
CHAMBERS GLOBAL PRACTICE GUIDES

Derivatives 2026

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**UK: Law and Practice
& Trends and Developments**

Carolyn Jackson, Nathaniel Lalone,
Christopher Collins and Ciara Watson
Katten





Law and Practice

Contributed by:

Carolyn Jackson, Nathaniel Lalone, Christopher Collins and Ciara Watson
Katten

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Katten has a financial markets and regulatory team that advises a wide range of clients – proprietary traders, brokers, investment managers, commodity trading companies, corporates, exchanges and clearing organisations – on an equally wide range of commercial transactions encompassing many different asset classes, including crypto and emerging event-driven products. This breadth of practice gives the team a valuable perspective and a basis for creative problem-solving. The practice is founded on a deep understanding of derivatives regulation, mar-

ket practices and documentation. The team helps clients understand and comply with the myriad rules and regulations affecting their businesses, and negotiate agreements to assist clients in closing deals rather than prolonging the negotiation process. The UK team is fully co-ordinated with its US practice, enabling the lawyers to provide efficient and effective cross-border advice to clients doing business on both sides of the Atlantic, and to design three-cornered analyses for their activities in the UK, EU and US.

Authors



Carolyn Jackson is a partner and co-head of Katten's financial markets and regulatory practice in London. A dual-qualified lawyer (England and New York), she assists clients in solving complex cross-border issues

involving the regulation of financial institutions and financial products. A well-respected leader in the financial markets industry, Carolyn is a member of the Financial Markets Law Committee, an expert for the Panel of Recognised International Market Experts in Finance and an editor of the Capital Markets Law Journal. Prior to becoming a lawyer, Carolyn was a derivatives trader for many years at various banks in New York.



Nathaniel Lalone (Nate) is a partner in the financial markets and regulatory practice in the London office of Katten, where he co-heads the team alongside Carolyn Jackson. A dual-qualified lawyer (England and New

York), Nate is sought out by leading market participants, including globally systemic market infrastructures, exchange groups, industry associations, clearing firms and banks on a wide array of challenging cross-border matters regarding access to trading and clearing, treatment of collateral, licensing, and netting and insolvency issues. Nate is a member of the global board of the Futures Industry Association (FIA) and is also a member of both the American Bar Association and the FIA's Law and Compliance Division.



Christopher Collins (Chris) is a dual-qualified (England and New York) partner in the financial markets and regulatory practice in the London office of Katten. Chris provides regulatory and compliance advice to

the full range of financial markets participants, including investment firms, banks, trading venues, clearing houses and software providers. He also advises firms on the rules affecting payment services, as well as the developing world of crypto-asset regulation. Chris is regularly asked to speak on international regulatory matters affecting clients and the industry more generally and has been quoted in a number of international financial news publications.



Ciara Watson is an associate in the financial markets and regulatory practice in the London office of Katten. She works with a range of market participants who grapple with regulatory and compliance matters

across the financial services sector. Ciara advises clients on a broad spectrum of matters, from negotiating International Swaps and Derivatives Association documentation to updating policies and procedures and providing regulatory insights and recommendations. Before joining Katten, Ciara worked in two large financial institutions, which afforded her insight into the in-house workings and an appreciation of the complex regulatory issues that similar institutions face on a day-to-day basis.

Katten

Paternoster House
65 St Paul's Churchyard
London
EC4M 8AB
UK

Tel: +44 020 7776 7620
Fax: +44 020 7776 7621
Email: carolyn.jackson@katten.co.uk
Web: www.katten.com/futuresandderivatives

Katten

1. General

1.1 Overview of Derivatives Markets

The UK's regulatory framework over the derivatives markets and products is currently comprised of a mixture of UK domestic and EU-derived rules and regulations. The key pieces of legislation and regulations that impact the UK derivatives markets include the following.

- Financial Services and Markets Act 2000 (FSMA) – this is the cornerstone of UK financial regulation. The “general prohibition” therein states that a person carrying out particular activities in relation to specified investments (including derivatives) must be authorised to do so or have an exemption. The FSMA also places restrictions on financial promotions (ie, invitations or inducements to engage in investment activity).
- Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (RAO) – this sets out the specified activities (eg, dealing as principal, arranging deals in investments) and specified investments that fall within the scope of the FSMA. Schedule 2 of the RAO lists 11 categories of financial instruments, with paragraphs 4–10 covering derivatives.
- European Market Infrastructure Regulation (EU EMIR) – although initially an EU regulation, post-Brexit, the UK adopted EU EMIR into domestic law (UK EMIR). UK EMIR and EU EMIR focus on the regulation of derivatives and introduced several requirements relating to over-the-counter (OTC) derivatives. Among other things, UK EMIR and EU EMIR require the central clearing of standardised OTC derivatives, reporting of transactions in all derivatives to trade repositories, and implementation of risk mitigation techniques for non-cleared OTC derivatives. UK EMIR and EU EMIR have also been amended over the years, including by the UK and EU EMIR Refit.
- The European Markets in Financial Instruments Directive II and Markets in Financial Instruments Regulation (EU MiFIR) (together, EU MiFID II) – similar to EU EMIR, EU MiFID II was also onshored in the UK (primarily through amendments to the FSMA, amendments to the Financial Conduct Authority (FCA) Handbook and an assimilated version of EU MiFIR (UK MiFIR; together, UK MiFID II)). These cover investment services and activities conducted in relation to financial instruments, including derivatives. UK MiFID II contains a number of significant measures relevant to derivatives, including requiring standardised derivatives to be executed on a trading venue, pre- and post-trade transparency requirements, and position limits for certain commodity derivatives. UK MiFIR also mandates the reporting of certain derivatives transactions.
- Regulation on Wholesale Energy Market Integrity and Transparency (UK REMIT) – UK REMIT applies to wholesale energy markets, covering contracts for the supply and transportation of electricity and natural gas, including derivatives. It includes obligations relating to registration, market abuse and reporting.

Derivatives can also fall within, or be affected by, a number of other legislative frameworks in the UK,

including the Short Selling Rules Sourcebook, Market Abuse Regulation, Benchmarks Regulation, Undertakings for Collective Investment in Transferable Securities (UCITS) Directive, Alternative Investment Fund Managers Directive, and capital rules.

1.2 Historical Trends and Looking Forwards

Following the global financial crisis of 2007–08 and the 2009 G20 Pittsburgh Summit agreement to, among other things, clear all standardised OTC derivative contracts through a central counterparty (CCP), the EU adopted EU EMIR in 2012. EU EMIR was intended to increase transparency in the OTC derivatives markets, mitigate credit risk and reduce operational risk, and it had a significant impact on the EU derivatives landscape.

The UK's departure from the EU in January 2020 also hugely influenced the development of the derivatives markets in the UK. EU financial markets legislation, including EU EMIR, was largely onshored in the UK following Brexit under the European Union (Withdrawal) Act 2018. However, the UK government intended to repeal and replace the majority of EU law with the UK's own domestic rules over time.

The Financial Services and Markets Act 2023, published in July 2023, established the legislative framework for the revocation of all EU retained law (now referred to as “assimilated” law) relating to financial services and the transition to new requirements under the UK's FSMA regime. The UK's HM Treasury (HMT) has begun the process of revoking assimilated EU legislation in a piece-by-piece manner. Such revocation relies upon the relevant UK regulators having drafted and consulted on replacement rules in the required areas. It is expected that it will take several years to complete the process of revoking assimilated EU law.

