THOUGHT LEADERSHIP | CAPITAL MARKETS & DIGITAL ASSETS

Prediction Markets:

The Emergence of Event Contracts as a New Asset Class

Market structure, growth trajectory, regulatory landscape, and the road to institutionalization

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1. Executive summary

A regulated exchange that pays customers 3.75% interest on money committed to open positions. A fee formula that earns the most when the world is most uncertain. A $2,500-a-day debit card limit sitting beside a $500,000-a-day crypto deposit limit. A federal regulator suing five states to protect an industry it tried to ban three years ago. These are not the headlines about prediction markets. They are the mechanics underneath them, and they explain the sector far better than its volume charts do. The headline numbers are nonetheless extraordinary: combined monthly volume on Kalshi and Polymarket grew from under $2 billion in August 2025 to roughly $44.8 billion in June 2026, a more than twenty-fold rise in ten months, and 2025's full-year total of $63 billion will be eclipsed several times over in 2026.

Three forces drove the expansion. Regulation: a 2024 federal court ruling on election contracts, then a decisively permissive CFTC posture, opened sports, economic, geopolitical, and cultural contracts at national scale. Distribution: Robinhood, DraftKings, FanDuel, Coinbase, Crypto.com, Fanatics, and others embedded event contracts into apps used by tens of millions, while Google Finance and mainstream media began surfacing live odds. Institutional validation: ICE committed up to $2 billion to Polymarket, Kalshi closed a $22 billion Series F in May 2026 – an eleven-fold valuation jump in under a year – and Federal Reserve researchers found prediction market prices matched or beat established macro forecasting benchmarks.

The regulatory picture is the industry's defining open question. The CFTC has asserted exclusive federal jurisdiction over event contracts and is suing nine states to block enforcement, while more than a dozen state gaming regulators, several tribal nations, and multiple state courts contend that sports event contracts are wagering products subject to state police powers. A federal appellate split is forming – the Third Circuit ruled for federal preemption in April 2026 while the Ninth Circuit appeared inclined toward the states – and the question is now formally headed upward: New Jersey has petitioned the Supreme Court following its Third Circuit loss.

This paper maps the competitive landscape, quantifies the growth in volumes and platform economics, examines the regulatory battle in depth, and analyzes the role of artificial intelligence across the sector – from the autonomous agents already estimated to generate a meaningful share of trading flow, to machine-scale surveillance, to AI-assisted market resolution. It then goes beneath the consensus coverage: the float and fee mechanics that reveal where these platforms believe their durable profit pools sit, the payment-rail architecture (from Aeropay-style pay-by-bank to USDC-on-Polygon settlement) that actually segments this market, the defection dynamics inside distribution partnerships, and a concrete integration playbook – funding rails, connectivity architecture, and operating model – for institutions entering the space and for the platforms themselves. Sell-side and industry projections now contemplate a trillion dollars in annual traded volume by 2030 and roughly $10 billion in annual platform revenue. For banks, exchanges, brokers, market makers, and data providers, the strategic question has shifted from whether this asset class matters to how to participate in it – and what infrastructure, surveillance, and compliance capabilities that participation requires.

How to read this paper, by role

This paper is written for four desks at once. Each will find its center of gravity in different sections – and each has a question this paper answers that most sector coverage does not.

Role	Start here	The question this paper answers for you
Head of Business	§3 landscape · §8 non-consensus · §10 outlook	Where does durable profit actually sit (float, fees, data) – and how do we enter without renting our economics to a future competitor?
Head of Compliance	§6 regulation · §7.2/7.4 AI · §9.2 architecture	What does a defensible KYC/AML, geofencing, and surveillance stack look like when states flip monthly and agents trade autonomously?
Head of Technology	§5 market structure · §7 AI · §9 playbook	How do we integrate two opposite venue paradigms – FIX-style exchange APIs and wallet-signature protocols – behind one abstraction layer?
Head of Legal	§6 battlefield · §8 item 3 · timeline table	Where is preemption actually winning and losing, court by court – and which resolution path re-rates our exposure?

2.What Prediction Markets Are – and Why They Matter Now

2.1 Mechanics of an event contract

An event contract is a binary derivative tied to a verifiable future outcome: Will the Federal Reserve cut rates at its next meeting? Will a given team win the World Cup final? Will CPI print above a stated threshold? Each contract pays $1 if the outcome occurs and $0 if it does not, and trades continuously between those bounds. A contract trading at $0.70 implies that the market collectively assigns a 70% probability to the outcome. Participants trade against one another on a central limit order book – not against the house – with the venue earning transaction fees. This exchange-traded, peer-to-peer structure is the foundation of the industry's legal argument that its products are federally regulated derivatives rather than wagers.

The economic function is threefold. Contracts allow speculation on outcomes that cannot be traded directly; they allow hedging of event risk (an importer hedging a tariff decision, an energy trader hedging a geopolitical escalation, a corporate hedging an election outcome that affects policy); and they aggregate dispersed information into a single continuously updated probability, the property that has attracted the most institutional and academic attention

2.2 A short history

The concept is not new: the Iowa Electronic Markets out-forecast polls from 1988 onward, Intrade brought event trading to global retail in the 2000s before regulators closed it to US users, Augur proved decentralized settlement feasible without sustained liquidity, and PredictIt ran as a position-limited academic project under a no-action letter.

The modern era began when Kalshi, founded in 2018, secured CFTC designation as a contract market in late 2020 (the first federally regulated exchange purpose-built for event contracts) and listed its first products in 2021. Polymarket, founded in 2020, took the opposite route: a non-custodial, blockchain-based order book settling in USDC stablecoin on the Polygon network, operating offshore after a 2022 CFTC settlement ($1.4 million penalty for operating an unregistered facility) required it to exclude US users. The two firms' divergent regulatory strategies, federal registration versus offshore crypto rails, defined the industry's structure until their paths began to converge in 2025, when Polymarket acquired a CFTC-designated exchange to re-enter the US market.

2.3 The 2024–2026 inflection

The inflection point came in the fourth quarter of 2024. A federal court ruling permitted Kalshi to list contracts on US congressional control, and the platform relaunched election markets weeks before the presidential election. The election cycle gave prediction markets a mainstream proof-of-concept moment: market-implied probabilities were quoted nightly on national television, and monthly volumes reached billions of dollars for the first time. In January 2025, following a change in CFTC leadership and posture, Kalshi launched sports event contracts nationwide – the product category that now dominates industry volume. A March 2025 distribution partnership placed Kalshi's markets inside Robinhood's brokerage application, exposing event contracts to tens of millions of funded accounts. From there, growth compounded through the 2026 FIFA World Cup, hosted in North America, which drove the industry's largest volumes on record before concluding with the July 19 final.

3. The Competitive Landscape

The industry has consolidated around a two-platform core – Kalshi and Polymarket – surrounded by an expanding ring of brokerage, sportsbook, crypto-exchange, and startup entrants. Investor capital reflects this structure: the overwhelming majority of sector funding has concentrated in the two leaders, with investors effectively underwriting a duopoly while incumbents with large installed user bases build or buy their own exchange infrastructure.

3.1 Kalshi: the regulated exchange model

Kalshi operates as a CFTC-designated contract market headquartered in New York. Its strategic identity is deliberate: a federally regulated derivatives exchange for events, positioned by supporters as the 'CME of event contracts,' with dollar-denominated accounts, KYC onboarding, brokerage integrations, and an expanding institutional participant base. Kalshi's growth economics are striking. The platform traded roughly $22.9 billion in 2025, generating approximately $263.5 million in fee revenue, with sports contracts contributing nearly 90% of activity. By mid-2026 its annualized revenue run rate was reported between $1 billion and $1.5 billion. Its valuation trajectory tells the same story: roughly $2 billion in mid-2025, $5 billion after an August 2025 round, $11 billion after a $1 billion December 2025 raise led by Sequoia and CapitalG, and a $22 billion Series F closed on May 7, 2026 – led by Coatue with Sequoia, a16z, IVP, Paradigm, and Morgan Stanley participating. Kalshi recorded $31.5 billion in notional volume in June 2026 alone – its ninth-plus consecutive record month – driven heavily by World Cup activity. Its product cadence in July 2026 settled the question of its ambitions. Within a single week it launched Kalshi Pro, a professional trading terminal with perpetual-futures tooling; expanded into a commodities hub spanning energy, metals, and agriculture; and unveiled the first market-driven forward curve for GPU computing power, hiring a sixteen-year CME veteran as Chief Risk Officer to build it under the thesis that 'compute is the new oil.' Reports indicate the company is eyeing a public listing as soon as late 2026.

