily susceptible to manipulation. In addition to Core Principle 3, Core

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[1] A "Swap" is defined by the CEA section 1a(47), 7 U.S.C. 1a(47), to include ""any agreement, contract, or transaction . . . that provides for any purchase, sale, payment, or delivery (other than a dividend on an equity security) that is dependent on the occurrence, nonoccurrence, or the extent of the occurrence of an event or contingency associated with a potential financial, economic, or commercial consequence." Additionally under CEA section 1a(47)(A)(i) it defines a "swap", to include "any agreement, contract, or transaction . . . that is a put, call, cap, floor, collar, or similar option of any kind that is for the purchase or sale, or based on the value, of 1 or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind."

[2] Commodity Futures Trading Commission, "Comment Request: CFTC-2026-0331," *Regulations.gov*, accessed April 10, 2026, https://www.regulations.gov/document/CFTC-2026-0331-0001.

[3] Commodity Futures Trading Commission, "Designated Contract Market Products," accessed April 10, 2026, https://www.cftc.gov/IndustryOversight/IndustryFilings/TradingOrganizationProducts?Status=Certified&Category=Event.

Principle 4 further requires that DCMs shall have the capacity to and responsibility to prevent manipulation, price distortion, and disruptions of the delivery or cash settlement process through market surveillance, compliance, and enforcement practices and procedures.[4] Question 30 within Section II.E, poses "Some events underlying event contracts are under the control of a single individual or small group of individuals." Following this framing, Section II.E, primarily asks to consider the following questions: (1) "What role should this aspect of event contracts play in the Commission's consideration of how prediction markets should be regulated?", (2) "Do the considerations change depending on the type of event in question?", (3) "Are there particular challenges related to cross-market manipulation – for example, where an individual or small group of individuals seek to move the prediction market to influence another market, or vice versa?", and (4) "Are prediction markets more likely than other DCMs or SEFs (Swaps Execution Facilities) to be susceptible to manipulation? Why or why not?". Out of these four specific sub-questions, I aim to provide substantial analysis and commentary on sub-questions 1 and 2, which appear to be very relevant areas open for commentary on the decisions or actions made by individuals or groups that influence the outcomes of events, that event contracts and prediction markets may be contingent upon.

Analysis & Recommendations

Sub-question 1, which states, "What role should this aspect of event contracts play in the Commission's consideration of how prediction markets should be regulated?" must first be examined through the lens of how much unilateral control individuals or groups have on the outcomes of event contracts on prediction markets. The core regulatory problem that has come to light with the increased popularity of trading event contracts on prediction markets is that Core Principles 3 and 4, although they require DCMs to list contracts that are not readily susceptible

[4] CEA § 5(d)(3), 7 U.S.C. § 7(d)(3); CEA § 5(d)(4), 7 U.S.C. § 7(d)(4).

to manipulation and to maintain oversight on their own prediction markets, still only police the threats of insider trading and influence through DCMs rather than direct regulation of individual traders or small groups. This existing regulatory structure appears to be reactive, by the time that prediction markets identify and act upon suspicious activity that may be related to an individual or small group, the outcome of an event may have already been manipulated. If or when the outcome of an event contract is under the influence or control of a single individual or small group, the existing reactive structure that leaves DCMs in charge of enforcement becomes inadequate, mainly because information asymmetry allows for manipulation to exist and occur way before any DCM can detect it.

This very regulatory gap has already allowed a number of documented and suspected instances of manipulation that this framework was unable to prevent. In May of 2025, a California politician was found trading event contracts based on the outcomes of his own candidacy and the popular DCM Kalshi later identified and contacted him, where he later acknowledged that he violated rules prohibiting individuals to trade on events that they have direct influence over the outcomes of.[5] In early March of 2026, an employee of Beast Industries was fired after using suspected insider information to bet $4,000 on the outcomes of the video series called “Beast Games,” having near perfect accuracy, likely due to having access to the shows script.[6] Perhaps the most shocking example was seen in late 2025, when a pseudonymous user going by the name *AlphaRaccoon*, began placing bets on the extremely obscure event contract on Google’s Year in Search Trends on Polymarket, where he predicted 22 out of 23

[5] Commodity Futures Trading Commission, “CFTC Enforcement Division Issues Prediction Markets Advisory,” Press Release No. 9185-26, February 25, 2026, https://w\ww.cftc.gov/PressRoom/PressReleases/9185-26.
[6] Associated Press, “MrBeast’s Company Fired a Video Editor after Kalshi Accused the Employee of Insider Trading,” *AP News*, March 5, 2026, https://apnews.com/article/mrbeast-jimmy-donaldson-kalshi-7a8bb7e2aecee7428bcc2dd1eb08ac67.