The UK's repeal and replacement programme for assimilated financial services legislation has continued through 2025–26. Attention has shifted to implementation of replacement FCA and Prudential Regulation Authority (PRA) rules. Any such replacement legislation and rules did not initially depart significantly from the EU law versions, but divergence is anticipated and is increasingly being observed. The commodity derivatives position limits framework and the

proposed overhaul of UK MiFIR transaction reporting regime are both examples of UK-specific approaches. Over time, as the EU continues to amend its rules and regulations, further divergence between the UK and EU regimes can be expected, with the potential for increased compliance costs for those international firms subject to both regimes. The authors have already seen the implications of this for firms that are subject to both the UK and EU EMIR Refit.

As with other jurisdictions, ESG (ie, environmental, social and governance practices), operational resilience, and the use of new technologies such as artificial intelligence and tokenisation/distributed ledger technology are also expected to have an impact on the development of the derivatives markets in the UK.

2. Types of Derivatives

2.1 Futures and Options

The UK does not use the term “futures” contract solely to refer to a derivative that must be traded on a UK-regulated market or an equivalent third-country market (ie, exchange). A futures contract, which is a regulated financial instrument under the RAO, can be traded both OTC as well as on a regulated market (ie, one that is registered with the FCA). Futures are defined in the RAO as “rights under a contract for the sale of a commodity or property of any other description under which delivery is to be made at a future date”. However, such a contract will not fall within the definition of a futures contract, and therefore not be a financial instrument when the contract is made for commercial rather than investment purposes. If such a contract is traded on a regulated market or third-country market, however, the contract will be deemed to be for investment purposes and will be a futures contract. The term “exchange-traded derivative” (ETD) is more frequently used in UK regulation to refer to derivatives traded on a UK-regulated market; however, the regulated markets themselves use the terms “futures” and “options on futures” to describe their products.

The UK currently only has five regulated markets, three of which are stock exchanges. The two non-stock exchanges, ICE Futures Europe (IFEU) and

the London Metal Exchange (LME), both list various futures and options on futures across an array of asset classes. IFEU lists such products for energy, soft commodities, emissions, interest rates and securities. The LME lists such products for various metals, including non-ferrous, ferrous and EV metals, and platinum.

In March 2024, the FCA announced that it would not oppose requests from regulated markets to list exchange-traded notes (ETNs) backed by crypto-assets. As a result, institutional investors can now participate in this type of trading. Additionally, a select group of multilateral trading facilities (MTFs) have been approved by the FCA to facilitate trading in crypto derivatives. In January 2021, the FCA implemented a ban on UK firms offering or selling crypto derivatives and exchange-traded notes that reference certain types of crypto-assets (cETNs) to UK retail consumers. In October 2025, the FCA lifted such ban in relation to cETNs. cETNs must now be listed on the FCA's Official List and traded on a UK recognised investment exchange. These should be classified as Restricted Mass Market Investments under the financial promotions regime. However, the crypto-asset derivative retail ban remains.

2.2 Swaps and Security-Based Swaps

In the UK, OTC derivatives (the financial instruments that are most similar to swaps and security-based swaps as defined under the US federal commodities and securities laws) that have underlying securities, as opposed to those on non-securities, do not have a distinct regulatory regime. Under UK EMIR, derivatives are linked to one of five applicable asset classes:

- interest rates;
- foreign exchange (FX);
- commodities;
- equity; and
- credit.

The regulation of derivatives under UK EMIR does not differ based on the derivative's underlying asset class.

Cleared OTC derivatives are not regulated separately from uncleared OTC derivatives under UK EMIR. Most of the UK regulation applicable to cleared OTC deriva-

tives under UK EMIR applies to the CCP and the clearing member.

2.3 Forwards

Under UK regulation, a "forward" is considered to be a form of derivative (and therefore a regulated financial instrument) and is generally regulated in the same way as any other form of derivative. However, in the UK, FX forwards and physically settled commodity forwards are regulated differently from forwards on interest rate, cash-settled commodities, equities and credit.

OTC derivatives on a commodity that must be physically settled and cannot be cash-settled, and are not traded on a regulated market, an MTF or an organised trading facility (OTF) – together, a trading venue – generally fall outside of the definition of a financial instrument and are therefore not subject to UK regulation.

Physically settled FX forward contracts and physically settled FX swaps contracts, although still regarded as financial instruments, are not subject to the obligation to exchange variation margin (VM) if one of the counterparties to the OTC derivative is not a credit institution or would not be such an institution if it were to be established in the UK. The posting of initial margin (IM) is not required for physically settled FX forward contracts and FX swaps.

2.4 Listed v Over-the-Counter

The regulation of derivatives under UK EMIR differs not by asset class but according to whether the derivative is an ETD or an OTC derivative. Derivatives can trade either bilaterally or on one of three types of regulated trading venues. If a derivative is traded on a regulated market, it is classified as an ETD (ie, listed). If a derivative trades on either an MTF or OTF, it is classified as an OTC derivative, as is any derivative agreed bilaterally between the two counterparties.

Under UK EMIR, both ETDs and OTC derivatives must be reported to an FCA-registered or FCA-recognised trade repository. The other UK EMIR obligations are only applicable to OTC derivatives and include:

- risk mitigation (including the uncleared margin rules (UMRs)); and
- mandatory clearing.

The G20 obligation of requiring mandatory trading of any OTC derivative subject to a mandatory clearing obligation is provided for in UK MiFID II.

2.5 Asset Classes

In the UK OTC derivatives market, interest rates are the largest traded asset class by a significant margin, with FX following in a distant second. Derivatives in the credit, equity and commodity asset classes represent a very modest share of the overall UK OTC derivatives market.

An emission allowance is a financial instrument under paragraph 11 of Schedule 2 of the RAO, but not a derivative. However, derivatives on emission allowances are included in the definition of a derivative in paragraph 4 of the RAO.

The UK is generally agnostic regarding the asset classes that can underlie a derivative contract. Paragraph 10 of Schedule 2 of the RAO includes a broad catch-all for evolving asset classes to include “any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments”. The FCA does, however, ban or restrict the sale of certain derivatives to retail consumers, including contracts for differences (CFDs) on equity securities and indices, commodities, FX and cryptocurrencies, spread bets and rolling spot FX transactions that qualify as financial instruments.

Derivative products related to crypto-assets and carbon credits (ie, UK allowances and voluntary carbon credits) are steadily increasing in size and liquidity.

2.6 Exemptions, Non-Derivative Products and Spot Transactions

As discussed in 2.3 Forwards, OTC commodity derivatives that must be physically settled and cannot be cash-settled, are not traded on a trading venue or equivalent third-country trading venues, or are equivalent to such transactions traded on such markets generally fall outside the definition of a financial instrument and therefore are out of scope of UK regulation, especially if one of the parties to the transaction is a supplier or producer of the commodity.

The UK does have a broad exemption for certain FX transactions that are either considered spot transactions or forward FX transactions connected to a payment transaction. Although an FX transaction involving two major currencies must be settled within two trading days to be considered a spot transaction, an FX transaction that is used for the main purpose of the sale or purchase of a transferable security or a unit in a collective investment scheme will also be considered a spot transaction if it settles within the shorter of:

- the period generally accepted in the market for the settlement of that security or unit as the standard delivery period; and
- five trading days.

Additionally, an FX transaction involving the exchange of a non-major currency for either another non-major currency or a major currency will be considered a spot transaction if it settles within the longer of:

- two trading days; and
- the period generally accepted in the market as the standard delivery period for that currency pair.

A physically settled FX forward contract will not be considered a financial instrument if:

- it is used as a means of payment;
- it must be physically settled (other than for reasons of a default or other termination event);
- one of the parties is not a financial counterparty (FC);
- it is not traded on a trading venue; and
- it is entered into to facilitate payment for identifiable goods or services, or for direct investment.

Physical spot commodities transactions do not fall within the definition of a financial instrument and therefore are not subject to UK regulation. A leveraged spot commodity transaction, however, would fall under the CFD definition and is therefore banned by the FCA from being sold to UK retail market participants.

