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TRADING ON INTEGRITY: THE FORTHCOMING RECKONING FOR SURVEILLANCE IN PREDICTION MARKETS

Prediction markets have gone mainstream, and concerns around insider trading and manipulation have come under sharper focus. As these markets mature, so too must the surveillance frameworks that govern them. Where traditional derivatives surveillance asks whether trading distorted a price, prediction markets pose a more challenging question: did the trader merely forecast the event, or did the trader know, control, or influence the outcome? This paper terms that problem “outcome agency risk” and argues that it is the central reason these markets cannot simply borrow the playbook of traditional derivatives if prices are to remain a credit measure of honest judgment about the future.

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I. INTRODUCTION

Prediction markets have gone mainstream. Retail-facing trading venues offering event contracts enable market participants to trade on elections, sports, economic releases, corporate events, cultural outcomes, and other real-world contingencies. This explosion in popularity has also drawn increased scrutiny. Each week, there are several articles about alleged insider trading and market manipulation. Needless to say, these markets and the potential for market manipulation in them have captured public attention. How these markets respond to this scrutiny and whether they can develop credible, durable solutions to address these concerns, will be a defining moment for the industry.

Surveillance in prediction markets differs from surveillance in traditional derivatives markets. A conventional surveillance program in trading derivatives markets monitors whether trading activity distorts the price of a contract or the market for an underlying commodity. Prediction market surveillance must ask a harder question. Did the trader merely forecast the event, or did the trader know, control, or influence the outcome? This paper refers to this problem as “outcome agency” risk because the trader may have agency over the outcome itself, not just information about it.

This paper begins with explaining the mechanics and regulatory setting of prediction markets, tracing the development of event contracts from an academic

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experiment through their trading levels on exchanges registered with the Commodity Futures Trading Commission (“CFTC” or the “Commission”) and complying with a complex set of requirements under the Commodity Exchange Act (“CEA”) and CFTC regulations.

The paper then takes up three surveillance considerations that set these markets apart. The first is insider trading in markets where access to information may shade into the ability to affect outcomes. The second is misinformation deployed as a tool of manipulation. The third is participant eligibility, the problem of identifying and restricting traders who sit too close to the events on which they trade.

The analysis next turns to the surveillance gaps that make those issues difficult to police. Retail traders dominate prediction markets, and many of them reach the exchange directly rather than through an intermediary, so the markets offer fewer compliance touchpoints than traditionally intermediated markets. Exchanges can list many related contracts based on a single event, allowing exposure to spread across products and venues. The data needed to see that exposure often sits in disconnected systems, and the contracts themselves lack standardized descriptions and symbols that traditional surveillance depends on. On blockchain-native platforms, pseudonymous cryptocurrency wallets can hide the identity behind a trade.

These issues are now pressing. Over the course of 2026, the CFTC sharpened its focus on prediction markets, brought the first civil insider trading actions in the space, proposed a major revision of its prediction market rules, and issued guidance on the listing and surveillance of event contracts. Congress, meanwhile, has introduced competing bills that would either strengthen the CFTC’s oversight or move much of the market into a different regulatory regime.

This paper argues that prediction markets cannot simply borrow the surveillance playbook of traditional derivatives markets and expect it to work. The defining risk in a prediction market is not that a trader will distort a price but that a trader will know, shape, or even cause

the very outcome on which a contract settles. Detecting that risk requires surveillance built around events rather than instruments, capable of tying a trader’s identity and relationships to the outcome being traded, following exposure as it spreads across related contracts and venues, and accounting for the speed at which information and misinformation move prices. Venues that build that infrastructure will be positioned to defend the integrity of their markets as scrutiny intensifies. Those that treat event contracts as ordinary derivatives with a few additional alerts bolted on will leave the industry’s premise, that prices reflect honest judgment about the future, open to doubt.

II. PREDICTION MARKET FUNDAMENTALS

Prediction markets let people trade on real-world outcomes, from politics, the economy, and corporate events to science, culture, sports, and the weather. A contract might turn on whether a particular candidate wins an election, whether the Federal Reserve cuts rates, or whether a professional sports team wins a championship. Participants put money behind their views, and the resulting prices show what the market thinks will happen. Traders often read those prices as implied probabilities, though the prices also reflect liquidity, risk appetite, transaction costs, and the preferences of the people doing the trading.

This section lays the groundwork for the rest of the paper. It explains how event contracts work, traces where prediction markets came from, sketches the regulatory framework and the recent developments shaping them, and closes with what sets these markets apart from traditional ones.

A. How Event Contracts Work

Most prediction market products take the form of event contracts, usually framed as simple yes-or-no questions. If the event happens, the yes side collects a fixed payout and the no side expires worthless. If it does not, the outcome reverses. Because the contract trades somewhere between zero and its fixed payout amount, the price doubles as a rough probability. A contract that trades at 63 cents on a one-dollar payout implies that the market puts the odds of the event at roughly 63 percent.