search ranking correct, making over one million dollars.[7] Months earlier, the same user made over $150,000 by correctly predicting the release date for Google's Gemini 3.0.[8] What distinguishes all three of these cases from traditional insider trading is that these underlying events were all subject to the control or decisions of individuals or small groups. These instances show that an event's outcome, which an event contract may be based on, could have been determined far in advance before any DCM's approach of surveillance could have detected suspicious activity. This again shows the gap that exists within the regulation implemented through Core Principles 3 and 4, proving that oversight from DCMs alone are not completely effective in combating the influence that individuals or small groups may have on the outcomes of event contracts, which is a gap that the CFTC must further take into consideration.

Sub-question 2 asks if consideration changes based on the type of event in question. Considerations that regulators make regarding event contracts should depend on the amount of control or influence that an individual or small group has in the outcome of an event that a contract is being traded based on. However, due to how broad prediction markets are with listing event specific contracts, the degree of risk to a contract varies as well. As a result, contracts can be seen as high risk, medium risk, and low risk, and should be regulated and subject to scrutiny in different manners based upon their inherent risk of influence or manipulation from an individual or small group, rather than being all uniformly regulated in the same manner.

The first classification of events that should have the most consideration by regulators, are high influence events. Within this category individuals have near complete or total control of events and their outcomes. This category of high influence events requires the highest amount of consideration due to these specific event contracts being solely based on the actions of

[7] Boaz Sobrado, "Alleged Insider Nets $1 Million on Polymarket in 24 Hours," *Forbes*, December 4, 2025, https://www.forbes.com/sites/boazsobrado/2025/12/04/alleged-insider-nets-1-million-on-polymarket-in-24-hours/.
[8] Boaz Sobrado, "Alleged Insider Nets $1 Million on Polymarket."

individuals, like individual sport participants, officiator actions during sporting events, or even how many times a person mentions a specific word during a conference, meeting, or earnings announcement, also known as "mentions contracts."[9] The second category, known as partial influence events, are events that are partially controlled by individuals; they still require a high amount of consideration, though not to the same degree of high influence events. Examples of partial influence events that are listed on popular prediction markets that have been listed on prediction markets like Kalshi are, "US–Iran Nuclear Deal occurring before 2027 or before August", "When will the next attorney general be announced?", or "Who will Donald Trump talk to this month?".[10] With these specific examples of partial influence events, individuals or small groups (like the president or members of the government) may have a significant amount of influence in the outcome of these events, but not complete determination on the outcome of the event, due to other possible contesting parties or individuals that may not allow a complete or outright decision to be made by an individual or small group. The final event category that should be taken under consideration are low or no influence events. Events in this category are contracts that are contingent upon economic indicators, the weather, or broad market movements, where no single individual or small group can completely determine or significantly influence the outcome of the event. Examples of these events can be found in prediction markets under the climate and categories, which have been listed as "What will be the temperature today in NYC?", or "More tech layoffs in 2026 than 2025?"[11]. These events are dependent on factors that are beyond the control of individuals or small groups, such as the weather, as well as broader

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[9] Jack Murphy and William Fowkes, "CFTC Wants to Answer the Tough Questions on Prediction Markets," *Bloomberg Law*, April 3, 2026, https://news.bloomberglaw.com/legal-exchange-insights-and-commentary/ctfc-wants-to-answer-the-tough-questions-on-prediction-markets.

[10] Kalshi, "Politics Prediction Markets & Odds," accessed April 10, 2026, https://kalshi.com/category/politics.

[11] Kalshi, "All Economics Prediction Markets & Macro Odds," accessed April 10, 2026, https://kalshi.com/category/economics/all.

macro events, where no decision of one person or group of people can fully determine the outcomes of these events. Although there are very clear differences in the level of manipulations that an individual or small group may have across all three categories of event contracts that I have pointed out above, Core Principles 3 and 4 still continue to apply a uniform standard of regulation across all event contracts regardless of how much control an individual or small group may have in an events outcome. It is this uniform treatment, which applies the same amount of regulation upon events dictated by the weather as those that are dependent on the decisions or actions of a single individual, which allows the current regulatory framework of the CFTC to fall short in regard to properly regulating event contracts on prediction markets.