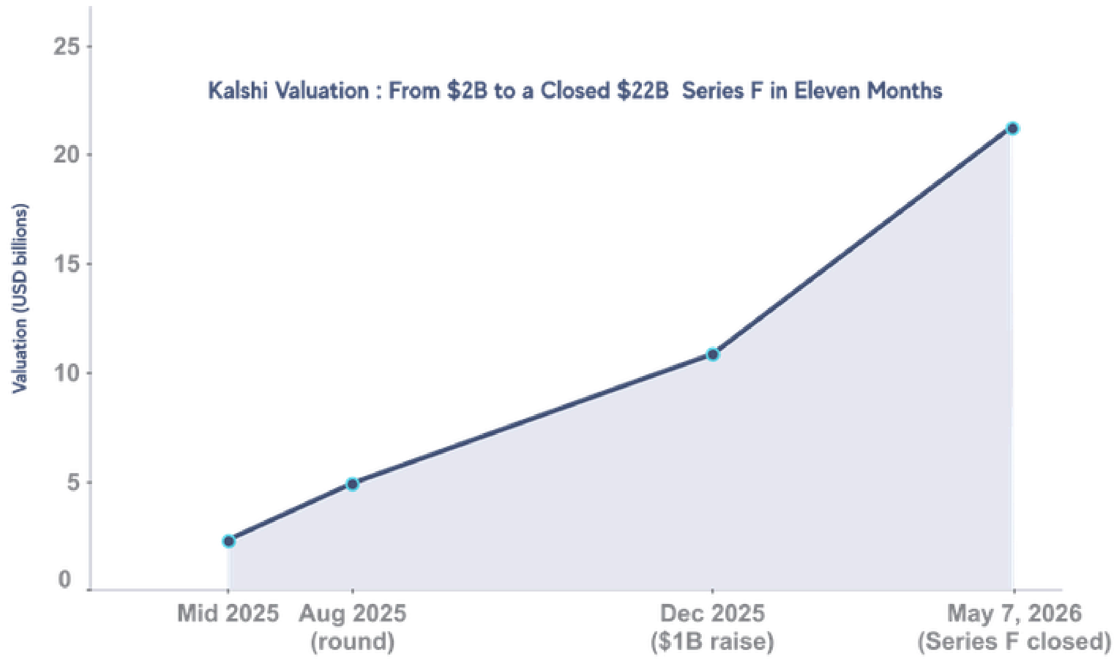

Figure 1: Kalshi's valuation trajectory to its closed May 2026 Series F. Sources: company announcements, WSJ/TechCrunch, and NPR reporting (see References).

3.2 Polymarket: the global liquidity network

Polymarket built the sector's deepest global liquidity pool on crypto infrastructure: USDC settlement on Polygon, worldwide order flow, and strength in politics, geopolitics, macro, and culture rather than US sports. It set a then-record $425 million single day on February 28, 2026 – a mark the World Cup knockout rounds put under pressure – and traded $10.26 billion internationally in June 2026. Its regulatory arc reversed in 2025: the QCEX acquisition delivered a CFTC-designated exchange and clearinghouse, a no-action letter reduced enforcement risk, and Polymarket US relaunched in November 2025 – reaching $3.04 billion monthly by June 2026. The decisive endorsement came from ICE, parent of the NYSE: up to $2 billion invested at an $8–9 billion valuation, with Polymarket's event-probability data distributed through ICE's institutional channels with roughly $600 million reportedly deployed by mid-2026; Polymarket is reported to be raising at approximately $15 billion (PitchBook tracks its current valuation near $10.7 billion). Polymarket also monetizes differently – at times capturing a disproportionate share of sector fee revenue on a fraction of the volume, reflecting larger average tickets from its global book.

3.3 The incumbent wave

The most important structural development of 2025–2026 is that distribution incumbents stopped renting access to prediction markets and started owning the infrastructure. Robinhood, whose event contracts hub launched in partnership with Kalshi and generated an estimated $300 million in annual revenue as its fastest-growing business line, acquired a 90% stake in MIAX Derivatives Exchange and built its own venue (Rothera, with Susquehanna) – and has begun routing its highest-volume contracts internally. DraftKings launched DraftKings Predictions as a CFTC-registered introducing broker across 38 states in December 2025 and acquired Railbird (reported at $250 million) to stand up its own exchange, DKeX. FanDuel's parent Flutter partnered with CME Group to power its initial launch and has since expanded market breadth through Crypto.com's regulated exchange. Coinbase acquired The Clearing Company and reached a reported $100 million annualized run rate within two months of launching event trading.

Fanatics – the sports merchandising, collectibles, and betting group – entered in December 2025 with Fanatics Markets, a deliberate study in regulated-market engineering. Rather than build an exchange, Fanatics acquired Paragon Global Markets to operate as a CFTC-registered introducing broker and NFA member, routing customer orders to Crypto.com Derivatives North America (CDNA), a CFTC-regulated exchange and clearinghouse. It launched in roughly two dozen states, extended its FanCash loyalty program into event contracts, secured US rights to official FIFA World Cup 2026 markets through a partnership with ADI Predictstreet, and added combo (parlay-style) contract bundles in April 2026 – with an FCM application in process to deepen its regulatory footprint (see Section 5.2).

The sportsbook entrants share a revealing go-to-market pattern: each initially launched prediction products primarily in states where it does not operate a licensed sportsbook – DraftKings restricting sports contracts to non-sportsbook states, FanDuel debuting in five such states, Fanatics launching in two dozen states outside its sportsbook footprint. This is jurisdictional hedging in product form: capturing customers in states without legal sports betting while avoiding open conflict with the state gaming regulators that license their core businesses. Meanwhile Crypto.com, Underdog (FCM-approved and live in 29 jurisdictions), PrizePicks, and startups including Predict.fun, Opinion, Limitless, Novig, and ProphetX round out the field, and Nasdaq and Cboe have publicly explored binary event products on traditional market outcomes. The pattern is clear: the fee share that once flowed to Kalshi and Polymarket is being internalized by platforms that control customer relationships.

Platform	Model & regulatory status	Scale indicators (2026)
Kalshi	CFTC-designated contract market (DCM); USD accounts; brokerage distribution	$31.5B volume in June 2026; ~$1–1.5B revenue run rate; reported $22B valuation (Mar 2026)
Polymarket (Intl.)	Offshore, blockchain-based (Polygon/USDC); global order flow	$10.26B volume in June 2026; $425M single-day record; ICE investment up to $2B
Polymarket US	CFTC-regulated via QCEX acquisition; relaunched Nov 2025	$3.04B volume in June 2026, scaling monthly
Robinhood	Event hub + own venue (Rothera, w/ Susquehanna); 90% of MIAX Derivatives	~$300M annual event-contract revenue; fastest-growing business line
DraftKings	Acquired Railbird (~$250M); launched DKeX exchange	Migrating flow from CME/Crypto.com rails to owned venue
FanDuel / Flutter	Event contracts via CME Group partnership; expanded through Crypto.com's exchange	Multi-state launch leveraging 12M+ sportsbook users
Fanatics	Introducing broker (Paragon Global Markets) routing to Crypto.com CDNA; FCM application in process	Live in ~24 states (Dec 2025); official FIFA World Cup 2026 markets; FanCash integration
Coinbase	Acquired The Clearing Company; native event trading	~$100M annualized revenue within two months of launch
Emerging venues	Predict.fun, Opinion (BNB Chain, macro-first), Limitless, Novig, ProphetX, Underdog	Collectively <10% of sector volume; niche positioning

4. Growth Trajectory and Volume Analysis

4.1 The volume curve

Volume figures in this section run through June 2026; July, spanning the knockout rounds and the final, is expected to set a fresh record when full data is reported. Measured by combined notional trading volume on Kalshi and Polymarket (including Polymarket US), the industry traded under $2 billion per month as recently as August 2025, crossed roughly $5 billion in September 2025, reached about $18.3 billion in February 2026 and approximately $24 billion in April 2026, and then surged to a record $44.8 billion in June 2026 – a 75% month-over-month jump powered by the FIFA World Cup. Independent trackers using different methodologies corroborate the trend: Binance Research recorded a then-record $31.2 billion across the sector in May 2026, and on-chain taker-volume measures (a narrower metric) tracked by Dune Analytics showed the same directional pattern. On any consistent measure, the industry has grown roughly four-fold or more year over year – and for context, combined monthly volume now runs at roughly three times the average monthly handle of the entire legal US sportsbook industry in 2025.

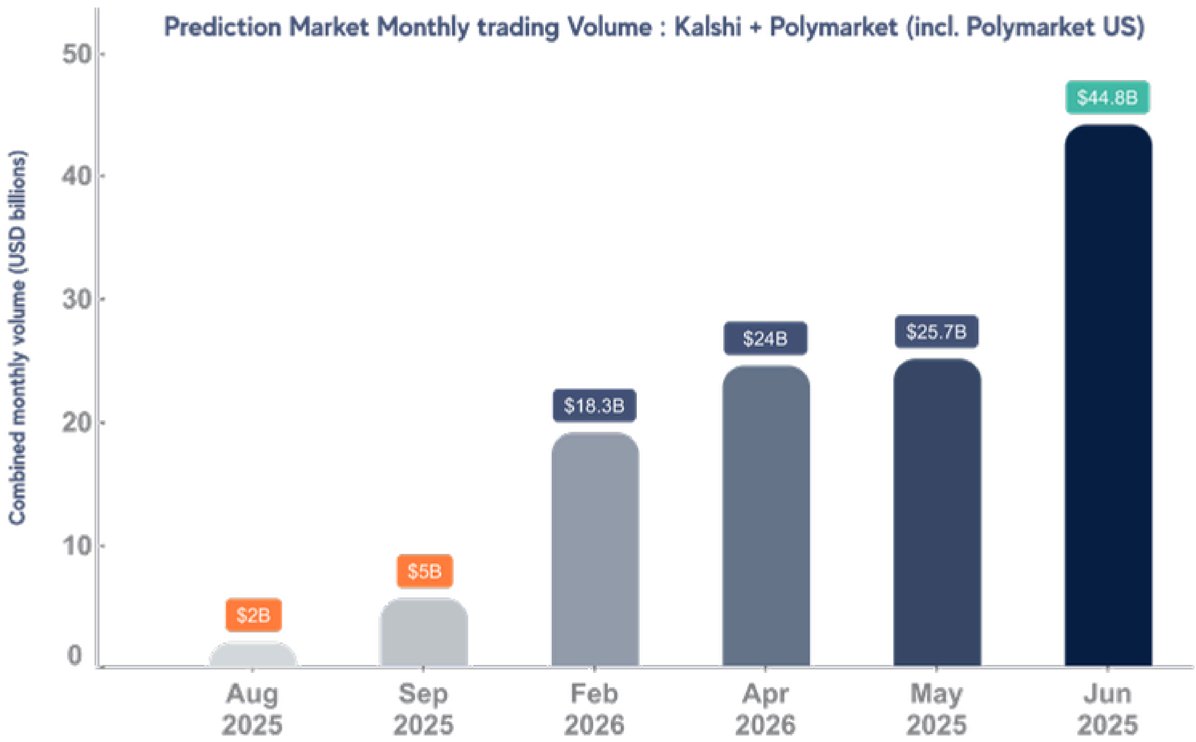

Figure 2: Combined monthly notional trading volume through June 2026, Kalshi + Polymarket (incl. Polymarket US). Sources: The Block data dashboard; Pew Research Center analysis (see References). Interim months omitted where consistent data was unavailable.