Event contracts are typically fully collateralized. A trader posts the most the position can lose at the outset, rather than posting margin over time as prices move. That structure reduces the risk that a losing trader cannot pay when the contract settles.

B. Brief History

In the United States, prediction markets started as small research markets. In 1988, faculty at the University of Iowa launched the Iowa Electronic Markets (“IEM”) to test whether real-money trading could help forecast election outcomes. In 1992, CFTC staff issued no-action relief that allowed IEM to continue under conditions designed to keep it tethered to academic research rather than commercial exchange activity.¹ Staff later expanded that relief to reach political elections, economic indicators, and corporate earnings.²

In 2004, the CFTC approved HedgeStreet as a designated contract market (“DCM”) and derivatives clearing organization (“DCO”) for electronic event contract trading. It proved that event-contingent contracts could trade on a CFTC-regulated exchange, complete with clearing, standardized terms, surveillance obligations, and retail participation.

Since then, a number of platforms built around event contracts have registered with the CFTC as designated contract markets and pulled the product into a broader, retail-facing market. What was once a niche category has become a hotly contested corner of the regulated derivatives landscape, with exchanges, intermediaries, state regulators, courts, and Congress all contesting where event contracts belong.

C. Regulatory Framework and Recent Developments

The CFTC administers the federal derivatives framework in which U.S. prediction markets operate. Market participants and courts have often treated event contracts as “swaps” under the CEA, meaning contracts whose payment depends on whether a specified event or contingency occurs. A platform that lists event contracts for public trading must register with the CFTC as a DCM, and a CFTC-registered DCO must clear the trades. The same framework equips the CFTC to review new listings, require surveillance, and police misconduct on registered markets.

The framework also imposes a public interest limit for certain event contracts.³ Section 5c(c)(5)(C) of the CEA provides that when an event contract involves war, gaming, terrorism, assassination, unlawful activity, or a similar activity the Commission designates, the Commission may determine that the contracts are contrary to the public interest and therefore prohibited.

Recent litigation has tested three boundaries. First, disputes over election contracts have probed how far the CFTC can go in treating political event contracts as gaming or unlawful activity.⁴ Those disputes ultimately helped open the door to listed election contracts. Second, several courts have considered whether sports event contracts qualify as swaps under the CEA, and whether federal derivatives law preempts state gaming regulation once those contracts trade on a CFTC-regulated DCM and clear through a DCO.⁵ Third, state cease-and-desist orders and other enforcement actions have left platforms uncertain about where they may offer sports event contracts, and customers uncertain about whether they may access them, while the courts work through the federal-state question.

Regulators have also turned their attention to insider trading and other trading misconduct in prediction markets.⁶ That focus reflects a deeper structural feature of these markets, one that distinguishes them from traditional derivatives and shapes the surveillance challenges discussed next.

D. CFTC Actions (2026)

The CFTC signaled its heightened focus on market integrity in February 2026, when the Division of Enforcement issued an advisory following two KalshiEX enforcement cases. In the first, a political candidate traded on his own candidacy. In the second, a YouTube editor traded on advance knowledge of unreleased video content.⁷ The advisory confirmed the Commission’s authority to police insider trading, wash trading, and

¹ CFTC No-Action Letter No. 92-04(a) (Feb. 5, 1992).

² CFTC No-Action Letter No. 93-66 (June 18, 1993).

³ 7 U.S.C. § 7a-2(c)(5)(C).

⁴ *KalshiEx LLC v. CFTC*, No. CV 23-3257 (JMC), 2024 WL 4164694 (D.D.C. Sept. 12, 2024).

⁵ See, e.g., *KalshiEx LLC v. Flaherty*, No. 25-1922 (3d Cir. 2026).

⁶ See, e.g., Complaint, *CFTC v. Spagnuolo*, No. 1:26-cv-04419 (S.D.N.Y. May 27, 2026); Complaint, *CFTC v. Van Dyke*, No. 1:26-cv-03369 (S.D.N.Y. Apr. 23, 2026).

⁷ CFTC Division of Enforcement, Advisory on Enforcement Authority over Event Contracts (Feb. 25, 2026), CFTC Press Release No. 9185-26, available at https://www.cftc.gov/media/13351/Enf_AdvisoryKalshi022526/download.

fraud on any DCM, and it stressed that DCMs bear an independent duty to maintain audit trails, conduct surveillance, and enforce rules against prohibited practices.⁸

The next month, the Division of Market Oversight issued Staff Advisory Letter No. 26-08 on the listing and trading of event contracts. The letter stressed compliance with the DCM Core Principles, real-time monitoring, and coordination with sports leagues and integrity organizations.⁹ It also urged DCMs to engage with sports governing bodies, build information-sharing arrangements, and rely on official league data to settle contracts.¹⁰

Also in March, the CFTC issued an Advanced Notice of Proposed Rulemaking (“ANPRM”), seeking comment on how the DCM Core Principles apply to prediction markets, which event contracts may be contrary to the public interest, and how the Commission should address inside information.¹¹ It also noted the rapid growth in event contract listings, from roughly five per year between 2006 and 2020 to approximately 1,600 in 2025.¹² Since the spring of 2025, several entities have applied for, or expressed interest in, DCM registration to operate prediction markets.¹³

In June 2026, the CFTC followed with a Notice of Proposed Rulemaking on amendments to CFTC Rule 40.11 (the “June Proposal”). The proposal would define event contracts, set out a prescriptive process that the Commission will follow when making public interest determinations, and lay down procedures for listing and trading event contracts.

