

Prediction Markets

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What are Prediction Markets?

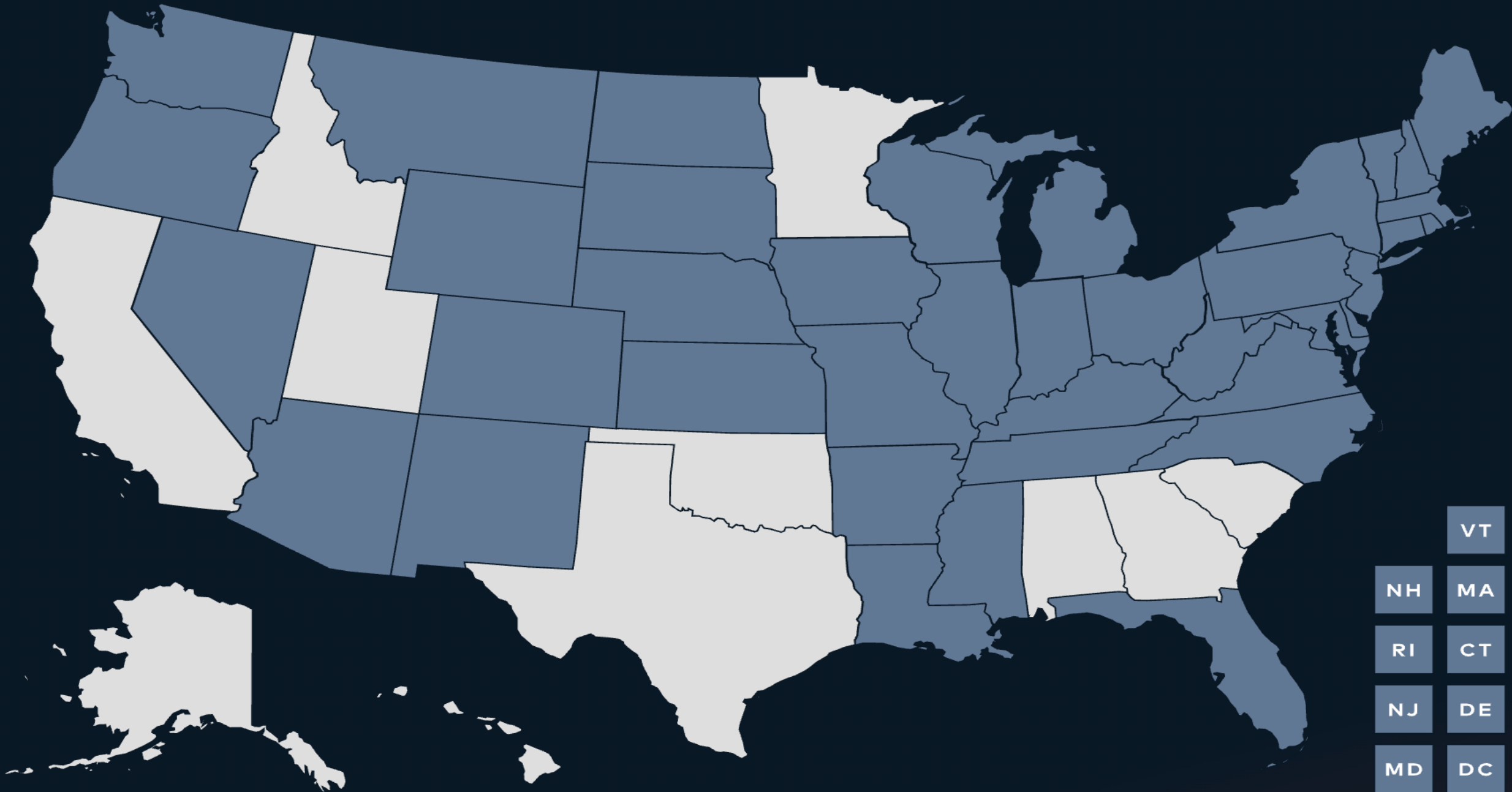
- Event contracts that tell us the probability of an event happening
- Cover political, financial, economic, sports, scientific, cultural and more
- \$1 contracts, pay you \$1 if you get it right, \$0 if wrong

How do PMs aggregate information?

Imagine that you are confident an event will happen with 70% probability (and will not happen with 30% probability). If you are offered a contract that pays \$1.00 if the event happens, how much would you pay for that contract?

Prediction markets tend to be good at aggregating information. For example, events that trade at \$0.70 happen about 70% of the time.

This resembles how odds predict the likelihood of outcomes in the traditional gambling environment.