4.2 Daily and weekly run rates

At mid-2026 scale, the sector's run rate translates to roughly $1.0–1.5 billion in average daily traded volume, with pronounced event-driven spikes: Polymarket's $425 million single-day record in February 2026, Kalshi days approaching $600 million during the NCAA basketball tournament in March 2026, and World Cup group-stage days in June 2026 driving the industry's largest aggregate sessions to date. The July 19 final deserves separate mention: it triggered the largest single settlement wave in the sector's history, resolving championship books that had accumulated billions in open notional across both leading venues, and how smoothly that resolution processed – payout speed, dispute volume, withdrawal load – is a live datapoint on operational maturity that any institution evaluating these platforms should request directly. On a weekly basis, each of the two leading platforms independently sustained $1.7–4.0 billion in notional volume through the first half of 2026. Open interest, a better gauge of committed capital than turnover, stood at roughly $1.1–1.3 billion across the sector by May 2026, with Kalshi and Polymarket holding about 98% of it. The open-interest-to-volume ratio remains low relative to established futures markets, indicating that activity is still dominated by short-duration, high-turnover event trading rather than long-horizon position-taking. That is a maturity gap and, equally, a growth vector.

4.3 What people trades

Sports, politics, and crypto have accounted for roughly 90% of global volume since mid-2024, but the mix differs sharply by platform. Congressional Research Service analysis of the trailing twelve months through early 2026 puts sports at roughly 87% of Kalshi's $39.7 billion in volume, reflecting its US retail and brokerage distribution; Polymarket's mix is far more balanced, with sports near 38% and materially larger positions concentrated in politics, geopolitics, and macro. Category leadership rotates with the news cycle: election contracts dominated late 2024; crypto-price markets led in momentum phases; geopolitical contracts (Middle East escalation scenarios, tariffs, ceasefire timelines) surged in early 2026; and the 2026 World Cup, with single tournament-winner markets attracting hundreds of millions of dollars, has been the largest single volume catalyst in the industry's history. Newer verticals such as AI milestones, IPO timing, corporate earnings events, weather, and cultural outcomes remain small individually but broaden the platform value proposition and reduce dependence on any one calendar.

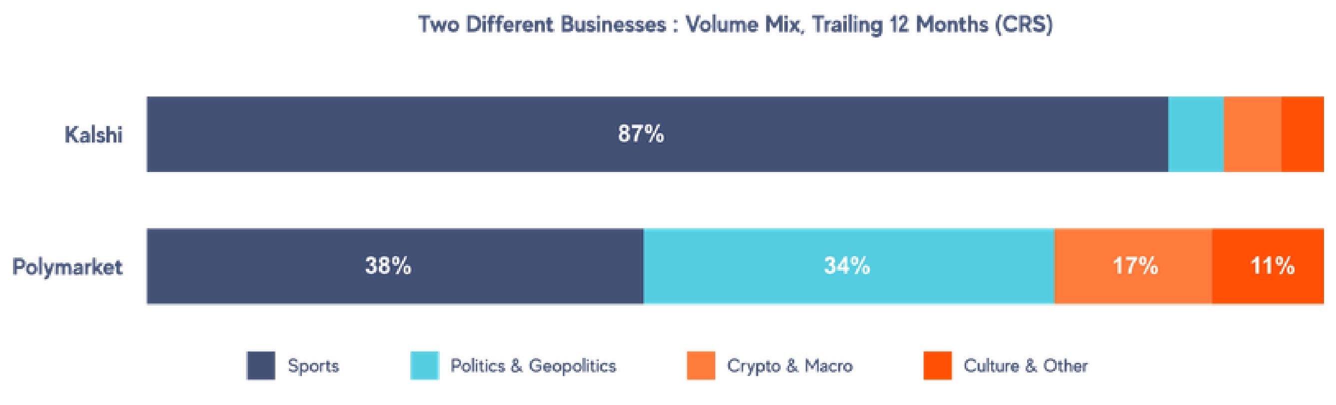

Figure 3: Volume mix over the trailing twelve months through early 2026: 87% of Kalshi's $39.7B was sports versus 38% on Polymarket. Source: Congressional Research Service.

4.4 Platform economics

Monetization is diverging. Kalshi's fee engine scales with its sports-led volume: roughly $263.5 million in 2025 fee revenue rising to monthly fee capture above $130 million by May 2026 – implying an annualized revenue run rate that supports its reported $1 billion-plus figures. Polymarket's fee model historically monetized more selectively, yet in certain months it has extracted the majority of sector fee revenue on a fraction of the volume, evidence of higher average ticket sizes. For the incumbent entrants, event contracts are less a standalone profit center than an engagement and retention product attached to existing brokerage or wagering relationships. That is why they are willing to spend hundreds of millions of dollars acquiring exchange licenses rather than share economics with the two leaders.

5. Market Structure: How the Plumbing Works

5.1 The regulated stacks

Under the US Commodity Exchange Act, a compliant event-contract venue is assembled from three regulated components. The designated contract market (DCM) is the exchange itself, responsible for product design and self-certification of contracts, matching, market surveillance, and compliance with the CFTC's core principles. The derivatives clearing organization (DCO) is the central counterparty that holds collateral in segregated accounts, marks positions, and manages default. Futures commission merchants (FCMs) and introducing brokers (IBs) intermediate customer access: FCMs may hold customer funds, while IBs solicit and introduce accounts to an FCM or DCM. Kalshi vertically integrates exchange and clearing; Polymarket US obtained DCM and DCO status through acquisition; incumbents have chosen among building (Robinhood/Rothera), buying (DraftKings/Railbird, Coinbase/The Clearing Company), or partnering (FanDuel/CME, Fanatics/Crypto.com).

5.2 The licensing ladder: IB to FCM to DCM

Market entry has resolved into a well-defined regulatory ladder – and movement up it is the clearest signal of strategic commitment in the sector. The climb is visibly underway: PrizePicks became the first sports-entertainment FCM (September 2025), Underdog followed with full approval in January 2026, FanDuel's event-contract business now runs through FanDuel Prediction Markets LLC – a registered FCM, DraftKings and Fanatics filed applications, and – most tellingly – Kalshi itself took FCM status in March 2026 through affiliate Kinetic Markets to carry institutional margin accounts. At the exchange tier, roughly seventeen new DCM applications were filed from early 2025, with seven approved by early 2026 (including Polymarket's US re-entry, Gemini, Novig, and ProphetX with a paired DCO). Regulatory status, more than technology, defines competitive position in this market.

Figure 4: The IB → FCM → DCM/DCO licensing ladder, with validated registrations as of mid-2026. Sources: NFA/CFTC registrations and press reporting (see References).

5.3 On-chain rails and hybridization

The on-chain variant replaces the DCO with smart-contract escrow and stablecoin settlement: non-custodial wallets, transparent order flow, continuous 24/7 markets, and programmatic resolution via oracles. Its advantages (composability, global access, auditability of every trade) are the same properties that create regulatory friction around jurisdiction, KYC, and market integrity. The likely end state is hybridization: Polymarket already operates both a global crypto venue and a US-regulated exchange, and blockchain transparency is increasingly cited by the platforms themselves as an asset for surveillance rather than an obstacle to it.

5.4 Liquidity and participants

Liquidity provision is professionalizing. Designated market makers, cross-platform arbitrageurs (price gaps of a few percentage points on identical outcomes persist across venues), and quantitative event-trading desks now coexist with retail flow – and, increasingly, with autonomous AI trading agents (Section 7). Institutional participation on the regulated venues has grown to a material share of volume, and exchange-affiliated investors such as ICE with Polymarket, CME with FanDuel, and Susquehanna with Robinhood's venue signal that traditional market-structure firms view event contracts as an extension of listed derivatives rather than a novelty.

6. The Regulatory Landscape

6.1 Federal posture: from prohibition to promotion

The CFTC's stance has inverted in under three years. Through 2023, the agency litigated to block election contracts and treated broad event categories as impermissible 'gaming.' A September 2024 federal district court ruling rejected that interpretation for congressional-control contracts, and the agency's posture shifted decisively after January 2025, when new leadership characterized existing event-contract interpretations as an unworkable constraint. Sports event contracts were listed nationwide via self-certification from January 2025 onward. The clearest signal came on January 29, 2026, when CFTC Chairman Michael Selig withdrew a proposed rule that would have banned political and sports event contracts, vacated a 2025 staff advisory, and directed staff to draft new standards through formal rulemaking. A March 2026 staff advisory then set integrity expectations: event contracts must not be readily susceptible to manipulation, and exchanges must conduct real-time monitoring. An advance notice of proposed rulemaking the same month drew roughly 3,500 public comments. On June 12, 2026, the Commission published a formal proposed rule on public-interest determinations, setting out the factors for determining when event contracts may not be listed, a proposed definition of 'gaming,' and a standard for when a contract 'involves' a prohibited activity, with comments due July 27, 2026. It is the first bespoke rulebook the sector has ever had in prospect. The agency has simultaneously gone on offense: filing amicus briefs asserting exclusive jurisdiction and suing nine states in federal court – Arizona, Connecticut, Illinois, New York, Wisconsin, Minnesota, Rhode Island, New Mexico, and Kentucky – to block state enforcement against the platforms.