⁸ *Id.* (“DCMs have an independent duty pursuant to the core principles of the Act to maintain audit trails, conduct surveillance, and enforce rules against prohibited practices.”).

⁹ CFTC Staff Advisory Letter No. 26-08, Division of Market Oversight, Prediction Markets Advisory (Mar. 12, 2026).

¹⁰ *Id.* (recommending that DCMs engage with sports governing bodies, establish information-sharing arrangements, and rely on official league data for settlement).

¹¹ *Prediction Markets*, 91 Fed. Reg. 12,516 (Mar. 16, 2026) (Advanced Notice of Proposed Rulemaking) [hereinafter *ANPRM*].

¹² *Id.* at 12,517 n.9 (“From 2006-2020, DCMs listed for trading an average of approximately five event contracts per year. In 2021, this number increased to 131 . . . [and] DCMs certified approximately 1,600 event contracts for listing for trading” in 2025).

¹³ *Id.* at 12,517 n.10.

By way of background, Section 5c(c)(5)(C) of the CEA provides that if a contract involves an enumerated activity, then the CFTC may make a determination that the contracts are contrary to the public interest and therefore prohibited. This section is commonly referred to as the “Special Rule.” The statutory enumerated categories in the Special Rule are: war, gaming, terrorism, assassination, unlawful activity, or similar activity as determined by the CFTC (collectively “Enumerated Activities”). The Commission codified the Special Rule in 2011 in CFTC Rule 40.11(a), which on its face appears to categorically prohibit contracts that reference any of the Enumerated Activities.

Most importantly, the June Proposal would replace CFTC Rule 40.11(a)’s current, arguably categorical “shall not list” prohibition with a framework that would be more clearly aligned with the CEA’s statutory requirement that the CFTC first determine a particular contract or contracts fall within one of the Enumerated Activities, and second whether such contract or contracts are contrary to the public interest before prohibiting them. The June Proposal would also narrow the trigger with an event-focused definition under which a contract “involves” an Enumerated Activity only when its settlement turns on an occurrence within that activity.

Relatedly, the June Proposal also proposes to define the term “gaming” as the underlying game or contest itself, not the act of gambling on it. Although gaming is an Enumerated Activity under CEA Section 5c(c)(5)(C), neither the Special Rule, nor the CFTC through rule or interpretation have defined what gaming means (or any of the Enumerated Activities for that matter). Beyond that, the June Proposal would identify general and activity-specific public interest factors, among them price discovery, economic purpose, settlement integrity, verifiability, information leakage, the misuse of confidential information, compliance, and self-regulatory capacity.

With respect to the determination process in particular, the June Proposal would replace the current and relatively open-ended 90-day review with a formal written process governed by defined procedures. The June Proposal would also reinforce the need for clear and publicly verifiable settlement criteria while addressing insider-information risk through the collection of trader-identifying data and the publication of real-time transaction data.

These proposed procedural reforms respond to a flood of event contract filings made under a process the Commodity Futures Modernization Act of 2000 (the “CFMA”) created. The CFMA amended the CEA in

2000 to, among other things, allow registered entities such as DCMs and DCOs to bring new derivatives to market through self-certification. To self-certify, an exchange or other CFTC-registered entity files a written certification with the Commission stating that the contract complies with the CEA and CFTC regulations, and it may then list the contract without first obtaining the CFTC's formal approval.

As former CFTC Commissioner Dan Berkovitz has suggested, the self-certification process for event contracts “has sort of broken down due to the volume of event contracts that are being submitted, and the CFTC just has not really had the time to review event contracts under the self-certification process.”¹⁴ Historically, the one-day window was workable because exchanges “would send drafts over weeks and months in advance” for informal staff review before formally self-certifying, a cooperative practice that functioned well when submissions were infrequent and came from a handful of established exchanges with long-standing relationships with CFTC staff.¹⁵ The explosion of event contract listings has overwhelmed that informal model, leaving the Commission little time to scrutinize contracts before they reach the market.

E. Key Differences from Traditional Markets

Prediction markets raise many of the same integrity concerns as other markets, but they also create novel ones. In conventional derivatives markets, surveillance often asks whether trading activity distorted the price of the contract or the underlying commodity. In a prediction market, surveillance must ask whether the trader merely predicted the event, or whether the trader knew, controlled, or influenced the event. That question matters because the subject of the event underlying the contract may not always be separate from or independent of the people who trade it. This is the outcome agency risk.