3. Regulation of Derivatives

3.1 National

3.1.1 National Regulators

The PRA, which is part of the Bank of England, and the FCA are the UK regulators with primary responsibility for the supervision and oversight of derivatives market participants in the UK. The PRA's primary role is the authorisation and prudential regulation of banks, building societies and credit unions. In contrast, the FCA's primary role is to establish the business conduct standards that apply to derivatives market participants as well as the trading venues that list derivatives products for trading. The FCA is also responsible for the prudential supervision of firms that are not PRA-regulated.

Other UK regulators also play an important role and have significant responsibilities. The Bank of England supervises certain key market infrastructures that are vital to the derivatives markets, including CCPs and payment and settlement systems. Additionally, the UK's energy regulator, the Office of Gas and Electricity Markets (Ofgem), is responsible for the registration of market participants in the wholesale energy market, which encompasses wholesale energy derivatives under UK REMIT.

3.1.2 Clearing

There are two independent derivatives-clearing obligations under UK law. Under the first obligation, all derivatives concluded on a UK-regulated market must be cleared at a CCP without exception.

Separately, the Bank of England is responsible for determining which standardised OTC derivatives must be cleared at a CCP; this list currently includes a number of interest rate and index credit default products. Whether the clearing obligation applies to an in-scope product depends on the nature of the counterparties to the transaction. Generally, transactions between some combination of financial counterparties (FCs) and/or non-financial counterparties (NFCs) that exceed the clearing threshold applicable to the relevant asset class (NFC+s) must be cleared unless an exemption applies. Relevant exemptions include qualifying intra-group transactions, which are subject to an application process with the FCA, as well as

transactions by certain qualifying UK and EEA pension schemes, which the FCA has made permanent. In addition, certain "small" FCs are not required to clear OTC derivatives transactions that are otherwise subject to mandatory clearing, provided they do not exceed the relevant clearing threshold.

FCs and NFCs must therefore determine on an annual basis whether, for a given asset class, their cleared and uncleared derivatives not executed on a UK-regulated market or a third-country exchange deemed to be equivalent by the FCA, exceed the threshold applicable to a given asset class (currently EUR3 billion for interest rate and FX products, EUR6 billion for commodities products, and EUR1 billion for credit and equity products). In respect of commodities, the clearing threshold was doubled from EUR3 billion to EUR6 billion with immediate effect from 29 May 2026, pursuant to FCA Handbook Notice 141. The FCA's decision to raise the threshold was motivated by the sustained rise in commodity prices since the threshold was originally set in 2016, and reflects a concern that maintaining the previous threshold risked placing UK counterparties at a competitive disadvantage. The FCA has indicated that the increased threshold is a transitional measure pending its broader review of Title II of UK EMIR.

If a threshold is exceeded, the FC or NFC must begin clearing the relevant in-scope OTC derivatives within four months of crossing the relevant threshold(s). NFCs are permitted to exclude hedging transactions from UK EMIR clearing threshold calculation. NFC+s are only required to clear OTC derivatives in the asset classes where they exceed the relevant threshold, whereas a "small" FC that exceeds the relevant threshold in any asset class must then clear OTC derivatives subject to a clearing obligation in all asset classes.

The Bank of England has the authority to suspend the clearing obligation in respect of one or more OTC derivatives, initially for a period not exceeding three months, where certain conditions are met. The suspension period may be renewed for successive three-month periods, up to a maximum of 12 months. In December 2025, the Bank of England published a paper that proposed an exemption from the clearing

obligation for transactions that arise from post-trade risk reduction (PTRR) services. The Bank of England believed that this would support financial stability by reducing complexity and increasing the efficiency of PTRR.

3.1.3 Mandatory Trading

ETDs must, by definition, be concluded on a UK-regulated market or an equivalent third-country market.

Additionally, the FCA may decide that an OTC derivative, which is subject to a UK clearing obligation, is also subject to a UK trading obligation. This applies if the OTC derivative is traded or admitted to trading on at least one UK trading venue, or on a third-country trading venue deemed equivalent for the trading obligation. Furthermore, there must be adequate third-party buying and selling interest to facilitate trading in the product. Where the UK trading obligation applies to an OTC derivative, in-scope FCs and NFC+s must conclude all transactions in such an OTC derivative on a UK or equivalent third-country trading venue. Currently, only venues in Singapore and the United States regulated by the Commodity Futures Trading Commission benefit from such equivalence, although the FCA has used its powers in relation to the UK trading obligation to permit firms to transact on EU trading venues in certain circumstances.

The UK's rules require that derivatives' clearing and trading obligations operate together. This means that if the clearing obligation is suspended, the related trading obligation is also suspended.

3.1.4 Position Limits

In February 2025, the FCA published a policy statement finalising rules overhauling the UK's position limits regime for commodity derivatives. The FCA's reforms are intended to enhance the flexibility and effectiveness of the limits, while maintaining the competitiveness of the UK market. Key aspects of the new framework, which took effect on 6 July 2026, are summarised below.

- The scope of the FCA's regime is limited to a prescribed set of 14 "critical contracts" listed for trading on the LME and ICE Futures Europe, which have been designated based on the risks associ-

ated with abusive or disorderly trading practices in such contracts, and the FCA's determination that position limits are most likely to mitigate such risks. Responsibility for setting the relevant position limits rests with the venues themselves rather than the FCA; however, venues are required to satisfy the criteria and standards set by the FCA when establishing their limits.

- The new framework also establishes a mechanism for identifying certain contracts that are "closely related" to the identified "critical contracts"; such "closely related" contracts will then be included within the applicable position limit calculations. The closely related contracts replace the economically equivalent OTC (EEOTC) contracts from the previous regime.
- The UK position limits apply regardless of the location of the person at the time of entering into a position, or the location of execution.

Where the FCA determines that a commodity derivative should be added to the list of critical contracts, market participants will have a 45-day notice period to submit comments, following which the determination will be amended or finalised. Trading venues must then establish and apply the relevant limits no later than the date on which the contract becomes a critical contract.

Eligible firms may apply to the FCA for an exemption from an applicable position limit. The revised UK framework maintains the so-called "hedging" exemption for non-financial firms in relation to positions that qualify as reducing risks relating to their commercial activities. The FCA has also added a new "pass-through" hedging exemption for financial firms that facilitate hedging activities, as well as a further exemption for liquidity providers in critical contracts.

UK trading venues must establish position accountability thresholds in the spot month, which are set below the applicable position limit to monitor activity in the contract. Trading venues are also afforded a measure of discretion when determining whether to establish position accountability thresholds in non-spot months for critical contracts.

When a market participant exceeds an accountability threshold, a trading venue in the UK must have rules that empower it to require the market participant to provide information. This includes details about the market participant's OTC activities and any client-related trading. The UK trading venue also has the authority to require the market participant to reduce its position to below the accountability threshold.

3.1.5 Reporting

Both UK EMIR and UK MiFIR impose reporting requirements on OTC derivatives transactions.

UK EMIR Derivatives Transaction Reporting

Article 9, UK EMIR requires UK counterparties and CCPs to report all ETDs and OTC derivatives concluded, modified or terminated to a trade repository registered or recognised by the FCA by the following working day. As of 30 September 2024, due to UK EMIR Refit, all UK counterparties (including those that are unregulated) that are required to report under UK EMIR must notify the FCA (or in the case of CCPs, the Bank of England) of any material errors or omissions in their reporting as soon as they become aware of them. UK EMIR previously required 129 reporting fields for each transaction reported, but this was increased to 204 on 30 September 2024 due to the requirements under UK EMIR Refit.