6.2 The federal-state battle

Against that federal pivot stands the most aggressive multi-state pushback in recent financial-regulatory memory. State gaming regulators argue that sports event contracts are functionally indistinguishable from sports wagers and therefore fall under state police powers, licensing regimes, taxes, and consumer protections – including 21+ age floors that federal venues (which permit 18-year-olds) do not impose. By the first quarter of 2026, Kalshi alone faced roughly nineteen or more federal lawsuits spanning state gaming commissions, tribal nations, its own offensive preemption suits, and private class actions; cease-and-desist orders had issued from more than a dozen states to Kalshi, Polymarket, Crypto.com, Robinhood, and others.

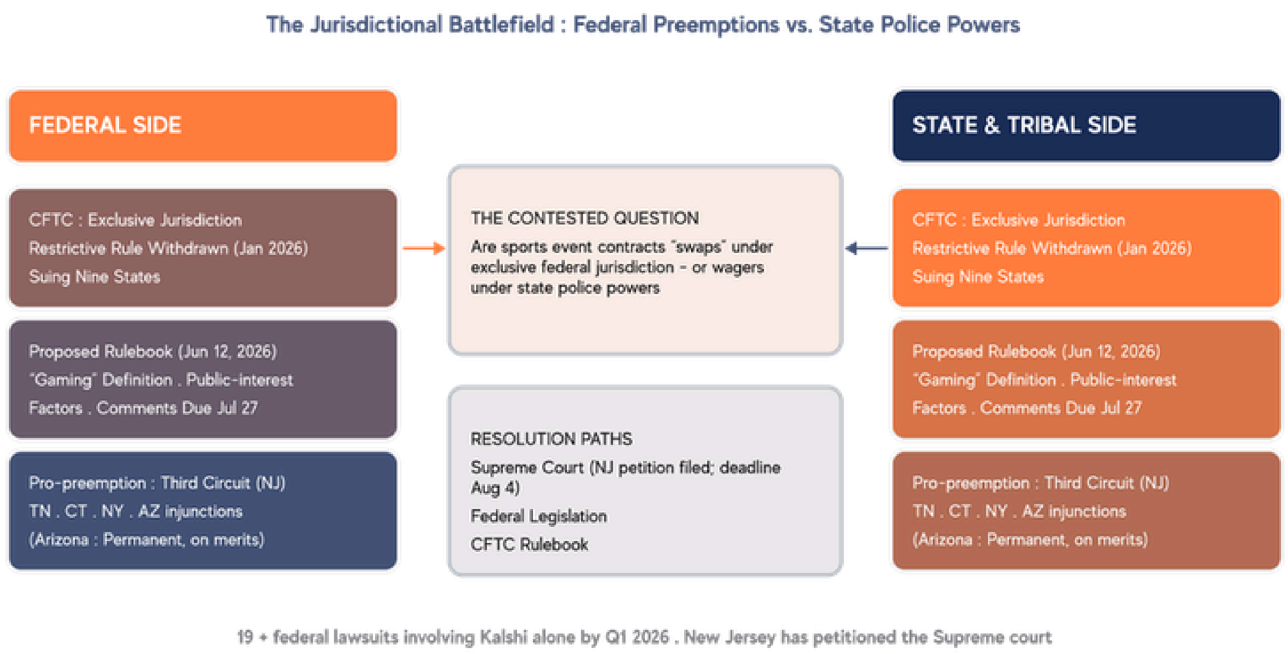

Figure 5: The federal-state collision in one view. Sources: court filings and coverage cited in References.

The courts are split, and the split is hardening. Federal courts in Tennessee, Connecticut, New York, and Arizona enjoined or paused state enforcement, generally finding sports event contracts likely 'swaps' within exclusive CFTC jurisdiction; in Arizona, the block on criminal prosecution of Kalshi was later converted to a permanent injunction, the first district-level merits ruling for preemption. The watershed came April 6, 2026, when the Third Circuit became the first appellate court to reach the question and affirmed an injunction against New Jersey, holding that the Commodity Exchange Act likely preempts state gambling law for CFTC-regulated contracts. The state side has answered in force. Maryland's district court went the other way (argued at the Fourth Circuit May 7); an Ohio federal court denied Kalshi's injunction outright, holding that sports event contracts are not swaps; Massachusetts ordered geofencing; and the Ninth Circuit panel hearing Nevada's appeal appeared sympathetic to the state. Pending that ruling, Nevada's Supreme Court denied Kalshi's emergency stay, with a contempt hearing over geofencing compliance following on July 16, 2026. Michigan became the third state with a court-ordered halt in early July. Minnesota went further than any court, enacting the nation's first statutory ban and making platform operation a felony effective August 1, 2026. The CFTC challenged the law within twenty-four hours, Kalshi and Polymarket sued separately, and a consolidated injunction ruling is pending after a July 2 hearing at which the federal judge voiced open skepticism that player-prop contracts differ meaningfully from sports bets. New Mexico illustrates how three-cornered these fights have become: the state sued Kalshi on June 4, the CFTC counter-sued the state on June 12, and Polymarket filed its own preemption suit against New Mexico on July 1. Supreme Court review, finally, is no longer a probability traders price. It is a docket item: New Jersey has petitioned the Court following its Third Circuit loss, and Justice Alito extended its filing deadline to August 4, 2026.

6.3 Tribal sovereignty and Congress

A distinct legal front involves tribal nations. Tribes in California, Wisconsin, and New Mexico have sued Kalshi, arguing that ungeofenced sports contracts on tribal lands violate the Indian Gaming Regulatory Act and tribal-state compacts, divert revenue that funds tribal government services, and permit underage participation. Early rulings have diverged (the Northern District of California declined to apply IGRA to a third-party federal exchange), but national tribal organizations and dozens of federally recognized tribes have intervened in litigation and testified before Congress – adding a sovereignty dimension and significant political weight to the state-side coalition. In Congress, the bipartisan Schiff-Curtis 'Prediction Markets Are Gambling Act' would reclassify sports and casino-style event contracts as gambling outside CFTC jurisdiction; the Merkley-Klobuchar 'End Prediction Market Corruption Act' would bar government officials from trading event contracts (a lawmaker-trading measure became the first prediction-market bill to advance from committee in 2026); and in the opposite direction at the state level, Iowa advanced first-in-nation licensing-and-tax legislation, with North Carolina moving toward a revenue tax rather than a ban.

6.4 Market integrity: the next regulatory frontier

As volumes scaled, the debate's center of gravity shifted from 'is this gambling?' to 'who is allowed to know what?' Contracts on geopolitical events (military strikes, ceasefires, government decisions) raise the prospect of trading on non-public or even classified information, a concern sharpened by insider-trading allegations around Middle East contracts in early 2026. The problem is no longer hypothetical, or even civil. The Department of Justice has opened two criminal insider-trading cases over Polymarket trades: one involving a special-forces soldier alleged to have profited from classified knowledge of a US operation, another a Google employee alleged to have earned over $1 million trading on confidential search-trend data. Kalshi's own enforcement program, meanwhile, found reasonable cause to believe an editor for a leading YouTube creator traded on non-public knowledge of upcoming content. In event markets, material non-public information can reside anywhere, not just inside issuers. Both leading platforms responded in March 2026 with enhanced integrity frameworks: restrictions on participants with access to material non-public information (including bans on political candidates trading markets tied to their own campaigns and on sports insiders trading related events), risk-scoring of individual markets with employment verification for elevated-risk contracts, real-time surveillance, and – in Kalshi's case – enforcement actions against individual traders, acknowledged by the CFTC alongside an advisory opinion on the agency's existing anti-fraud and manipulation authority (including 17 C.F.R. §180.1). The integrity perimeter now extends beyond trading itself: the CFTC is reportedly investigating a Polymarket-funded influencer campaign in which paid creators staged fake winning bets across content viewed 140 million times, a marketing-integrity question no securities-era rulebook anticipated. Institutions are responding on their own side of the wall. Goldman Sachs reportedly issued an internal policy restricting employee prediction-market trading to sports and entertainment categories – the first major-bank employee-trading rule written specifically for event contracts, and a template other compliance departments will be asked to copy. Professional sports leagues have engaged the CFTC directly on contract-design standards and manipulation guardrails, and platforms have added age-verification controls. How insider-trading doctrine, developed for securities, maps onto event contracts is among the most consequential unsettled questions in US financial regulation – and, as Section 7 argues, it is increasingly a technology problem as much as a legal one.

6.5 International

Outside the United States, the picture is restrictive: dozens of jurisdictions block or ban the leading platforms, typically under gambling statutes, and platforms have proactively exited markets (Kalshi added India to its restricted list in 2026). The UK treats binary event products under gambling and financial-promotions regimes; in the EU, ESMA has warned that certain event contracts may fall within its binary-options framework – a classification that would carry significant distribution restrictions – while member-state treatment varies. For global platforms this creates a familiar RegTech problem set (jurisdictional geofencing, licensing strategy, marketing-rule compliance, and sanctions screening) that closely parallels the buildout the crypto-exchange industry undertook after 2020.