In sports, that person could be an athlete, coach, official, medical staff member, or team employee. In corporate markets, it could be an employee, contractor, advisor, or service provider with advance knowledge of a product launch, announcement, or transaction.

Traditional surveillance tools and methods can miss that risk if they look only for unusual price or volume patterns. Prediction markets call for surveillance that also weighs the trader's relationship to the event, the timing of the trade, and the source of the information that moved the market. With that distinction in mind, the next section turns to the unique surveillance concerns prediction markets create.

III. CORE SURVEILLANCE CONCERNS

The growing attention on prediction markets has brought their surveillance and integrity into sharper focus. These venues share many of the integrity risks of any market, but several features of prediction-market trading make particular risks more acute.

The first is insider trading. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and CFTC Rule 180.1 extended misappropriation-based insider trading principles to derivatives markets, but that framework does not capture every fact pattern that may arise in prediction markets. A trader may profit from proximity to an outcome, from the ability to influence it, or from advance knowledge that owes nothing to any traditional duty of confidentiality. The second is misinformation. Because these markets translate information directly into prices, a false narrative can move a contract before anyone has verified the facts. The third is participant eligibility. Exchanges need practical ways to identify traders who sit too close to an event, among them athletes, officials, campaign staff, government employees, vendors, family members, and affiliated third parties.

A. Insider Trading — Expanded Definition

The core concern about insider trading in prediction markets is that a framework built for traditional financial markets may not reach every way a prediction market trader can exploit an informational edge.

Analogues to insider trading in other regulatory regimes do not provide a good basis upon which to address outcome agency risks. For example, in U.S. securities markets, “insider trading” prohibitions require corporate insiders to disclose material nonpublic information (“MNPI”) or abstain from trading. But in prediction markets, the relevant “insider” may include more than just those individuals who are corporate insiders.

Traditional derivatives markets also do not address this risk. In particular, derivatives markets have traditionally permitted traders to act on nonpublic

¹⁴ Dan Berkovitz, *Prediction Markets at the Crossroads: Innovation, Regulation, and Market Design*, Law & Economics Center at George Mason University, YouTube (May 29, 2026), <https://www.youtube.com/watch?v=rL13PcdbnvU>.

¹⁵ *Id.*

information. For example, a farmer may trade knowing what his or her wheat production will be, or an oil company may trade knowing its future deliverable supply. Because price discovery depends on informed participants acting on their information advantages, the CEA and CFTC do not treat trading on this type of MNPI as illegal insider trading. The Dodd-Frank Act extended misappropriation-based insider trading principles to derivatives, but that framework still requires a pre-existing duty of trust and confidence.

Prediction markets create challenges in terms of monitoring and identifying misappropriation-based insider trading. When a contract turns on human decisions or controllable events, a trader's informational advantage may come from the ability to know, influence, or even cause the outcome.

The subsections that follow trace the evolution of insider trading law in derivatives markets, explain how the current CFTC framework applies, and survey recent legislative proposals aimed at these gaps.

1. *The Dodd-Frank Act and CFTC Rule 180.1*

Before 2010, insider trading prohibitions in derivatives law were far narrower than the Securities and Exchange Commission's ("SEC") Rule 10b-5, which broadly prohibits securities fraud and trading on MNPI by anyone who gains access to that information. In derivatives markets, by contrast, the prohibitions reached mainly to employees of the CFTC and CFTC-registered entities, including futures exchanges. Under CEA Section 9(e)(1) and CFTC Rule 1.59(d), these individuals could not use MNPI gained through their employment to trade for their own accounts, nor disclose such information for purposes unrelated to their duties. The CFTC relied on this framework in cases such as *CFTC v. Byrnes*, where two NYMEX employees disclosed trade details, including counterparty identities, positions, strike prices, and volumes, to a broker.¹⁶

Section 753 of the Dodd-Frank Act significantly expanded the CFTC's anti-fraud and anti-manipulation authority. It prohibits fraud and manipulation "in connection with any swap, or a contract of sale of any commodity in interstate commerce, or for future delivery on or subject to the rules of any registered entity." Implementing that authority, the CFTC adopted CFTC

Rule 180.1 in 2011 and modeled it on SEC Rule 10b-5, while making clear that securities-law precedent would guide but not control the CFTC's interpretation. CFTC Rule 180.1 prohibits trading on MNPI in breach of a pre-existing duty arising from law, rule, agreement, understanding, or another source, and it prohibits trading on MNPI obtained through fraud or deception. The CFTC has also made clear that Rule 180.1 does not create a parity-of-information regime, so a trader does not violate the rule merely by trading on lawfully obtained MNPI.

2. *Current CFTC Framework for Insider Trading*

The CFTC's principal enforcement tool under CFTC Rule 180.1 is the misappropriation theory, which targets a person who uses confidential information for trading after taking that information from its source in breach of a duty. The theory requires a relationship of trust and confidence, a duty to disclose or abstain, a knowing or reckless breach of that duty through trading while using or possessing MNPI, and a personal trading benefit.