UK EMIR requires double reporting. This means that both counterparties to a derivative are solely responsible and legally liable for reporting their side of the derivative with the exception that, due to the changes brought in by UK EMIR Refit, an FC is obliged to report both sides of the OTC derivatives it enters into with an end user that is an NFC below all UK EMIR clearing thresholds (NFC-), unless such NFC- determines to do its own reporting. Further, an NFC- is not required to report any OTC derivative transaction with a third-country entity that would be an FC were it to be established in the UK, where an equivalence decision for reporting has been made for that jurisdiction. In addition, UK EMIR, as amended by UK EMIR Refit, requires an alternative investment fund manager (AIFM) to report on behalf of its alternative investment fund (AIF), and the management company of a UCITS to report on behalf of UCITS. Due to the fact that UK EMIR Refit has modified the definition

of an FC to include both an AIFM and an AIF, a UK AIFM is required to report the OTC derivatives entered into by any of the third-country AIFs it manages, as well as for its UK AIFs. Delegated reporting is permitted under UK EMIR, but the UK counterparty with UK EMIR reporting obligation remains solely responsible and legally liable for the reporting.

Due to the UK's back-to-back clearing model, an ETD can be required to be reported by multiple counterparties. For example, if an investment firm enters into an ETD through its clearing firm, which a CCP then clears, all parties involved – namely the investment firm, the clearing firm, and the CCP – will be required to report the ETD. This will result in four reports, as each entity must document its respective part of the transaction.

UK EMIR provides an exemption from the reporting obligation for intra-group transactions, which requires at least one counterparty to be an NFC (or that it would be if it were established in the UK) and notification to the FCA. The exemption additionally requires that:

- both counterparties are included in the same consolidation on a full basis;
- both counterparties are subject to appropriate centralised risk evaluation, measurement and control procedures; and
- the parent undertaking is not an FC.

UK MiFIR Transaction Reporting

UK MiFIR requires all UK investment firms to report transactions they execute in certain financial instruments to the FCA. Such reports must be made as soon as possible, and no later than the close of the next working day. The requirement applies to trades in financial instruments, including derivatives, to which any of the following criteria apply:

- they are admitted to trading or are traded on a UK, Gibraltar or EU trading venue;
- the underlying is a financial instrument traded on a UK, Gibraltar or EU trading venue; or
- the underlying is an index or basket composed of financial instruments traded on a UK, Gibraltar or EU trading venue.

“Transaction” and “execution” each have specific definitions for the purposes of the transaction reporting regime:

- “Transaction”:
 - (a) includes the purchase/sale of a financial instrument, entering into/closing out a derivative contract or an increase/decrease in the notional amount of a derivative contract; and
 - (b) specifically excludes certain post-trade and settlement-related actions, including contracts arising exclusively for clearing or settlement purposes, the post-trade assignment or novation of a derivative contract and portfolio compressions.
- “Execution” includes the reception and transmission of orders (unless made under certain specified requirements), the execution of orders on behalf of clients, dealing on own account and making an investment decision in accordance with a discretionary mandate given by a client.

In November 2024, the FCA published a discussion paper on improving the UK’s transaction reporting regime, including removing unnecessary burdens for reporting firms. A follow-on consultation paper was published on 21 November 2025, which has multiple key proposals. These include removing FX derivatives from the scope of this reporting regime, and limiting the scope of the reporting regime to only financial instruments tradable on UK trading venues.

3.1.6 Business Conduct

A number of business conduct requirements can apply to parties engaged in derivatives trading in the UK, depending on their status under UK EMIR (eg, FC or NFC) and their regulatory status.

The key conduct requirements under UK EMIR include the following.

- Margin requirements – subject to certain exemptions and exceptions, UK EMIR margin requirements (VM and IM) generally apply where an FC or an NFC+ established in the UK enters into non-centrally cleared OTC derivative contracts with either another FC or NFC+, or a third-country

counterparty that would be an FC or NFC+ if it were established in the UK.

- Risk mitigation techniques – FCs and NFCs must implement risk mitigation techniques for OTC derivative contracts not cleared by a CCP. These techniques include timely confirmation, portfolio reconciliation, portfolio compression, and dispute resolution processes.
- Mark-to-market and mark-to-model valuations – FCs and NFCs must perform daily mark-to-market valuations of their derivative positions. If market conditions prevent this, they must use reliable and prudent mark-to-model valuations.
- Reporting obligations – as discussed in **3.1.5 Reporting**.
- Clearing obligations – as discussed in **3.1.2 Clearing**.
- UK FCs, as authorised entities, can also be subject to the full range of requirements under, among other things, UK MiFID II and the FCA’s Handbook. This includes the FCA’s high-level principles, as well as specific requirements relating to, for instance:
 - (a) financial promotions and client communications;
 - (b) client classification and suitability;
 - (c) conflicts of interest;
 - (d) business continuity and outsourcing;
 - (e) the FCA’s Senior Managers and Certification Regime;
 - (f) market conduct;
 - (g) anti-money laundering, bribery and fraud; and
 - (h) record-keeping.

3.1.7 Commercial End Users

It would be prohibitively expensive for many end-users to have the middle- and back-office infrastructure to support compliance with UK EMIR reporting, clearing and risk management obligations and UK MiFID II trading obligations. Therefore, UK EMIR, as amended by UK EMIR Refit, provides substantial relief for those end users who are NFC-s. UK FCs must now report, on behalf of the NFC-, any OTC derivative transaction they enter into with an NFC-, unless the NFC-determines to do its own reporting. Further, NFC-s are no longer required to report the OTC derivatives transactions they enter into with third-country entities that would be FCs were they established in the

UK, provided a reporting equivalence decision has been made for that jurisdiction. NFC-s are exempt from both UK EMIR clearing and UMRs. NFC-s are, however, subject to UK EMIR risk mitigation obligation, which requires portfolio reconciliation, dispute resolution and portfolio compression (if certain thresholds are met). However, such compliance obligations in general are more burdensome to the FC than to an NFC-; for instance, an NFC- can elect to be a receiving entity and not a sending entity for the purposes of the portfolio reconciliation obligation.

In contrast, NFC+s are equally subject to all UK EMIR obligations as an FC above one or more clearing thresholds (FC+). However, certain UK EMIR exemptions apply for NFC groups, regardless of whether the NFC is an NFC-. As discussed in **3.1.5 Reporting**, an exemption from UK EMIR reporting exists when, among other conditions, one party to the OTC derivative transaction is an NFC and the parent undertaking of the group is not an FC. An intra-group exemption from both UK EMIR clearing obligation and margin obligation for uncleared OTC derivatives exists for NFCs (and FCs) provided an application is filed with and granted by the FCA.

3.2 Local

UK regulation of the derivatives markets and market participants occurs solely at the national level.

3.3 Self-Regulatory Organisations, Independent Authorities and Exchanges

The UK derivatives regulatory regime does not have any “self-regulatory organisations” with quasi-statutory rulemaking authority akin to the US National Futures Association, nor do UK trading venues have the authority to establish or enforce any industry-wide standards or regulations.

4. Documentation Issues

4.1 Trading Documentation

4.1.1 Industry Standards and Master Agreements

Uncleared OTC Derivatives

Uncleared OTC derivatives are commonly governed by the standard agreements published by the International Swaps and Derivatives Association, Inc. (ISDA),

regardless of product type or counterparty, and are generally governed by either English or New York law.

As part of ISDA's aim to streamline derivatives documentation, it has developed a standardised framework of documentation for derivatives transactions. Such documents include:

- the 1992 and 2002 master agreements – a pre-printed framework document comprised of boilerplate provisions;
- the schedule to the master agreement – amends the terms of the master agreement as agreed by the parties;
- the credit support document – an optional document that offers each party security against the other party's credit risk, either in the form of:
 - (a) a credit support annex (CSA); or
 - (b) a credit support deed (CSD); and
- the confirmation – sets out the economic terms of an individual trade.