Milestone	Date	Significance
Federal court permits election contracts (Kalshi v. CFTC)	Sep–Oct 2024	Opens political event contracts; election-cycle proof of concept
CFTC posture shift; sports contracts self-certified	Jan–Feb 2025	Sports becomes dominant volume category on regulated rails
Polymarket acquires QCEX (DCM/DCO)	Jul 2025	Path to regulated US re-entry
ICE commits up to $2B to Polymarket	Oct 2025	Institutional legitimacy; data distribution via NYSE parent
Polymarket US relaunches; CFTC no-action relief	Nov 2025–Jan 2026	Dual-venue structure; reduced enforcement risk
Chairman Selig withdraws restrictive rulemaking	29 Jan 2026	Clearest pro-prediction-market federal signal to date
Fed staff research validates forecasting accuracy	12 Feb 2026	Independent evidence of information value of market prices
Third Circuit rules CEA likely preempts NJ gambling law	6 Apr 2026	First appellate win; sets up potential circuit split
CFTC sues AZ, CT, IL (later KY, NM) to block enforcement	Apr–Jun 2026	Federal regulator litigating against states – historically rare
Ninth Circuit hears Nevada appeal; leans toward state	16 Apr 2026	Ruling pending; circuit split risk
Kalshi closes $22B Series F (Coatue-led)	7 May 2026	Largest capital validation in sector history
Minnesota enacts first statutory ban (felony; effective Aug 1)	18 May 2026	CFTC sues May 19; federal judge skeptical of platforms at hearing
CFTC proposed rule: public-interest determinations and 'gaming' definition	12 Jun 2026	First bespoke event-contract rulebook; comments due Jul 27, 2026
Michigan TRO (third court-ordered halt); NJ petitions Supreme Court	Jun–Jul 2026	SCOTUS review now a docket item (NJ deadline extended to Aug 4)

7. Artificial Intelligence Across the Prediction Market Stack

Prediction markets and artificial intelligence are converging from both directions: AI is becoming a dominant participant, operator tool, and infrastructure layer inside these markets, while the markets themselves are becoming a calibration and information source for AI systems. Understanding where AI is deployed today, where it can credibly be extended, and where the technology is heading is essential to evaluating both the opportunity and the risk in this sector.

Where AI Already Operates in the Prediction Market Stack

PARTICIPANT	OPERATOR TOOLING	SETTLEMENT INFRASTRUCTURE	DATA COUNTERPART
AI trades	AI polices	AI resolves	AI consumes
• LLM-driven agents read news and execute through exchange APIs • ~30% of Polymarket activity is algorithmic or AI-powered • A majority of the most profitable wallets are automated • Free resting orders subsidise algorithmic liquidity	• CFTC advisory makes real-time monitoring an exchange obligation • Machine-scale surveillance across concurrent contracts • Risk-scoring with employment verification on elevated risk • Anomaly detection underpins the insider cases brought	• Multi-agent LLM oracles reach ~83% resolution accuracy • Committed-model 'AI judge' fixed and published at listing time • AI-first for the long tail, human adjudication for high stakes • Trusted resolution unlocks millions of long-tail markets	• Market prices become real-time priors and calibration benchmarks • Federal Reserve research found they beat macro forecasts • APIs and Model Context Protocol servers expose live odds • A continuously updated probability service for machines

Machine-originated flow is on track to be a majority of order traffic well before the rulebook catches up

Figure 6: Where AI already operates in this market – as participant, operator tooling, settlement infrastructure, and data counterpart.

7.1 Where AI is used today

Autonomous trading is the most visible frontier. The current generation of trading agents is not the rules-engine bot of earlier eras but LLM-driven systems that read market context and news, invoke tools to fetch live data, and execute orders through exchange APIs – typically in hybrid architectures that keep model reasoning out of the latency-critical path and deterministic execution in it. Industry analyses estimate that roughly 30% of activity on Polymarket now originates from algorithmic and AI-powered wallets, and that a majority of the platform's most profitable wallets are automated; an ecosystem of agent harnesses, backtesting platforms, and open-source toolkits has grown around both leading venues. Fee structure actively encourages this: on Kalshi, resting (maker) orders trade free while taker fees apply, a standing subsidy for algorithmic liquidity provision that helps explain why automated flow has scaled so quickly. The platforms are already adapting operationally; Polymarket's April 2026 increase in minimum order size was partly a response to high-frequency agent flow. The edge is real but bounded: automated agents dominate on sustained throughput, parallel market coverage, and around-the-clock availability, while independent analysis of 2026 trading data found human traders retaining an advantage on longer-horizon contracts where probability judgment, rather than reaction speed, drives returns.

On the operator side, AI is now embedded in market integrity and operations. The CFTC's March 2026 staff advisory made real-time monitoring an explicit exchange obligation – at tens of billions of dollars of monthly volume across hundreds of thousands of concurrent contracts, that obligation is only satisfiable with machine-scale surveillance. Kalshi's risk-scoring framework assigns manipulation and insider-trading risk to individual markets and triggers enhanced verification for elevated-risk contracts; anomaly detection underpins the insider cases both platforms have brought. AI also powers the intelligence layer around the markets (research agents, whale tracking, cross-venue analytics, and sentiment systems) and supports market operations itself, where template-driven contract generation lets exchanges list thousands of markets from a single filed pattern. Finally, a research literature has emerged benchmarking LLM probability forecasts against market prices, with early results suggesting model estimates can complement, though not consistently beat, crowd forecasts.

7.2 Where AI can be extended

The most consequential near-term extension is market resolution. Resolving an event contract, meaning determining what actually happened against precise criteria, is today a cost and trust bottleneck: human adjudication is accurate but expensive and slow; naive automation is brittle. Recent academic work evaluating multi-agent LLM oracle architectures on more than a thousand resolved Kalshi questions achieved roughly 83% resolution accuracy with confidence-weighted voting across models, materially better than single-model baselines, while also cataloguing instructive failure modes (models conflating 'no evidence yet' with 'did not happen'). In parallel, a prominent proposal from the venture community would cryptographically commit a specific model version and prompt as a market's resolution judge at listing time – making the entire resolution mechanism inspectable before anyone trades and far harder to manipulate than editable web sources or committee votes. The practical near-term architecture is hybrid: AI-first resolution for the long tail of low-value contracts, with human adjudication and dispute workflows reserved for high-stakes or ambiguous outcomes. Whoever industrializes trustworthy resolution unlocks the economics of listing millions of long-tail markets.
Three further extensions follow directly from the sector's pain points. In compliance, supervised and unsupervised models can be tuned to event-market-specific abuse patterns – spoofing around news releases, coordinated information campaigns designed to mislead agent-heavy order books, and insider signatures that differ fundamentally from equity-market templates – while classification engines can map the fast-moving federal and state regulatory landscape against a firm's specific product and jurisdiction footprint. In institutional analytics, event probabilities can be transformed into risk factors and hedging signals: portfolio overlays keyed to policy or geopolitical contracts, scenario engines that consume live market-implied probabilities, and desk copilots that surface event risk alongside conventional Greeks. In market creation, AI-assisted contract generation with human governance can expand listings into corporate, weather, and supply-chain events – and novel categories are already emerging, such as announced 'attention markets' on social-media mindshare built in partnership with AI analytics firms.

7.3 Where the technology is heading

Three trajectories look durable. First, agent-dominant microstructure: as agent participation grows, short-horizon price discovery becomes machine-versus-machine, and the risk register changes with it – herding among similarly trained agents, adversarial information attacks crafted specifically to mislead automated traders, and flash dynamics in thin books. Surveillance will have to evolve from detecting human manipulation to detecting manipulation of and by machines, and regulators will increasingly press the accountability question of who answers for an autonomous agent's trades. Second, AI-native resolution rails: committed-model judges, multi-agent verification, and on-chain proofs could collapse resolution costs by orders of magnitude, enabling contract catalogues far beyond anything human adjudication could support – with market trust migrating from the venue's discretion to the auditable properties of the resolution mechanism itself. Third, a two-way data flywheel between prediction markets and AI systems: market-implied probabilities are becoming real-time priors and calibration benchmarks for AI forecasting systems (the same information value Federal Reserve researchers documented), while AI systems consume market data programmatically through APIs and emerging agent-integration standards – machine-consumable prediction market data services, including Model

Context Protocol servers exposing live odds directly to AI assistants, already exist in production. The endpoint is a market layer that functions, in effect, as a continuously updated probability service for both human and machine decision-makers, and it explains why exchange groups are investing in the data franchise as heavily as in trading.

7.4 AI meets the money-movement layer

The least examined intersection is between autonomous agents and funding infrastructure. An AI agent can already fund a regulated prediction market position end to end without a human touching a bank interface: crypto rails into Kalshi (via Zero Hash conversion, and since May 2026 the Mesh integration connecting more than 300 wallets and exchanges) and native USDC settlement on Polymarket give programmatic money movement the same API surface as trading itself, and wallet-embedded trading, with Kalshi markets surfaced directly inside crypto wallets such as Phantom, collapses the distance between holding funds and taking positions. This raises a question regulators have not yet answered and platforms will be forced to: who is the customer when an agent trades? Regulated venues require a KYC-verified human or legal-entity principal; on-chain venues historically did not; and agent-operated wallets sit awkwardly between the two. Expect agent identity, agent-level entitlements, and principal-accountability frameworks to become a distinct compliance discipline – one that FCM-registered intermediaries, who carry the Bank Secrecy Act obligations, will bear first. Institutions designing integrations today should treat 'agentic access policy' as a named workstream, not a footnote, because the volume trajectory suggests machine-originated flow will be a majority of order traffic on some venues well before the rulebook catches up.

8. Beneath the Headlines: What the Consensus View Misses

Volume charts and lawsuit counts are now consensus knowledge. The observations below are not – they come from reading the platforms' fee schedules, funding rails, API documentation, and corporate filings rather than the coverage of them, and they materially change how an institution should think about this sector.