The CEA also contains separate provisions for government officials. CEA Section 4c(a)(3), as amended by the Stop Trading on Congressional Knowledge Act of 2012, bars federal agency employees, members of Congress, congressional employees, and judicial officers from using nonpublic information derived from their positions to trade commodity futures, options, or swaps. CEA Section 4c(a)(4) bars government employees from disclosing confidential information that may affect commodity prices for personal gain. It also bars recipients from using that information for trading.

3. *Legislative Proposals*

Several bills introduced in early 2026 reflect bipartisan concern about prediction market integrity, insider trading, and government corruption. For example, the Public Integrity in Financial Prediction Markets Act of 2026 would bar federal elected officials, congressional employees, political appointees, and executive branch employees from trading prediction market contracts tied to government policy, government action, or political outcomes whenever they hold or could reasonably obtain MNPI.¹⁷ A bipartisan group of members of Congress introduced this bill in response to

¹⁶ *U.S. Commodity Futures Trading Comm'n v. Byrnes*, 2019 WL 4515209, at *1 (S.D.N.Y. Sept. 19, 2019).

¹⁷ Public Integrity in Financial Prediction Markets Act of 2026, H.R. 7004, 119th Cong. § 2 (2026).

suspicious trading on an offshore exchange by a U.S. service member during a military operation to capture Venezuelan President Nicolás Maduro.¹⁸

The concerns behind the proposed bill are broader than government officials trading on classified information. Foreign participation, concentrated capital and trading power, and weaknesses in market design and oversight can also distort the informational signal that prediction markets are supposed to produce. Former Commissioner Dan Berkovitz has warned that, “[w]ithout robust know-your-customer frameworks, position limits, and regulatory controls, prediction markets on elections could be used to create the appearance of momentum for a candidate or could allow foreign money to influence U.S. elections, since non-U.S. persons, who cannot contribute to political campaigns, can participate in prediction markets that function like polls and influence fundraising.”¹⁹

The Prediction Markets Security and Integrity Act of 2026, introduced by Senators Richard Blumenthal and Andy Kim, would take a different approach. It would remove prediction markets from the CEA and place oversight with the Attorney General and state regulators. The bill would require Attorney General-approved state wagering programs, bar certain contracts susceptible to fraud or related to war, death, or unlawful activity, require age verification and consumer protections, restrict advertising and AI use, create a national self-exclusion list, mandate real-time wagering data reporting, and impose criminal penalties of at least \$50,000 per violation and up to two years’ imprisonment.²⁰ It would also bar the use of MNPI for private gain and prohibit trading by someone with a personal role or access to information that creates a conflict with fair market participation.²¹

Together, the CFTC’s enforcement actions, pending rulemaking, staff guidance, and legislative proposals point in the same direction. Prediction market venues will need credible surveillance infrastructure to remain viable in a more scrutinized environment.

4. Application to Prediction Markets

Prediction-market insiders may include athletes, officials, contractors, government employees, or others with advance knowledge of an event underlying a contract. Because CFTC Rule 180.1 reaches only a person who trades on MNPI in breach of a duty of confidentiality, however, it leaves unsettled when such a duty even exists, a question industry groups have begun to press.²²

That uncertainty has led some exchanges to adopt rules that go beyond CFTC Rule 180.1.²³ Those exchange rules can reach a customer with advance access to MNPI, a person affiliated with a source agency, or anyone able to influence the outcome of the underlying event. Because these rules do not require the breach of a duty, they capture conduct that the misappropriation theory under CFTC Rule 180.1 may not. The subsections below illustrate how insider risk surfaces in specific prediction market contexts.

Traditional insider trading detection typically starts with unusual trading and works back toward information access. Prediction markets require a broader review, because trades may be smaller, more dispersed, and scattered across retail accounts. Surveillance teams at DCMs and CFTC-registered intermediaries may need to map customer relationships to team personnel, athletes’ families, medical staff, and other affiliated persons, then test whether trading correlates with MNPI. Recent betting scandals in the NBA and MLB show that integrity breaches leave data trails, but the short lookback periods and low-liquidity contracts common in prediction markets can make those trails hard to separate from noise.²⁴

¹⁸ Press Release, Rep. Ritchie Torres, In Response to Suspicious Polymarket Trade Preceding Maduro Operation, Rep. Ritchie Torres Introduces Legislation to Crack Down on Insider Trading on Prediction Markets (Jan. 9, 2026).

¹⁹ Berkovitz, *supra* note 14.

²⁰ Prediction Markets Security and Integrity Act of 2026, S. 4060, 119th Cong. §§ 4–9, 10(a)(2) (2026).

²¹ *Id.* § 4(a).