2025 Sports Betting Revenue Top 10 States

STATE	2025 REVENUE
New York	\$1,299,989,701
Illinois	\$534,269,368
Ohio	\$208,886,970
Pennsylvania	\$206,028,211
Massachusetts	\$167,950,459
New Jersey	\$167,746,174
North Carolina	\$132,777,082
Maryland	\$120,951,789
Virginia	\$118,196,178
Tennessee	\$107,592,945

Differences between SportsBooks & PMs

	Sports Book	Prediction Market (assume preemption)
Subject to state gambling licensing and regulation (e.g., age limits)	Yes	No
Fees traders are subject to	Generally relatively high	Generally relatively low
Geographic constraint on liquidity	State	Global
Trader locked into position	Yes	No
Exclusion of sharps	Yes	No

Source of Liquidity

Informed traders tend to not trade against other informed traders.

- In traditional public securities markets, uninformed (i.e., price insensitive) traders are investors.
- In traditional derivatives markets, uninformed traders are hedgers.
- Who are the uninformed traders in prediction markets? Gamblers?

Too Big to Fail: Mainstreaming 101

- PMs: MLS, NHL, NBA TBA?
- CFTC: MOU with MLB and NHL
- Kalshi: CNN, CNBC, Blackhawks, FOX, Braves, SF Giants, SD Padres, LA Dodgers, Red Sox**
- Polymarket: MLB, Bloomberg, Dow Jones/WSJ, X, NYR, Golden Globes, UFC, NYY
- FanDuel with CME Group but moved sports to Crypto.com
- DraftKings still in the game
- RobinHood started Rothera with Susquehanna
- Novig: NYM

What may states still be able to do if they lose on core preemption?

- Tax prediction markets
- Regulate advertising
- Regulate payments (e.g., no credit cards)
- Regulate VPN access

Case for Federal/CFTC Regulation

- Ilya noted some differences
- Financial innovation/Uber
 - Resembling something is not the same as being that something!
- Better for consumers (with more consumer protection)
 - Adam Silver quote
 - Better to be federal than offshore/black market
- NC model to tax
- Novig users must be 21

Issues

- Federal preemption of CEA over state regs?
 - Are event contracts swaps? (9th Circuit says no)
- Special Rule for terrorism, assassination, war, gaming, or unlawful activities
- Is it a duck?
- Insider Trading/Market Manipulation
- Tribal sovereignty
- Self-certification

Current Prediction Markets Litigation

Federal Circuit	States/Territories Covered	Prediction Markets Pending Lawsuits in either Circuit or States/Other Activity
1st Circuit	ME, MA, NH, RI, PR	MA (State Court); MA (Statute of Anne); RI
2 nd Circuit	CT, NY, VT	CT (Fed Court); NY (SDNY); ; CFTC filed lawsuit against NY and also CT
3 rd Circuit	DE, NJ, PA, VI	NJ (Fed Court) ruled in favor of Kalshi
4 th Circuit	MD, NC, SC, VA, WV	MD (Fed Court); SC (Statute of Anne)
5 th Circuit	LA, MS, TX	
6 th Circuit	KY, MI, OH, TN	KY (Statute of Anne); MI (issued Warning); OH (Issued Warning); OH (Statute of Anne); TN (Fed Court)
7 th Circuit	IL, IN, WI	IL (Issued Warning); IL (Statute of Anne); WI (Tribal Lawsuit); ; CFTC filed lawsuit against IL and also WI
8 th Circuit	AR, IA, MN, MO, NE, ND, SD	AR (AG issued opinion)
9 th Circuit	AK, AZ, CA, HI, ID, MT, NV, OR, WA + territories	NV (Fed Court) ruled against Kalshi; AZ (issued Warning); CA (Tribal Lawsuit); Criminal charges in AZ; CFTC filed lawsuit against AZ
10 th Circuit	CO, KS, NM, OK, UT, WY	NM Tribes filed against Kalshi violating IGRA
11 th Circuit	AL, FL, GA	GA (Statute of Anne) removed to federal court
DC Circuit	D.C. (plus many federal agency appeals)	DC (Statute of Anne)
Federal Circuit	Specialized (Patents, Court of Federal Claims, etc.)	

What Happens Next?

- CFTC Proposed Rulemaking
- 12 or so bills in Congress
- Circuit split as of Friday (but not yet on merits and substance), still more than likely heading to SCOTUS

Thank You



If we have time...

<https://www.youtube.com/watch?v=-QMftwmyW-A>

<https://www.youtube.com/watch?v=mzXFURkcCt4>