1. The float is becoming the business model.
Kalshi currently pays 3.75% APY on customer cash, including cash committed to open positions, with funds held at its regulated clearinghouse. That inverts the sportsbook economics playbook, where the operator quietly earns the float; here the platform passes yield through as a customer-acquisition weapon that brokerages must match and sportsbooks structurally cannot. Polymarket is playing the same game on crypto rails: in early 2026 it standardized platform collateral on pUSD, a wrapped dollar minted from incoming USDC – an architectural move that positions the platform to capture reserve economics the way a stablecoin issuer does. Watch collateral wrappers and yield pass-through, not just volume, to see where these firms think the durable profit pool sits.

2. The fee engine literally monetizes uncertainty.

Kalshi's taker fee is a function of contract price, approximately 0.07 × price × (1 − price), peaking at 50 cents and approaching zero at the extremes, while resting maker orders trade free. Revenue therefore concentrates in contested, high-uncertainty moments, making the P&L structurally event-driven; and the zero-cost maker side is a standing subsidy to algorithmic liquidity that helps explain how fast automated and AI-driven flow colonized these books.

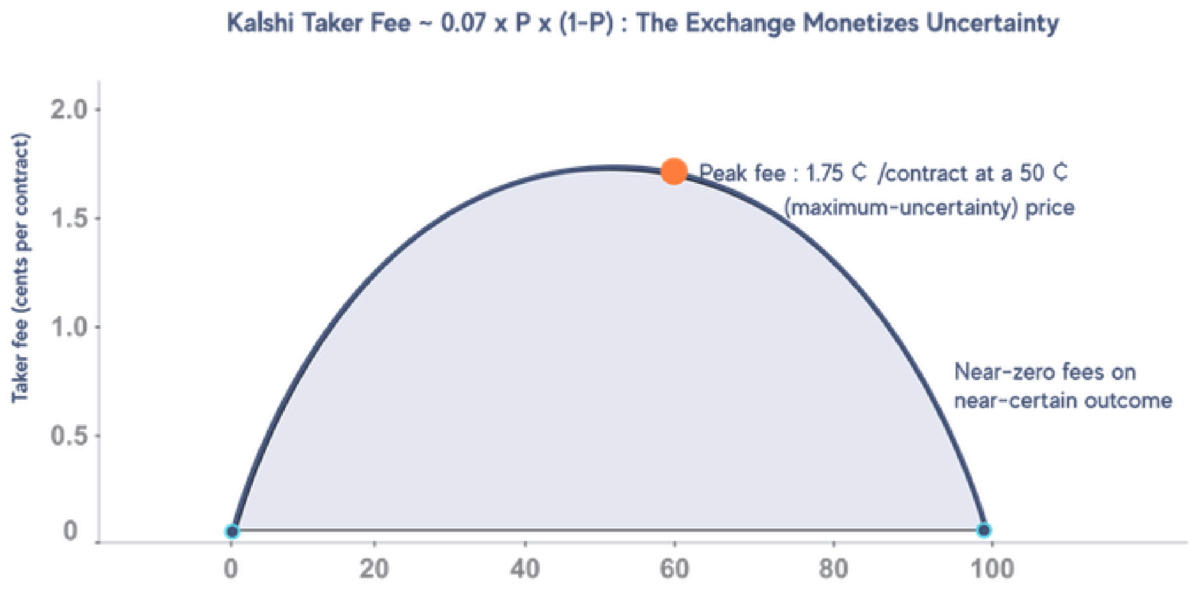

Figure 7: Kalshi's taker fee curve. The exchange earns most where outcomes are most uncertain – and nothing from resting liquidity.
Source: Kalshi fee schedule via developer documentation.

3. Kalshi is not building a prediction market;

it is building a derivatives exchange. Quietly, alongside event contracts, Kalshi now operates margined perpetual futures with a dedicated API, an FCM affiliate (Kinetic Markets) to carry institutional margin accounts, roughly $12–13 million a year in market-maker incentives, and full REST, WebSocket, and FIX 4.4 connectivity. CME Group's lawsuit against the CFTC over its approval of Kalshi's no-expiration perpetual product is the tell – and Kalshi's July 2026 launch of the first GPU-compute forward curve, built by a Chief Risk Officer hired away from CME, removes the ambiguity: the endgame is not event contracts as a category, but a federally regulated exchange with a retail-scale funnel attacking the core listed-derivatives franchise, up to and including inventing the AI era's benchmark commodity market before the incumbents do. Institutions evaluating 'prediction market' partnerships should underwrite the counterparty they will face in three years, not the one in the pitch deck.

4. Payment rails are the real market segmentation.

Three payment cultures are converging on one product. Sportsbook-heritage platforms run pay-by-bank aggregators; Aeropay, for example, is PrizePicks' bank-transfer partner, the same rail set built for DFS and gaming. Brokerage entrants (Robinhood, Coinbase, Webull) fund from existing brokerage or exchange balances, making the event contract one tap from idle cash. Crypto-native rails settle in USDC on Polygon for Polymarket, and reach Kalshi through Zero Hash conversion and the Mesh network of 300-plus wallets and exchanges. Kalshi's own deposit limits reveal the strategy: roughly $2,500 per day by debit card versus up to $500,000 per day by crypto. The retail funnel is card and ACH; the whale funnel is crypto. Any integration or competitive analysis that treats funding as a commodity back-office detail has misread where acquisition cost, settlement speed, and large-ticket flow actually live.

5. Distribution partnerships carry a built-in defection clock.

The observed pattern is consistent: partner with a leader for speed, learn the product, acquire the license, internalize the flow. Robinhood launched on Kalshi, then built its own venue and began routing its highest-volume contracts there. DraftKings launched as an introducing broker on third-party rails, then bought Railbird. PrizePicks distributes Kalshi markets today while holding its own FCM registration. Platforms should price partner-enabled volume as rented, not owned; partners should assume an 18–24 month window before their distribution deal becomes a competitor's onboarding program; and both sides should negotiate data, customer, and exclusivity terms accordingly.

6. A rights market for reality is forming.

FIFA licensed official World Cup 2026 prediction markets (delivered through ADI Predictstreet, launched June 2026 and distributed in the US through Fanatics Markets, with livestream-embedded trading prompts); the NHL signed multiyear partnerships with both Kalshi and Polymarket; MLB partnered with Polymarket; Bundesliga rights followed. Event owners are beginning to license 'prediction rights' the way they once licensed official betting data, creating a new intellectual-property revenue line for leagues and a new licensed-content cost line for platforms. The second-order effect matters more: official partnerships give leagues standing to demand contract-design and integrity controls, pulling sports governance directly into market microstructure.

7. The next entrants are attention platforms, not exchanges.

Thirteen federally regulated prediction platforms already serve US users, and the DCM application pipeline remains full. Licenses are no longer the differentiator they were in 2024. The scarce assets now are attention and embedded distribution, which is why the entrant to watch is Meta: per NPR reporting, Mark Zuckerberg explored acquiring Kalshi outright before directing teams to build Meta's own prediction app – a play-money product whose questions and resolutions are powered by AI, mainstream validation of the AI-resolution thesis in Section 7. Google Finance embedding live odds mattered more than most exchange approvals for the same reason. Trump Media has separately been reported to be planning a prediction-market product for Truth Social, and the sector has begun to institutionalize its own voice – Kalshi and Crypto.com formed a national trade association in 2026 with Coinbase, Robinhood, and Underdog among early members. When probability display becomes a default feature of feeds, search, and media, the platforms that own resolution, clearing, and compliance infrastructure become the picks-and-shovels layer beneath every consumer surface.

8. Supply is no longer the constraint; trust capacity is.

Template-driven contract engineering (an exchange files one contract pattern, then lists thousands of markets from it) has effectively industrialized market supply. What has not scaled is the trust layer: accurate resolution, credible surveillance, and insider-access controls across hundreds of thousands of concurrent contracts. The binding constraint on the sector's next order of magnitude is resolution-and-integrity throughput. That is why the AI capabilities described in Section 7 are not an enhancement to this industry's roadmap; they are the roadmap.

9. The Integration Playbook: Rails, Architecture, and Operating Model

For capital markets institutions, prediction markets intersect core franchises in at least five ways: exchanges face a build-buy-partner decision; brokerages face customer demand with suitability obligations; market makers face inefficient new venues; banks and asset managers will meet event-probability data in risk and research workflows; and every regulated participant inherits a novel compliance surface. This section converts that observation into an actionable blueprint – for firms integrating with prediction markets, and for the platforms themselves.

9.1 Funding and payment infrastructure, platform by platform

Money movement is where integrations succeed or fail, and the rails differ radically by platform heritage. The table below consolidates the funding architecture of the major venues as of mid-2026.