²² Joe Schifano, Dorothy DeWitt, and Summer Mersinger, *Q&A with the Blockchain Association and Tölt Strategies: Prediction Markets at the Edge of Policy, Enforcement and Innovation*, Eventus (Apr. 21, 2026) [hereinafter *Blockchain Association Q&A*].

²³ See, e.g., KalshiEX LLC Rulebook, Rule 5.17(y) (ver. 1.28), <https://kalshi-public-docs.s3.amazonaws.com/regulatory/rulebook/Kalshi%20DCM%20Rulebook%20v.1.28%20clean.docx.pdf> (prohibiting traders who are employees or affiliates of a source agency, or who possess material non-public information related to a contract, from trading on that contract, without requiring a breach of a duty of confidentiality).

²⁴ Press Release, U.S. Dep’t of Justice, Current and Former National Basketball Association Players and Four Other Individuals Charged in Widespread Sports Betting and Money Laundering Conspiracy (Oct. 23, 2025); Press Release, U.S.

B. Misinformation as Manipulation

In prediction markets, information itself moves the price. Social media rumors, unverified news, leaked memos, and misread statistics can affect contracts before anyone confirms them. In thinly-traded markets, a handful of accounts can amplify a false story, move prices, profit from the swing, and exit before the truth catches up.

This risk is not hypothetical. Social media can broadcast false, misleading, or context-free claims to large audiences, and prediction market prices can move before anyone can verify the facts. The discussion below explains how misinformation can move markets, why prediction markets might be vulnerable to that tactic, and how affiliate or creator programs can amplify false narratives.

1. How Misinformation Manipulation Works

Misinformation manipulation usually begins with a false signal. A trader spreads false news, manipulated audio or video, or out-of-context data after taking a position that benefits from the expected price move. Bots, influencers, and social media algorithms can then amplify the claim, making the price move appear to reflect market consensus. The manipulator exits after prices move in their favor, often before reliable information reaches the market.

2. Structural Vulnerabilities

Three features make prediction markets especially vulnerable to misinformation manipulation.

- **Information pollution:** Because a prediction market aggregates participants' beliefs and judgments into a single price, flooding public discourse with false data can distort the crowd's judgment.

- **Fake trading volume:** Wash trading, which creates the appearance of market activity without genuine risk, can make a contract appear more active and reliable than it actually is,²⁵ and, when it is paired with false news, it can draw in traders who mistake activity for credibility.
- **Settlement data manipulation:** Because contracts resolve on external data from sources such as government agencies and news organizations, insider access, social pressure, or targeted misinformation can corrupt those sources and force a contract to settle on a false outcome even when the trading itself was conducted fairly.

3. Social Media Influencers

Some platforms have given "affiliate badges" to social media influencers, including accounts that present themselves as sports insiders. Given how quickly information spreads across social media channels, policing these accounts to keep them from propagating misinformation can be genuinely difficult. In connection with a California mayoral election, for example, some prediction markets have barred paid creators and affiliates from denying the election results.²⁶ Exchanges have also requested paid influencers to take down posts spreading election misinformation, or to strip paid-partnership tags from posts making unfounded election-fraud claims.²⁷

For surveillance purposes, the lesson is straightforward. Order book monitoring is not enough. Compliance teams also need to consider how quickly false or misleading narratives spread, whether coordinated social media accounts are amplifying misinformation, and whether trading patterns suggest that someone acted on a false narrative before the market could verify or refute it.

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Dep't of Justice, 31 Defendants, Including Members and Associates of Organized Crime Families and National Basketball Association Coach Chauncey Billups, Charged in Schemes to Rig Illegal Poker Games (Oct. 23, 2025); *MLB Pitchers Emmanuel Clase and Luis Ortiz Charged with Taking Bribes to Rig Pitches*, NPR (Nov. 9, 2025), <https://www.npr.org/2025/11/09/nx-s1-5603653/baseball-cleveland-guardians-pitchers-bribes-charged-gambling>; *Jontay Porter Pleads Guilty in Case Tied to NBA Betting Scandal*, ESPN (July 10, 2024), https://www.espn.com/nba/story/_/id/40534530/jontay-porter-pleads-guilty-case-tied-nba-betting-scandal.

²⁵ The CFTC defines "wash trading" as "[e]ntering into, or purporting to enter into, transactions to give the appearance that purchases and sales have been made, without incurring market risk or changing the trader's market position." CFTC Glossary, <https://www.cftc.gov/LearnAndProtect/AdvisoriesAndArticles/CFTCGlossary/index.htm#W>.

²⁶ Bobby Allyn & Jude Joffe-Block, *Kalshi and Polymarket Crack Down on Paid Influencers Claiming Election Fraud*, NPR (June 8, 2026), <https://www.npr.org/2026/06/07/nx-s1-5846806/on-x-influencers-are-using-prediction-markets-to-sow-distrust-about-election-results>.

²⁷ Allyn & Joffe-Block, *supra* note 26.