The master agreement, schedule, CSA (if any), and all confirmations form one single contract. The CSD (if any) is a standalone document.

Cleared OTC Derivatives

Cleared OTC derivatives can also be documented under standard ISDA documentation. However, frequently, a Futures Industry Association (FIA)–ISDA Cleared Derivatives Execution Agreement is used instead of negotiating a full ISDA. Additionally, an FIA–ISDA Cleared Derivatives Addendum is generally used to document the relationship between a clearing member and its client. However, there can be practical differences between the documentation process for cleared and uncleared OTC derivatives. For example, the cleared OTC derivatives documentation process is generally heavily dependent on automated information technology processes. Additionally, the terms of cleared OTC derivatives documents must conform to the relevant clearing house's contract specifications.

ETDs

The parties involved in ETDs do not execute bilateral derivatives documentation, such as the standard ISDA documentation, but are subject to the rules of the underlying exchange.

ETDs are generally governed by standard documentation in line with the exchange's contract specifications, as applied through the exchange's rules. If a party to an ETD is not itself a member of the exchange, it will be required by its clearing firm and/or brokerage firm to negotiate a clearing/brokerage agreement, which is generally bespoke to each such firm.

4.1.2 Margins

ISDA has produced standard credit support documents that take the form of either a CSA or a CSD. Generally, the governing law of the credit support document matches the governing law of the ISDA master agreement (although this is not mandatory).

VM

In 2016, ISDA introduced a new CSA for VM that is used for documenting the posting of VM under English law (2016 VM CSA). The 2016 VM CSA forms part of a suite of credit support documents introduced to aid compliance with margin requirements for derivatives that are not subject to mandatory clearing under UK EMIR and comparable legislation in other major financial jurisdictions.

The 2016 VM CSA revises the 1995 ISDA CSA (Bilateral Form–Transfer) (1995 CSA) to allow parties to determine VM arrangements that meet the regulatory requirements for uncleared derivatives (ie, UMRs) that entered into force in March 2017. The structure of the 2016 VM CSA remains consistent with the 1995 CSA. The updates in the 2016 VM CSA relate solely to VM. ISDA has also published a 2016 VM CSA under New York law.

ISDA has also published the 2016 Variation Margin Protocol to help market participants comply with the VM requirements of the UMRs. This enables market participants to amend their CSAs with multiple counterparties to comply with the UMRs.

IM

Under UK EMIR, as further detailed in the UMRs, parties to a derivatives agreement are required to post IM if they have uncleared derivatives portfolios with an aggregate average notional amount exceeding certain thresholds.

At a minimum, parties will likely need the following suite of documentation regarding the posting of IM:

- a collateral agreement between the parties – the relevant CSA, CSD or collateral transfer agreement and security agreement (where posted collateral is held outside the UK or with Euroclear/Clearstream);
- an account control agreement – a tripartite agreement between the parties and the custodian, which sets out control and access provisions in accordance with the relevant segregation requirements under the applicable margin rules;
- an eligible collateral schedule between the parties;
- a custody agreement between a party and the custodian; and
- a Euroclear/Clearstream representative agreement – required where the counterparty posts IM via Euroclear/Clearstream.

4.1.3 Other Agreements

Global Master Repurchase Agreement (GMRA)

Repurchase (repo) transactions can be documented individually, but they are typically documented under a master agreement. The International Capital Market Association (ICMA) and the Securities Industry and Financial Markets Association (SIFMA) have published standard forms of the repo master agreement, namely the GMRA.

The 2011 version of the GMRA is generally used to document non-US repo transactions.

The GMRA is comprised of three parts:

- standard boilerplate legal and credit provisions – these include warranties, events of default, margining provisions and netting provisions;
- annexes – Annex I allows the parties to modify the boilerplate provisions of the GMRA, and certain other annexes can be added to cover particular types of security; and
- confirmation – this contains the commercial terms of each repo transaction.

Global Master Securities Lending Agreement (GMSLA)

Securities lending transactions are usually documented by the GMSLA, which is a market standard master

agreement produced by the International Securities Lending Association (ISLA). The ISLA is a trade association representing the interests of participants in the securities lending market.

The GMSLA was originally drafted to comply with English law on securities lending. It has been developed as a market standard for securities lending and sets out the obligations of the borrower and the lender. It is now recognised as the most-used agreement in the UK and EU bilateral securities lending market. While various versions of the GMSLA exist, the 2010 version is the most widely used for new trading relationships.

The GMSLA is comprised of the following parts:

- master agreement – the preprinted form;
- schedule – where the parties can amend the preprinted form;
- confirmation – sets out the economic terms of individual securities lending transactions; and
- annexes and addendums – there are various annexes and addendums that the parties might agree to attach to the GMSLA (eg, the agency annex and an addendum for pooled principal agency loans).

Master Repurchase Agreement (MRA)

The MRA, published by SIFMA, is the primary form of standardised repo agreement used for US repo transactions. The latest version of the MRA was published in 1996 by SIFMA.

Master Securities Lending Agreement (MSLA)

The MSLA, published by SIFMA, is the primary form of standardised agreement used for US securities or stock lending transactions.

Master Securities Forward Transaction Agreement (MSFTA)

The MSFTA, published by SIFMA, is the primary form of standardised agreement used to document a US securities forward transaction that is subject to margin requirements under Financial Industry Regulatory Authority Rule 4210.

4.2 Clearing Documentation

In summary, the following documents may be relevant with respect to cleared derivatives.

- CCP rulebook and procedures – these set out details in relation to access to clearing and how clearing works.
- Clearing agreement between the clearing member and the client – the terms on which contracts are cleared are stipulated in the clearing house's standard clearing agreement. The FIA has published terms of business that are commonly used to document this relationship.
- Collateral agreement regarding the cleared transactions – pursuant to this agreement, the client will provide IM and VM to the clearing member, who then posts IM and VM to the CCP.
- Other ancillary agreements between the clearing member and the client – these include engagement letters and service and licensing agreements.
- Indirect clearing documentation between the clearing member, client and indirect client, as appropriate – this documents the provision of indirect clearing services along an indirect clearing chain. The FIA has published a number of industry-standard documents to help firms comply with the indirect clearing requirements.

4.3 Opinions and Other Documentation Issues

While legal opinions are not generally required by regulation in this jurisdiction for entering into derivatives under trading agreements, various opinions and other documents in this section are widely used in the derivatives market and have been issued for this jurisdiction.

ISDA Opinions

ISDA has published several legal opinions covering various issues and jurisdictions. Such opinions include, among others:

- netting opinions;
- collateral opinions;
- Notices Hub Platform (Notices Hub) opinions;
- international financial institutions' opinions; and
- client clearing opinions.

To the degree that a UK counterparty is not covered under UK ISDA netting or collateral opinion, its counterparty would likely request an opinion relating to the UK counterparty's capacity and authority to enter into the transaction, as well as a netting and collateral opinion.

ISDA Netting and Collateral Opinions

ISDA has commissioned netting opinions in over 80 jurisdictions and collateral opinions in over 60 jurisdictions, including for England and Wales. These opinions are available to ISDA members and are generally updated on an annual basis.

The ISDA netting opinions address the enforceability of the termination, bilateral close-out netting and multibranch netting provisions of the 1992 and 2002 ISDA master agreements. The collateral opinions examine the enforceability of the ISDA credit support documents in different jurisdictions. The ISDA England and Wales netting and collateral opinions currently consider the following English entities (as defined in such opinions, as necessary):

- corporations;
- friendly societies;
- co-operative or community benefit societies;
- statutory corporations;
- chartered corporations;
- banks/credit institutions;
- investment firms;
- building societies;
- banking group companies and bank holding companies;
- trustees of English trusts;
- insurance companies;
- charities;
- pension funds;
- investment funds;
- partnerships;
- Standard Chartered Bank;
- the Bank of England (only considered in the netting opinion); and
- the UK acting through HMT (only considered in the netting opinion).