Platform	Funding rails	Notable mechanics
Kalshi	ACH (free, 3–5 days), US debit card (~2% fee), wire; digital wallets incl. PayPal/Apple Pay/Google Pay; crypto (USDC/BTC/SOL) via Zero Hash conversion; Mesh integration to 300+ wallets/exchanges	3.75% APY currently paid on idle cash and open positions; ~$2,500/day debit limit vs up to $500,000/day via crypto; 1099-B/INT/MISC tax reporting
Polymarket (Intl.)	USDC on Polygon (native + bridged); card onramps via MoonPay/Transak/Stripe/Coinbase Pay (~3–5%); CEX transfers; auto-conversion of BTC/ETH/SOL deposits	Collateral standardized on pUSD wrapper (early 2026); near-zero network deposit cost; wallet-signature architecture; users self-report taxes
Polymarket US	ACH bank transfer (no crypto required); invite-gated rollout through 2026	Intermediated CFTC model via QCX/Polymarket Clearing; FCM-style onboarding
Robinhood / Coinbase / Webull	Existing brokerage or exchange cash balances	Event contracts one tap from idle customer cash – lowest funding friction in the sector
Fanatics Markets	Debit/bank rails via introducing-broker stack (Paragon Global Markets) into Crypto.com CDNA clearing	FanCash loyalty rewards earned on trades and spendable across the Fanatics ecosystem
PrizePicks / DFS heritage	Pay-by-bank via Aeropay (PrizePicks' bank-transfer partner) and card rails inherited from DFS operations	Gaming-grade payment orchestration repurposed for CFTC-regulated contracts

Three integration consequences follow. First, treasury and reconciliation must span fiat and stablecoin legs simultaneously – an institution routing to both Kalshi and Polymarket is operationally running a bank rail and a Polygon settlement rail with different finality, failure, and recovery semantics. Second, KYC is layered: card onramps (MoonPay and peers) run their own KYC independent of platform KYC, and FCM/IB intermediaries carry full Bank Secrecy Act programs – customer-identification, suspicious-activity reporting, and sanctions screening, on top of exchange-level checks. Third, yield economics belong in the business case: with platforms passing through money-market yield on balances, an integrator's cash-sweep and float assumptions from brokerage or gaming will mis-model this sector.

9.2 Connectivity and reference architecture

The two flagship venues present opposite integration profiles, and most institutions will need both. Kalshi looks like a traditional exchange: REST, WebSocket, and FIX 4.4 interfaces (with a separate API surface for its margined perpetual futures), RSA-PSS request signing, published rate limits with a full demo environment, and USD settlement into conventional banking. Polymarket looks like a protocol: a central limit order book addressed through blockchain wallet signatures rather than session credentials, USDC settlement on Polygon, and on-chain positions that are publicly observable, which simplifies some surveillance and complicates custody. A production-grade integration therefore starts with a venue-abstraction layer that normalizes order management, market data, and position-keeping across both paradigms, so that adding the third and fourth venues (Crypto.com CDNA, CME-powered products, new DCMs) is configuration rather than re-architecture.

Reference Integration Architecture for Prediction Market Connectivity

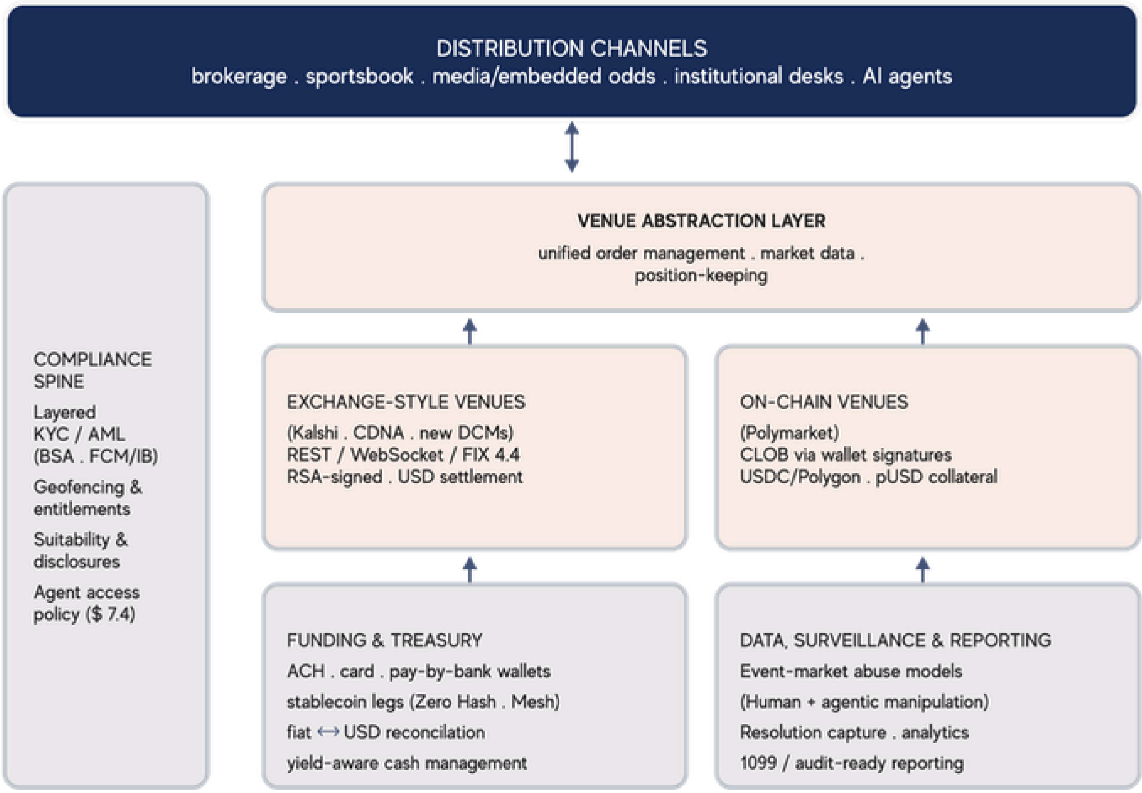

Figure 8: Reference integration architecture. The compliance spine and the venue-abstraction layer are the two components that determine whether the build survives contact with regulators and venue change.

Around that core sit the components the diagram makes explicit. Geofencing is a first-class product system rather than a checkbox: state availability changes monthly under live litigation (Kalshi was unavailable in Illinois, Maryland, Montana, Nevada, New Jersey, and Ohio as of mid-2026), and a wrong answer is a regulatory event. KYC/AML is layered across onramp, intermediary, and exchange, extended with the agent-access policies of Section 7.4. Surveillance must be calibrated to event-market abuse patterns rather than recycled equity-market scenarios. And tax logic must handle the fiat/crypto asymmetry: regulated USD venues issue 1099s, while on-chain venues leave cost-basis tracking to the customer, a gap institutional distributors will be expected to close.

9.3 What integrating firms should be doing now

Sequence matters more than speed. First comes a regulatory posture decision (spectator, data consumer, IB, FCM, or venue) grounded in the licensing-ladder economics of Section 5.2 and the firm's state-regulator relationships. Second, venue and partnership strategy, negotiated with Section 8's defection clock priced in; data rights, customer ownership, and exit terms are worth more than headline revenue share. Third, a thin-slice pilot: market data and paper trading through the abstraction layer against demo environments, proving the compliance stack before customer money moves. Fourth, product integration where the firm already owns attention, since embedded probability displays and research overlays convert existing engagement into flow far more cheaply than standalone apps. Fifth, in parallel, an institutional track: FCM margin access, probability data into risk and research, and market-making evaluation where the maker-fee subsidy and cross-venue price gaps create measurable edge.

9.4 What the platforms themselves should be doing

For the exchanges and would-be exchanges, the build agenda over the next 24 months is equally clear. Industrialize resolution, the trust-capacity constraint of Section 8, through hybrid AI-and-human adjudication with auditable mechanics. Publish and enforce an agent policy: registration or identification of automated participants, agent-level entitlements and kill-switches, and surveillance designed for machine-originated manipulation, ahead of the CFTC asking for it. Complete the intermediary stack (FCM capability, margin, portfolio-grade APIs) to convert retail scale into institutional depth. Operationalize the state-by-state legal battlefield as a permanent function, with geofence engineering, regulator-specific reporting, and litigation-driven feature flags, rather than treating it as a sequence of emergencies. And productize data: license-grade feeds, historical archives, and machine-consumable interfaces, because Section 8's attention-platform entrants will need exactly that infrastructure and would rather buy it than build it.

The operational lesson running through this entire playbook bears stating plainly: in this sector, regulatory architecture is the product. The winners to date are not the firms with the best user interface; they are the firms that secured the right registrations, engineered geofencing and jurisdictional controls, stood up surveillance credible enough to cite in litigation, and built payment and data pipelines institutional counterparties would trust. Participation in this market – at any point in the value chain – is an exercise in regulated-market engineering.

10. Where the Industry Is Headed

10.1 The base case: institutionalization

The directional bet embedded in current valuations is that event contracts become a permanent, regulated asset class rather than a retail fad. The evidence increasingly supports it. Federal Reserve research published in February 2026 found that prediction market prices performed on par with or better than Bloomberg consensus, New York Fed surveys, and fed funds futures, correctly identifying the most likely FOMC outcome on the eve of every meeting since 2022. ICE's investment explicitly contemplates distributing event-probability data as institutional market data, and the institutional build-out is now concrete: Susquehanna became Kalshi's first official market maker, DRW stood up a dedicated 'Information Finance' desk, Marex reportedly issued the first prediction-market-linked bond, and Goldman Sachs has confirmed it is exploring the space – its research desk already using Polymarket pricing as a model input. Sell-side and industry analyses project the sector could reach $1 trillion in annual traded volume by the end of the decade, with platform revenues approaching $10 billion annually by 2030. Even discounting promotional projections heavily, the structural drivers – regulated venues, brokerage distribution, professional liquidity, and demonstrated forecasting value – support sustained multi-year growth well above traditional derivatives categories.

10.2 Five theses for 2026–2030

First, consolidation around regulated infrastructure. The DCM/DCO license has become the sector's scarcest asset; nearly every serious entrant since 2025 has bought or built one. Expect further exchange acquisitions, a possible public listing by a category leader, and continued concentration of open interest in a handful of venues – with smaller platforms surviving only through specialization (macro-first venues, region-specific books) or distribution niches.

Second, convergence of brokerage, sportsbook, and exchange. The boundary between a brokerage app, a sportsbook, and an event exchange is dissolving: Robinhood, DraftKings, FanDuel, and Coinbase now operate in all-of-the-above mode. Distribution owners will internalize economics, pressuring the standalone leaders to compete on liquidity depth, product breadth, data, and above all regulatory positioning. Countervailing risk: the same convergence invites gambling-style regulation of the entire category.