C. Participant Eligibility

The third core concern is participant eligibility. Prediction markets blur the line between participant and insider because the people who trade may also be close to the event, sometimes as its very subject. These insiders can all undermine integrity if they trade on outcomes they can affect or know in advance.

Traditional sports betting manages this risk through prohibited-person lists. Some prediction markets use comparable frameworks that allow for dynamic identity checks (i.e., automated security and fraud-prevention processes that adapt in real-time based on risk signals) or identification through behavioral analysis, supported by ongoing monitoring, and contract-specific restrictions.

1. Exchange-Level Insider Definitions and Onboarding Controls

Some CFTC-regulated prediction markets have begun to define insider trading more broadly than traditional MNPI rules. Their rules reach customers with advance access to MNPI, employees or affiliates of a source agency for a contract, and decision makers or others who can influence the underlying event.

Onboarding is the first control point. Exchange operators and intermediaries, including futures commission merchants and introducing brokers, collect information from customers who seek to trade event contracts. Some currently screen politicians, government officials, athletes, and people associated with sports markets before those customers access the platform. Based on the results, the platform or intermediary may block access entirely or restrict trading in particular contracts.

Public records can also help identify federal politicians and campaign staff before they trade. Similar screening may be possible for state and local elections where reliable data exists. Once trading begins, exchanges and intermediaries can monitor for anomalies and focus review on the accounts most likely to present conflicts.

2. Categories of Potentially Ineligible Participants

The population of potential insiders in prediction markets is much larger than in traditional securities or derivatives markets. It can include corporate employees with advance knowledge of product launches or earnings, political insiders with knowledge of policy decisions, military officials with classified operational information, athletes and coaches who can influence

games, referees, medical staff with injury information, campaign workers with unpublished polling data, and family members or associates of those people. Each political race can also create a network of campaign workers, pollsters, fundraisers, donors, friends, and family members. With at least 6,500 state and federal legislative seats up for election this year, the potential pool is large.²⁸

Restricted lists from leagues, teams, and exchanges can help keep people closest to an outcome from trading on it. In sports, exchanges and compliance teams also use behavioral profiles of players, umpires, and other officials to identify unusual patterns. Useful data can include trade volume, trade flow, trade frequency, relationship webs, prohibited-patron lists, and employer information. The strongest programs draw on more than order book data. They combine know-your-customer (“KYC”) records, ongoing identity monitoring, and transaction patterns so a customer’s risk profile can change as the customer’s relationships change.

3. Detection and Enforcement

If trading activity raises insider trading concerns, prediction market platforms have the tools to freeze accounts and suspend withdrawals during investigations. This allows market operators to review trading patterns, transaction histories, and customer information alongside intelligence drawn from open-source research and vendor data for potential violations. Public guidance, such as the CFTC’s February 2026 enforcement advisory and the June Proposal, also help clarify how the CFTC views how exchanges should address violative conduct in markets where contracts evolve so quickly.

4. Government Officials as Unique Insiders

Government officials pose a distinct insider risk problem. Unlike a corporate insider, whose knowledge is usually confined to one company, an official may hold MNPI bearing on whole categories of prediction market contracts, from policy decisions and regulatory actions to military operations, diplomacy, and political outcomes. The CEA reaches part of this problem through its provisions for government employees. CEA Section 4c(a)(4)(A) and (B) bar federal employees and

²⁸ *United States Congress Elections, 2026*, Ballotpedia, https://ballotpedia.org/United_States_Congress_elections_2026 (last visited June 16, 2026) (noting 6,064 state legislative seats up for regularly scheduled election and all 435 House seats and 33 Senate seats up for election in 2026).

agents from disclosing confidential, nonpublic information that may affect commodity prices for personal gain, and they bar recipients from trading on it. The CEA also addresses misappropriation of government information by anyone who knows, or recklessly disregards, that the information has not yet been released by the relevant government agency and then trades or shares it.

Those prohibitions reach only so far. Members of Congress, White House staff, and government employees are not required to disclose profits from prediction market trading at all. The CFTC's ANPRM accordingly asks whether allowing people with asymmetric information advantages to trade serves the public interest.²⁹

Recent episodes show why the question is pressing. In April 2026, one exchange suspended three congressional candidates for trading in their own races.³⁰ Around the same time, regulators began investigating whether former Congressman George Santos had traded on his own attendance at the State of the Union address, conduct that could amount to insider trading.³¹ Each episode is the outcome-agency risk materializing, and each underscores why prediction markets need robust KYC and participant controls, especially for contracts exposed to information asymmetry or conflicts of interest.

That same month, the U.S. Senate banned Senators and their staff from trading in prediction markets.³² That prohibition is a meaningful step, but it does not reach the executive branch, where officials may hold some of the most sensitive nonpublic information of all.

IV. POTENTIAL GAPS IN SURVEILLANCE

The concerns described above are difficult to police with tools built for traditional markets. Legacy rule-based systems, calibrated for securities and traditional derivatives markets, can produce false positives that drain compliance resources even as they miss the manipulation specific to prediction markets.³³ The gaps below are structural, reflecting the ways prediction markets differ from the markets for which legacy surveillance was designed.