ISDA Notices Hub Opinion

ISDA has published a memorandum of law considering certain issues arising under English law in relation to the Notices Hub. The Notices Hub is an online central platform developed by ISDA and S&P Global Inc, initially to provide market participants with a secure electronic means to:

- deliver and receive certain notices under ISDA Master Agreements; and
- update their notice address information for delivering notices by other permitted means.

Future releases may enable similar functionality on the Notices Hub for other Master Agreements.

ISDA Protocols

ISDA has published various contractual amendment mechanisms that enable parties to enter into standardised amendments through adhering to relevant protocol agreements with counterparties. Generally, ISDA publishes these protocols in response to regulatory, technological and market developments. The ISDA protocols relating to the UK include:

- the ISDA 2025 Notices Hub Protocol;
- the ISDA 2020 UK EMIR Portfolio Reconciliation, Dispute Resolution and Disclosure Protocol;
- the ISDA 2020 UK (PRA Rule) Jurisdictional Module to the ISDA Resolution Stay Jurisdictional Modular Protocol;
- the ISDA 2016 Bail-in Article 55 BRRD Protocol; and
- the ISDA 2013 EMIR NFC Representation Protocol.

5. Enforcement Trends

5.1 Regulator Priorities and Enforcement Trends

UK EMIR Derivatives Reporting Enforcement

To date, the FCA has only taken one enforcement action in October 2017 in respect of UK EMIR transaction reporting, specifically regarding ETDs. Such action was against a large financial institution for breach of the transaction reporting requirements under Article 9, UK EMIR and Principle 3 of the FCA's Principles for Businesses in the FCA Handbook. The

FCA noted that this was the first enforcement action against a firm for failing to report details of trading in ETDs under UK EMIR.

UK MiFID II Transaction Reporting in Respect of Derivatives

In contrast, the FCA has been more active in taking enforcement actions against UK firms for failure to report transactions under UK MiFID II, and the predecessor regime under the original Markets in Financial Instruments Directive (MiFID) that entered into force in 2007.

Under the predecessor regime, the FCA fined 14 firms for MiFID transaction-reporting breaches. In 2019, the FCA fined a large financial institution GBP34.3 million for failing to provide accurate and timely reporting relating to 220.2 million transaction reports. In January 2025, the FCA fined an investment firm GBP99,200 for failing to submit 46,053 transaction reports under UK MiFIR. This was the first enforcement action against a firm for a breach of transaction reporting requirements under UK MiFIR. Subsequently, in July 2025, the FCA fined another investment firm GBP1.1 million for submitting transaction reports to the FCA that were either incomplete, inaccurate, or both, over a period of five years. The FCA found that these deficiencies affected 924,584 transactions, which represented nearly 100% of the reportable transactions undertaken by all of the firm's trading desks during this period.

As a result of UK EMIR Refit, there are several new reporting standards under UK EMIR (including an increase in the number of reporting fields from 129 to 204), which came into effect on 30 September 2024 in the UK. While the FCA took a lenient approach during the transition period for transaction-reporting errors relating to UK EMIR Refit, which ended on 31 March 2025, the FCA will continue to take a strict approach regarding any transaction-reporting breaches under UK MiFID II.

FCA's Key Priorities

The FCA has launched its five-year strategy for 2025–2030 (“Strategy”), focusing on its priorities to deepen trust, rebalance risk, support growth and help consumers.

The FCA publishes an annual work programme detailing the work that it intends to complete over the next 12 months. In line with the Strategy, the FCA's work programme for 2025–26 explains that the FCA will continue to deliver on its four strategic priorities:

- being a smarter regulator who is more efficient and effective;
- supporting growth;
- helping consumers navigate their financial lives; and
- fighting financial crime.

The FCA explains that it supports these priorities through its ongoing focus on technology, data and the development of its workforce to match future needs.

Separately, the FCA regularly publishes its Market Watch newsletter. This is the FCA's newsletter on market abuse risks, transaction reporting issues and other market conduct issues. The newsletter aims to assist market participants in understanding such areas and considering the related practices.

Trends and Developments

Contributed by:

Carolyn Jackson, Nathaniel Lalone, Christopher Collins and Ciara Watson
Katten

Katten has a financial markets and regulatory team that advises a wide range of clients – proprietary traders, brokers, investment managers, commodity trading companies, corporates, exchanges and clearing organisations – on an equally wide range of commercial transactions encompassing many different asset classes, including crypto and emerging event-driven products. This breadth of practice gives the team a valuable perspective and a basis for creative problem-solving. The practice is founded on a deep understanding of derivatives regulation, mar-

ket practices and documentation. The team helps clients understand and comply with the myriad rules and regulations affecting their businesses, and negotiate agreements to assist clients in closing deals rather than prolonging the negotiation process. The UK team is fully co-ordinated with its US practice, enabling the lawyers to provide efficient and effective cross-border advice to clients doing business on both sides of the Atlantic, and to design three-cornered analyses for their activities in the UK, EU and US.

Authors



Carolyn Jackson is a partner and co-head of Katten's financial markets and regulatory practice in London. A dual-qualified lawyer (England and New York), she assists clients in solving complex cross-border issues

involving the regulation of financial institutions and financial products. A well-respected leader in the financial markets industry, Carolyn is a member of the Financial Markets Law Committee, an expert for the Panel of Recognised International Market Experts in Finance and an editor of the Capital Markets Law Journal. Prior to becoming a lawyer, Carolyn was a derivatives trader for many years at various banks in New York.



Nathaniel Lalone (Nate) is a partner in the financial markets and regulatory practice in the London office of Katten, where he co-heads the team alongside Carolyn Jackson. A dual-qualified lawyer (England and New

York), Nate is sought out by leading market participants, including globally systemic market infrastructures, exchange groups, industry associations, clearing firms and banks on a wide array of challenging cross-border matters regarding access to trading and clearing, treatment of collateral, licensing, and netting and insolvency issues. Nate is a member of the global board of the Futures Industry Association (FIA) and is also a member of both the American Bar Association and the FIA's Law and Compliance Division.

UK TRENDS AND DEVELOPMENTS

Contributed by: Carolyn Jackson, Nathaniel Lalone, Christopher Collins and Ciara Watson, **Katten**



Christopher Collins (Chris) is a dual-qualified (England and New York) partner in the financial markets and regulatory practice in the London office of Katten. Chris provides regulatory and compliance advice to

the full range of financial markets participants, including investment firms, banks, trading venues, clearing houses and software providers. He also advises firms on the rules affecting payment services, as well as the developing world of crypto-asset regulation. Chris is regularly asked to speak on international regulatory matters affecting clients and the industry more generally and has been quoted in a number of international financial news publications.



Ciara Watson is an associate in the financial markets and regulatory practice in the London office of Katten. She works with a range of market participants who grapple with regulatory and compliance matters across the financial services sector. Ciara advises clients on a broad spectrum of matters, from negotiating International Swaps and Derivatives Association documentation to updating policies and procedures and providing regulatory insights and recommendations. Before joining Katten, Ciara worked in two large financial institutions, which afforded her insight into the in-house workings and an appreciation of the complex regulatory issues that similar institutions face on a day-to-day basis.

Katten

65 St Paul's Churchyard
London
EC4M 8AB
UK

Tel: +44 020 7776 7620
Fax: +44 020 7776 7621
Email: carolyn.jackson@katten.co.uk
Web: www.katten.com/futuresandderivatives

Katten

Prediction Markets: A Wholesale Opportunity for the UK?