One of the most substantial recommendations that I have to offer in this comment is that the CFTC should increase its existing use of authority under CEA section 6(c)(1) and CFTC rule 180.1[12] to impose direct barring of trading for individuals or small groups that demonstrate capabilities of having direct control or influence over the outcomes of events, instead of relying on their current approach of relying solely on DCMs to enforce regulation, as seen in Core Principles 3 and 4. As touched on previously, the current regulatory framework that CFTC has delegated to DCMs to enforce insider trading and risk has been for the most part reactive to these problems. By the time that DCMs detect suspicious activity or insider trading, manipulation has often already occurred. This has been seen time and time again, and this gap has largely allowed instances like the Californian politician to trade on his own candidacy, the Beast industries employee who likely has access to the Beast Games script to place contracts and profit on the outcomes of the show, and the user *AlphaRaccoon*, thought to be an employee of Google, to correctly predict 22 out of the 23 Google search rankings, profiting over one million dollars. Within each of these cases, the DCMs that listed these event contracts all found out after damage

[12] CEA § 6(c)(1), 7 U.S.C. § 9(1); 17 C.F.R. § 180.1.

had been done. Current securities laws, like SEC Rule 10b5-1, which strictly prohibits corporate insiders from trading based on non-public information and which CFTC rule 180.1 was also largely based on, should likewise outright prohibit individuals who have direct control over events from trading on these markets, rather than just leaving enforcement oversight to DCM platforms. In implementing this prohibition or increasing the enforcement power of CFTC rule 180.1 to bar individuals or small groups of interest from trading, this would ultimately strengthen the CFTC's approach of reactive detection to overall preventing manipulation before it can take place.

Another recommendation that may be incredibly useful for the CFTC to implement to mitigate the risks of individuals or small groups controlling the outcomes of events that event contracts are based upon, would be the formalization of a tiered classification system for event contracts that calibrates the degree of regulatory requirements and regulatory focus to the degree of influence that an individual or small group may have on the outcome on a contract. Through implementing this framework, the contracts that may fall under the category of high influence or high risk, like mentions contracts, contracts on individual sport performance, and officiating outcomes in sports, should be subjected to the highest level of oversight and scrutiny, which includes the direct trading prohibitions that is discussed above, as well as these contracts being subject to much more intense and in-depth review by DCMs before they are listed. The second tier of oversight should pertain to the event contracts that are at the medium level of risk of manipulation by individuals or small groups, like the contract example of "When will Trump's attorney general pick be announced?"[13], should require increased disclosure obligations by individuals and groups that may have influence, as well as close associated persons of interest,

[13] Kalshi. "When Will Trump's Attorney General Pick Be Announced? Odds & Predictions," accessed April 10, 2026, https://kalshi.com/markets/kxagannounce/when-will-trumps-attorney-general-pick-be-announced/kxagannounce-26.

under the STOCK Act[14]. The final tier of classification and regulation should pertain to the low risk contract category, those that are contingent upon the weather or broader economic indicators that are out of one individual or group's control over the outcome. This tier should require no real further improvements of regulation or oversight due to the nature of these contracts being regulated sufficiently by the CFTC's Core Principles 3 and 4. Overall, the fundamental flaw in the CFTC's regulatory oversight is that the agency uniformly applies its regulatory enforcement standards the same way on low risk event categories as high risk event categories, although their levels of risk to manipulation are fundamentally different. By adopting this tiered classification system, the CFTC does not expand their regulatory footprint in unnecessary areas or sectors, but rather it overall increases the standard of credibility and assurance that the most at-risk sectors to individual or small group event manipulation are properly regulated.

Conclusion

Ultimately, the recent rapid increase of prediction markets and event contracts, has outpaced the existing regulatory framework that the CFTC has delegated to DCMs through Core Principles 3 and 4. The recent cases of the Californian politician, the Beast Industries employee, and *AlphaRaccoon*, all show that by the CFTC delegating DCMs to be largely in charge of oversight, it has allowed manipulation by individuals or small groups that control the outcomes of events that event contracts are based on, to occur again and again before enforcement actions were taken. In addressing this regulatory gap, this comment focused on two suggested reforms, first is that the CFTC should expand both the enforcement of CEA section 6(c)(1) and rule 180.1 to impose the prohibition of trading on individuals or small groups that may have direct control over an event's outcome. Second, the CFTC should implement a specific tier classification

[14] U.S. Congress, Senate, *Stop Trading on Congressional Knowledge (STOCK) Act of 2012*, S. 2038, 112th Cong. (2012), https://www.congress.gov/bill/112th-congress/senate-bill/2038.

system that focuses regulatory scrutiny to the degree that an individual has on the outcome of an event that a contract is traded off of. The formalization of this tiered risk structure will allow regulators and DCMs alike to ensure that the majority of regulatory oversight falls upon contracts and events where it is most needed.

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