A. Disintermediation

Some market participants trade directly through prediction market venues, without the intermediary layer that has long supported compliance in traditional derivatives markets. In an intermediated market, futures commission merchants perform KYC and anti-money laundering checks and run their own surveillance of customer activity. In the disintermediated or hybrid models common to prediction markets, much of that responsibility shifts to the exchange itself.³⁴ As a result, the trading venue itself must watch for trouble at both onboarding and trading, and the earliest signs often surface in accounting funding or onboarding before they ever reach the trading data.

A brand new account that opens, funds, and takes a high-conviction position just before a major announcement presents a very different risk profile than a long-established account with a trading history. Effective surveillance therefore requires a unified view of onboarding, funding, trading, and exit, not just trade-level data.³⁵

B. Event-Level Aggregation

Exchanges develop many related contracts from a single real-world event. A presidential election, for example, could produce contracts on the overall winner, individual state outcomes, the margin of victory, and the timing of the result. Each contract trades separately, yet all turn on the same underlying event.

²⁹ *Supra* note 11, 91 Fed. Reg. 12,516.

³⁰ Jesse Bedayn, *Kalshi Fines and Suspends 3 Congressional Candidates for Betting on Their Own Elections*, Associated Press/PBS NewsHour (Apr. 23, 2026), <https://www.pbs.org/newshour/politics/kalshi-fines-and-suspends-3-congressional-candidates-for-betting-on-their-own-elections>.

³¹ Bobby Allyn, *DOJ Is Investigating Former Congressman George Santos for Insider Trading on Kalshi*, NPR (June 2, 2026), <https://www.npr.org/2026/06/02/nx-s1-5843371/george-santos-kalshi-insider-trading-investigation>.

³² Minho Kim, *Senate Bans Prediction Markets for Its Members and Staff*, New York Times (June 1, 2026), <https://www.nytimes.com/2026/04/30/us/politics/senate-prediction-markets-ban.html>.

³³ See, e.g., Eventus and Datos Insights, *The Trade Surveillance Revolution* (May 2025) (reporting that over 70% of surveyed firms have false positive alert rates above 25%, with respondents noting that alert fatigue poses a risk to detection of genuine threats).

³⁴ Blockchain Association Q&A, *supra* note 22.

³⁵ Solidus Labs, *Transparency over Illusion: Insights into the Sustainable Trajectory of Prediction Markets* (Feb. 17, 2026).

A participant with advance knowledge may trade different contracts relating to the same event so that no single contract would trigger an exchange's surveillance alerts, as those alerts might be spread out across the various contracts. The dispersed pattern becomes visible only when positions are aggregated at the event level.³⁶ Legacy surveillance tools, built around individual instruments and fixed codes, are not likely suited to that kind of analysis.

C. Fragmented Data

Meaningful surveillance of prediction markets will likely require assembling data from sources that do not currently communicate with one another. Trade and order book data, customer funding data, KYC and onboarding information, settlement inputs, league rosters, news timestamps, and other third-party feeds may each reside under separate ownership.³⁷ But data collection alone is likely not enough. The data must be available for joint analysis, so that surveillance teams can see patterns in timing, relationships, and correlated activity. Some technology vendors have begun to address this gap.

D. No Standardized Symbolology

Traditional surveillance systems depend on standardized instrument identifiers to support alerts, position aggregation, and cross-venue analysis. In securities markets, tickers, ISINs, and CUSIPs provide persistent codes that allow systems to track the same instrument across time and across trading venues. In

derivatives markets, the CFTC and SEC have adopted unique product identifiers to assist with surveillance of similar products across trading venues and over-the-counter trading.

Prediction market contracts lack comparable identifiers. These exchanges generally create their own identifiers. There are no universally adopted unique identifiers or codes for similar events across exchanges.³⁸ Without standardized identifiers, the CFTC and prediction market operators are unable to reliably group and analyze related contracts, aggregate exposure across venues, or detect manipulation across similar instruments.

V. CONCLUSION

Prediction markets are evolving faster than the surveillance systems built for more traditional markets, and that gap will define the next stage of their evolution. The value of prediction markets rests on the premise that prices reflect dispersed judgment about future events, but that premise weakens whenever traders can influence outcomes, exploit nonpublic information, seed false narratives, or hide related activity across contracts and venues. The answer is not to treat event contracts as ordinary derivatives with a few new alerts layered on top, but to build surveillance infrastructure around the underlying events themselves. Platforms that make that investment will be better positioned to defend the integrity of their markets as regulatory scrutiny increases, while platforms that do not will leave the industry's central promise vulnerable to doubt. ■

³⁶ *Id.*

³⁷ Joe Schifano, *Watching the Future: The Top 10 Surveillance and Compliance Challenges in Prediction Markets*, Eventus (Nov. 13, 2025).

³⁸ *Supra* note 35.