The rise of prediction markets has been one of the most striking developments in the global financial landscape in the last one to two years. In the United States, platforms offering contracts that pay out according to the outcome of real-world events – elections, interest rate decisions, sporting fixtures and economic releases – have grown from a niche curiosity into a multibillion-dollar industry attracting institutional attention. The UK, by contrast, has adopted a markedly cautious posture, with the Financial Conduct Authority (FCA) treating financially referenced prediction market products as binary options that remain caught by a permanent retail ban. Yet the UK's longstanding concerns regarding the retail dimension of these products need not be the end of the story. There is, in the authors' view, a genuine and credible opportunity to develop a vibrant wholesale prediction markets ecosystem in the UK – one built for institutional and professional participants, and capable of connecting to the ever-expanding US market. With a new Prime Minister now in office, there is a timely opportunity to rethink the government's approach to these products. This article examines what prediction markets are, how the regulated market has developed outside the UK, the constraints of the UK regulatory perimeter, and how a UK wholesale market might be constructed and bridged to the wider world.

What are prediction markets?

At their core, prediction markets are trading platforms on which participants buy and sell contracts referencing the outcome of uncertain future events. To be listed, an event must generally have a binary “yes” or “no” outcome and be capable of resolution within a defined timeline. Each contract is typically priced between USD0.01 and USD1.00, with the price representing the market's collective assessment of the probability that the event will occur; a contract trading at USD0.85 implies an 85% chance of the predicted outcome. Prices fluctuate with trading behaviour until the event is resolved, at which point winning contracts settle at USD1.00 and losing contracts fall to zero.

According to supporters, the intellectual appeal of prediction markets lies in their capacity to aggregate dispersed information. By rewarding accurate fore-

casts with financial payoffs, they draw on the collective judgement of many participants to generate probability estimates that have, in some instances, outperformed conventional polling and expert opinion. One of the oldest online examples is the Iowa Electronic Markets, run by the University of Iowa since 1988, which has predicted presidential election outcomes more reliably over time than conventional polling, and sits outside CFTC and SEC oversight, the regulators having issued two no-action letters in recognition of its academic, non-commercial nature.

Prediction markets differ in their underlying mechanics.

A continuous double auction matches buyers and sellers in real time, requiring the operator to maintain a ledger of trades and deliver the payoff to the final holder of each contract.

Automated market makers provide liquidity by having the operator take the opposite side of trades where no natural counterparty exists, adjusting prices or payoffs as positions accumulate.

Play money markets substitute virtual tokens for real currency; because no real money is staked, this model can allow such markets to operate in jurisdictions where real-money gambling is restricted.

Blockchain-based, decentralised markets dispense with a central operator altogether, using smart contracts and “oracles” – bridges to external data sources – to resolve events and execute payouts automatically.

The fundamental difference from ordinary sportsbooks is that prediction markets operate on a participant-to-participant basis; because there is no house on the other side of the trade, prices are shaped by the crowd's collective judgement rather than dictated by a bookmaker.

The contemporary market is populated by a growing and increasingly diverse set of participants but trading to date has been overwhelmingly retail driven.

The growth of regulated prediction markets outside the UK

The modern, regulated prediction market is largely a US phenomenon. Although such markets have existed in the United States for some time, their use expanded rapidly in the Autumn of 2024 with contracts being offered on political outcomes. The CFTC sought to prohibit these contracts on the basis that they were akin to gaming and contrary to the public interest; however, the decision was challenged in court, with a federal appeals court permitting it to revive a fully regulated election prediction market in October 2024. Following the change of administration, the CFTC subsequently dropped its challenge.

The regulatory architecture underpinning the US market is instructive. An event contract is treated as a transaction structured around a binary outcome and providing a payoff based on the occurrence or non-occurrence of an event with commercial, financial or economic consequences. These contracts are classified as either futures contracts or swaps, depending on their precise economic terms and whether and how they are listed on US exchanges. In either case, the CFTC exercises exclusive jurisdiction over such swaps or futures under the Commodity Exchange Act (CEA), and total trading volume on CFTC-registered markets exceeded USD25 billion in 2025. Critically, the CEA does not impose a categorical retail ban. Instead, the CFTC may restrict contracts referencing certain enumerated activities – including gaming, terrorism and war – only where it makes an affirmative determination that they are “contrary to the public interest”. In June 2026, the CFTC proposed rules clarifying these public interest factors, emphasising informational value and hedging utility rather than blanket prohibition, and contemplating that contracts on political elections, economic indicators and aggregate sports outcomes are generally permissible subject to appropriate safeguards.

The market has expanded to cover crypto, economics, company performance and sports. This expansion has drawn both capital and conflict. Incumbent gaming interests, Tribal nations and several states have filed lawsuits and cease-and-desist letters, while other participants have raced to take advantage. The trajectory has attracted bold forecasts – analysts at Bern-

stein have projected that the sector will reach USD1 trillion in annual volumes by 2030, with 2026 volumes expected to reach USD240 billion.

The US market nonetheless remains contested and politically charged. President Trump has publicly insisted that the CFTC should retain “exclusive authority” over prediction markets, even as Minnesota became the first state to ban them outright. The industry has also confronted genuine integrity concerns. These episodes underscore that, even within a comprehensive federal framework, prediction markets raise novel questions of market abuse, surveillance and consumer protection that any prospective UK market would need to confront.

The UK regulatory landscape: hostile but not closed

The UK approach could hardly be more different. The starting point is the general prohibition under the Financial Services and Markets Act 2000 (FSMA): no person may carry on a regulated activity in the UK unless authorised or exempt. In addition, prior to the UK’s exit from the EU, the FCA implemented a permanent ban on the sale, marketing and distribution of binary options to retail consumers in the UK. This action followed temporary product intervention measures in the EU for such products by the European Securities and Markets Authority (ESMA), which were subsequently replaced by equivalent, permanent national restrictions across EU member states in 2019. The critical question for any prediction market product is therefore whether, and how, it engages the regulatory perimeter.

The FCA addressed this squarely in its March 2026 perimeter report. It described prediction market products (also referred to as event, forecast or horizon contracts) as speculative products allowing consumers to take binary “yes”/“no” positions on future events, and noted their rapid overseas expansion. The FCA distinguished between products by reference to the nature of the underlying event. Products linked to non-financial events, such as sporting or political outcomes, fall under the Gambling Commission’s remit; but where a product references financial or certain climatic events, it falls within the FCA’s regulatory perimeter. Crucially, the FCA’s current view is that the financial prediction

market products it has seen are binary options – and as such they remain subject to the FCA’s permanent ban on the sale of binary options to retail consumers, which the FCA considers appropriate given the “speculative, gambling-like nature of these contracts and the high risk of consumer harm”. This mirrors the FCA’s longstanding treatment of spread betting, under which financial spread bets may fall within MiFID regulation while sports and political spread bets cannot be treated as MiFID instruments.

This UK position accords closely with the direction of travel in the European Union. On 3 July 2026, ESMA published a statement clarifying that an event contract is likely to be a binary option subject to the EU’s retail ban where it qualifies as a “financial instrument” for MiFID purposes. That assessment turns on a careful review of Sections C(4) to C(10) of Annex I to MiFID II, and is likely to be met where the event relates to securities, currencies, interest rates, commodities, climatic variables, inflation or other official economic statistics, together with a broad catch-all for instruments having the characteristics of other derivatives. For ESMA, the essential test is whether the contract has a “binary nature” – a binary outcome and a binary payout – and the marketing, distribution and sale of such contracts to EU retail investors is completely prohibited, with only MiFID-authorized investment firms able to make them available to non-retail investors. ESMA’s statement is a valuable comparative signal: it confirms that, on both sides of the Channel, the retail door is firmly closed, but it also expressly contemplates that these products may lawfully be offered to non-retail investors.