Third, the data business may ultimately rival the trading business. Continuous, tradeable probabilities on rates decisions, elections, geopolitical events, and corporate outcomes constitute a new market-data category with buy-side, corporate, and media demand. Embedding of live odds into Google Finance and mainstream news coverage became self-reinforcing distribution in 2026; licensing that data into terminals, risk systems, and research workflows is the logical institutional extension.

Fourth, product expansion toward genuine hedging. Today's volume skews toward high-frequency sports and event speculation. The larger long-run market is economic risk transfer: tariff and policy outcomes, regulatory decisions, weather and catastrophe thresholds, supply-chain and commodity disruptions, corporate events. Longer-dated contracts, larger position limits, portfolio-margin treatment, and institutional-grade APIs are the capabilities to watch; each expands the addressable market beyond entertainment toward the hedging franchise that justifies exchange-scale valuations.

Fifth, regulatory resolution – by court or by Congress. The current equilibrium (federal regulator suing states; platforms geofenced in some states and not others; 18+ federal venues coexisting with 21+ state regimes) is unstable. The realistic paths are a Supreme Court ruling on CEA preemption, federal legislation defining permitted contract categories, or a CFTC rulebook emerging from the 2026 rulemaking that states largely acquiesce to. Each path produces different winners: full preemption favors the federal exchanges; a state-licensing overlay favors incumbents with existing state gaming relationships; category prohibitions (e.g., on sports) would remove the majority of current volume and re-rate the sector overnight. Any credible strategy in this space must remain robust to all three.

Three Regulatory Endgames - and Who Wins Each

ENDGAME A

FULL FEDERAL PREEMPTION

Supreme court affirms the third circuit's CEA reading

Winners: federal exchanges (Kalshi, Polymarket US) at national scale; state regimes largely displaced

ENDGAME B

STATE-LICENSING OVERLAY

Court sides with states, or Congress adds a state role.

Winners: incumbents with state gaming licenses (Draftkings, FanDuel, Fanatics); compliance costs rise sharply

ENDGAME C

CATEGORY PROHIBITION

Legislation bars sports / casino-style contracts.

80-90% of current volume eliminated; sector re-rates to macro, policy & data franchise; valuations

No probability weights assigned. New Jersey's Supreme Court petition makes the timeline real

Figure 9: The three regulatory endgames of Section 10.2. Strategy design should survive each column.

10.3 Risks to the thesis

The bear case deserves explicit statement. Sector volume is heavily sports-dependent and calendar-driven – the World Cup surge will unwind, and category concentration near 87% on the largest venue is a fragility, not a strength. An adverse Supreme Court ruling or federal sports-contract prohibition would eliminate the dominant revenue line. Insider trading around geopolitical contracts is a reputational and national-security flashpoint that could trigger category bans. Problem-gambling and consumer-protection critiques – amplified by tribal and state coalitions with real political power – could force sportsbook-style compliance costs onto exchange economics. And valuations that doubled twice within twelve months embed expectations that leave little room for regulatory disappointment. The industry is forcing regulatory clarity through growth; that strategy has worked so far, but it is a strategy with binary outcomes.

11. How Wissen Can Help: Advisory, Build, and Operate

Wissen is an end-to-end solution provider in Banking & Financial Services and other verticals, established in 2000, with more than 4,000 professionals across the US, India, UK, Australia, Mexico, Vietnam, and Canada, over $1 billion of delivered project value for 20-plus Fortune 500 clients, and CMMI Level 3, ISO 9001:2015 (QMS), and ISO/IEC 27001:2022 (ISMS) certifications – alongside a formal Artificial Intelligence Management System (AIMS) governing responsible, secure AI delivery. The capabilities below map Wissen's published service portfolio (wissen.com) to the prediction market problem set developed in this paper, so every claim of capability is traceable to an existing practice.

11.1 Advisory

Through its Business Transformation & Strategy service and capital markets domain consulting, Wissen advises on the decisions that precede any build: the licensing-ladder choice (spectator, data consumer, IB, FCM, or venue) with grounded capital, compliance, and fee-capture economics; state-by-state posture and sequencing informed by the sportsbook entrants' demonstrated launch playbooks; venue and partnership due diligence with Section 8's defection dynamics priced into data-rights and exit terms; and contract-design and integrity-by-design counsel aligned to the CFTC's emerging rulebook. Wissen's banking practice has built compliance capabilities for global institutions across AML, KYC, and fraud detection, and across credit, market, liquidity, and operational risk – the same regulatory disciplines an event-contract entrant must stand up on day one.

11.2 Build

Wissen's Digital Enablement services deliver the reference architecture of Figure 8 as production systems. Application Development covers the trading-stack core – Wissen's capital markets work spans Trade Management, Treasury, Prime Brokerage, Portfolio Accounting, Trade Analytics & Insights, and Complex Asset Classes, directly transferable to matching, order-routing, and venue-abstraction engineering. Its banking practice's Payment Processing and Liquidity Management experience maps to the funding-rail and treasury-reconciliation layer spanning ACH, card, wallet, and stablecoin legs. AI & ML services – accelerated by Wissen's own products such as Intellisearch (NLP-driven intelligent search over unstructured documents) and Docxtractor (AI document extraction) – deliver the Section 7 agenda: AI-assisted resolution and dispute workflows, event-market surveillance models, and intelligent classification of regulatory change against a firm's product and jurisdiction footprint. Big Data & Analytics and Visualization & BI turn event-probability feeds into decision-ready dashboards and risk signals; Intelligent Automation streamlines onboarding, case management, and reporting operations; Cloud (with the Wissen IaC Accelerator) and Agile & DevOps provide the scalable, auditable delivery platform; and Cyber Security services harden the stack to the standard a funds-holding FCM requires.

11.3 Operate

Wissen's Managed Services line – Infrastructure Management, Quality Assurance & Test Automation, and Production Support – carries the build into steady state, which in this sector is anything but steady: venue APIs version, states flip availability monthly, and contract catalogues grow by thousands. Wissen operates the regulatory horizon-scanning, surveillance-operations, and reporting functions on top of that foundation, with continuous compliance testing as platforms add contracts, states, and intermediary relationships. Wissen's ITIL-based service management and multi-site on-site/off-shore delivery model keeps that operating cost structure efficient at scale.

Wissen service (per wissen.com)	Prediction market application
Business Transformation & Strategy; capital markets consulting	Licensing-ladder and entry-path strategy; state posture; venue and partnership due diligence; operating-model design
Application Development (Trade Management, Treasury, Prime Brokerage, Trade Analytics, Complex Asset Classes)	Matching, order-routing, and venue-abstraction layers; exchange-grade APIs (REST/WebSocket/FIX); position-keeping and reconciliation
Banking practice: Payment Processing, Liquidity Management, Regulatory Reporting	Funding rails across ACH/card/wallet/stablecoin; fiat–USDC treasury reconciliation; audit-ready and 1099-aligned reporting
Compliance & risk practice: AML, KYC, fraud detection; credit/market/liquidity/operational risk	Layered KYC/AML meeting BSA obligations for FCM/IB; geofencing and entitlements; event-market risk frameworks
AI & ML (with Intellisearch and Docxtractor accelerators)	AI-assisted market resolution and disputes; surveillance for human and agentic manipulation; regulatory-change classification; document-driven onboarding
Big Data & Analytics; Visualization & BI	Cross-venue market data platforms; event-probability signals for trading, risk, and research; resolution-outcome capture
Intelligent Automation; Cloud (IaC Accelerator); Agile & DevOps; Cyber Security	Automated onboarding and case workflows; scalable, auditable, secured delivery platform for funds-holding operations
Managed Services: Infrastructure Management, QA & Test Automation, Production Support	24×7 platform operations; continuous compliance and regression testing as venues, states, and contracts change; horizon-scanning operations

Whether an organization is a platform scaling toward institutional depth or an institution moving from evaluation to production, Wissen provides the domain expertise and delivery capability to compress that journey. To discuss how these capabilities apply to your organization, contact your Wissen representative or visit wissen.com.

12. Five Questions to Pressure-Test Your Strategy

We use these questions to open working sessions with clients; each maps to a section of this paper, and none has a comfortable default answer.

1. If the Supreme Court rules against federal preemption, which of your prediction-market commitments survive – and did your venue contracts anticipate that scenario? (§6, §10)
2. Where do you sit on the licensing ladder today, and does your fee capture justify the rung above you within 24 months? (§5.2)
3. If a distribution partner internalizes your flow on the observed 18–24 month clock, what did you keep – data, customers, or nothing? (§8)
4. When machine-originated orders become the majority of your flow, who is your customer, and can your KYC, surveillance, and accountability frameworks answer that in writing? (§7)
5. Can your treasury and reconciliation genuinely run a bank rail and a stablecoin rail side by side – with different finality and failure semantics – or is that assumption untested? (§9.1)

13. Conclusion

In twenty-four months, prediction markets progressed from a regulatory gray zone to a multi-billion-dollar-per-week market structure backed by the parent of the New York Stock Exchange, distributed through the largest retail brokerages and sportsbooks in America, validated by Federal Reserve research, and contested in more than a dozen courtrooms at once. That combination – explosive adoption and unresolved legal foundations – is precisely what makes this moment decisive. The infrastructure, surveillance, compliance, and data decisions institutions make in 2026 and 2027 will determine who captures the event-contract franchise as it institutionalizes. The prudent posture is neither dismissal nor uncritical enthusiasm, but deliberate, well-engineered participation with strategies robust to the full range of regulatory outcomes. Wissen is committed to helping the industry build that participation on sound foundations.

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