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What Compliance Professionals Need to Know About the Prediction Market Legal Turf War

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Prediction markets allow users to trade event contracts on real-world events, such as election outcomes, sporting events and even the highest temperature in New York City today. Seemingly overnight, they have achieved mainstream prominence. Since 2025, Kalshi's user base alone has grown from approximately 600,000 to more than 5,000,000.

On the surface, to some, these trades resemble gambling. That's why the growth of prediction markets has been accompanied by a surge in litigation and regulatory scrutiny, making it a focus for compliance professionals as these markets introduce insider trading risks, expose policy gaps and pose monitoring challenges.

State regulators, prediction market platform operators and private plaintiffs have taken legal action to determine how these markets should be regulated. At the same time, the U.S. Commodity Futures Trading Commission has asserted its federal authority to regulate prediction markets, including by challenging states' attempts to regulate them. The result is an increasingly active debate over who can and should regulate these markets.

The question is straightforward: Are prediction markets financial instruments subject to federal regulation, or are they a form of gambling, subject to state regulation? The answer will shape the future of these platforms and how organizations protect themselves against the compliance risks they pose.

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