The UK’s clearing framework for derivatives may add a further layer of complexity. For example, any event contracts traded on an RIE must be cleared through an authorised CCP (or a recognised third-country CCP), so this solution would require a CCP to be willing to clear and risk-manage these products, including convincing the Bank of England that it has sufficient systems and controls, and product expertise, to do so. Moreover, any counterparty transacting in an event contract on an OTC basis would almost certainly need to factor the notional value of such transactions into its clearing threshold calculations as well as deter-

mine whether such transactions are subject to the uncleared margin rules.

The UK regime is designed for investment-related risks and does not fully address the risks of non-financial event-driven markets, and the FCA has acknowledged that clarity from the Treasury on the appropriate regulatory boundary would assist as new products enter the market. The retail environment is distinctly unwelcoming – but nothing in the FCA’s or ESMA’s analysis forecloses the development of a wholesale market for professional and institutional participants.

Building a UK wholesale prediction market

If the retail market is closed, the wholesale market may be where the UK’s opportunity lies. Three sets of questions arise: the regulatory pathway, participant eligibility, and product design.

On the regulatory pathway, the most natural home for institutional-grade event contracts is an authorised trading venue. A UK recognised investment exchange (RIE), or a multilateral trading facility (MTF) operated by an authorised investment firm, provides an established framework for listing and trading derivatives referencing a wide range of asset classes. Indeed, ICE Futures Europe has recently announced that it plans to make available certain “economic indicator contracts” on its exchange platform, an early indication that established UK venues see scope to list event-style products within the existing regulatory framework.

As the treatment of crypto-asset exchange-traded products has demonstrated, a UK RIE must ensure that any product it lists is capable of being traded in a fair, orderly and efficient manner, must maintain systems and controls to monitor transactions and detect market abuse, and must give the FCA notice, together with the relevant terms and conditions, before listing a new contract. Derivatives concluded on a UK RIE would, as with any other listed derivative, need to be cleared at an EMIR-authorized CCP and would thereby be subject to margin and other risk management requirements designed to protect the integrity of the market. The FCA’s recent decision to lift its ban on retail access to RIE-listed crypto-asset exchange-traded notes – products previously prohibited for retail

investors – on the basis that they are traded on an RIE and satisfy certain additional conditions, illustrates how venue-based safeguards can open the door to products once considered off-limits.

An alternative or complementary route lies in the Designated Activities Regime created by FSMA 2023, which enables the Treasury to designate activities and confer rule-making, supervisory and enforcement powers on the FCA – a flexible mechanism that could, in principle, be tailored to event contracts without disturbing the existing RAO framework.

On participant eligibility, the crucial distinction is between retail and professional counterparties. Because the FCA's binary options ban and ESMA's equivalent measures bite at the retail level, a wholesale market would need robust gatekeeping to ensure that access is confined to professional clients, eligible counterparties and, potentially, appropriately certified sophisticated investors. The existing financial promotion exemptions for “high-net-worth” and “sophisticated” investors offer a conceptual template, although the FCA has expressed concern that UK certification thresholds are set too low and that consumers frequently over-certify themselves – a caution any wholesale market design should heed. A disciplined eligibility regime would allow the UK to capture institutional demand while remaining faithful to the consumer protection rationale that underpins the retail ban.

On product design, there is considerable scope for engineering event exposure in a manner consistent with the UK's derivatives framework. A notable feature of event contracts as traded in the US is that they are generally fully collateralised, with each participant funding the maximum amount it can lose; in a wholesale market, by contrast, contracts could be structured on a leveraged or margined basis for professional counterparties, subject to appropriate risk controls. Contracts could be structured as event contracts or binary options offered exclusively to non-retail participants, echoing ESMA's express carve-out for MiFID-authorized firms dealing with non-retail investors. Alternatively, exposure to outcome probabilities could be delivered through more conventional derivative wrappers – for example, total return swaps or other instruments referencing an outcome index –

which sit comfortably within established documentation and clearing infrastructure. The value proposition is compelling: prediction markets increasingly function as a source of forward-looking, probabilistic risk signals that institutions can use to assess macro risk and allocate capital. A UK wholesale market built on the depth of London's derivatives ecosystem could position the UK as a hub for institutional-grade event risk trading – an ambition that aligns squarely with the government's growth mission and the FCA's mandate to facilitate the UK's international competitiveness.

Bridging the UK wholesale market and US prediction markets

A UK wholesale market would not exist in isolation. The most valuable liquidity and the deepest product range currently reside on US platforms, and the practical challenge is how to construct a connector between a UK wholesale market and the US prediction markets as they operate today. It would be premature to advocate for a single solution; the sensible course is to acknowledge the range of views while identifying the principal legal and operational issues that any model must resolve.

The first is cross-border regulatory recognition and market access. A UK institution wishing to access US event contracts, or a US platform wishing to reach UK professional participants, must navigate the interface between the CFTC's exclusive jurisdiction over event contracts and the UK's own perimeter and authorisation requirements. Mechanisms such as the Overseas Persons Exclusion may be relevant to how non-UK platforms interact with UK wholesale market participants.

The second is clearing and settlement interoperability. Because UK EMIR requires clearing through a UK-authorized or recognised CCP, and margining and risk mitigation obligations apply across borders, any connector must reconcile the clearing arrangements on each side and address collateral, netting and settlement finality.

The third is contractual documentation. This is of greatest relevance to event contracts that are not traded on an RIE – that is, those traded on a multilateral trading facility (MTF) or organised trading facility

(OTF), or entirely over the counter. For such products, established industry frameworks – most obviously the suite of documentation published by the International Swaps and Derivatives Association (ISDA) – provide a well-understood foundation for cross-border derivatives, and adapting these frameworks to event-referenced products would offer participants legal certainty on close-out, netting and default. The UK's demonstrated strength in derivatives documentation and cross-border structuring is a natural advantage in designing such a connector.

Underlying all of this is the need for robust market infrastructure. Far from being an obstacle, the UK's mature market abuse regime and RIE-level surveillance obligations are precisely the features that could make a UK wholesale venue an attractive, trusted node in a global prediction markets network.

Final thoughts

Prediction markets have travelled a remarkable distance in a short period, moving from academic experiments and decentralised curiosities to a rapidly institutionalising asset class with projected annual volumes measured in the hundreds of billions. The UK has, so far, kept these products at arm's length, treating financially referenced event contracts as binary options subject to a permanent retail ban and consigning sporting and political contracts to the gambling regime. That caution is understandable given the genuine risks of consumer harm and the integrity challenges the sector has already encountered.

But an inhospitable retail environment is not a closed market. Both the FCA and ESMA have been careful to preserve space for non-retail participation, and the wholesale opportunity is real. By leveraging its established RIE and MTF frameworks, its EMIR-based clearing infrastructure, its renowned derivatives documentation practice and its robust market abuse regime, the UK could build an institutional-grade wholesale prediction market and position itself as a trusted hub for event risk trading. Achieving this will require a disciplined approach to participant eligibility, thoughtful product design, and constructive engagement between the industry, the FCA and the Treasury on the appropriate regulatory boundary. While institutional participation remains at an early stage, US prediction market exchanges are showing signs of institutional adoption: combined market volume expanded from approximately USD9 billion in 2024 to more than USD40 billion in 2025 according to KPMG; Kalshi reported an 800% increase in institutional trading volume over six months as stated by Reuters; and institutional infrastructure is beginning to emerge. However, there is still little evidence that prediction markets have become a standard allocation within traditional asset management portfolios. If the UK puts the right regulatory and market infrastructure in place, there is no reason it cannot play a leading role in the next chapter of this fast-evolving global market.

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