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A Guide for Lawyers on Prediction Markets: Litigation, Insider Trading, and
Regulatory Risks

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In today's evolving financial landscape, prediction markets are moving rapidly from a curiosity to a source of enforcement, compliance, and litigation risk for companies, executives, and financial intermediaries. As trading volumes grow and high-profile events draw media and regulatory attention, legal teams are increasingly likely to encounter prediction-market activity in internal investigations, regulatory inquiries, and private disputes.

Peregrine Economics is a Chicago-based firm that provides independent expert economic and financial analysis in litigation and regulatory matters. This white paper presents general information and is not intended as expert opinion or legal advice.

Introduction

This white paper is intended as a practical guide for lawyers, particularly in-house counsel, litigators, and compliance professionals, who need to understand how these markets function and how they may feature in future cases. This paper: (1) explains how prediction markets and “event contracts” operate; (2) describes key risk areas, including insider trading and market manipulation; and (3) summarizes the emerging regulatory landscape, with a focus on the Commodity Futures Trading Commission (CFTC), the Securities and Exchange Commission (SEC), and state regulators. Throughout, recent empirical evidence is used to illustrate how legal theories are likely to be framed and what kinds of economic analysis may be relevant in litigation.

The paper also outlines the types of trading data, market structure evidence, and quantitative analyses that economic experts can use to help courts and regulators distinguish between ordinary speculation and informed or manipulative trading in prediction markets.

What Are Prediction Markets

Prediction markets are an emerging class of financial markets in which participants trade contracts tied to the outcomes of future events. While historically limited in scale and participation, these markets have expanded significantly in recent years and are becoming increasingly relevant across legal and economic contexts. This growth reflects both technological developments, including the rise of blockchain-based platforms, and changes in the legal landscape that have reduced barriers to participation and broadened access.¹

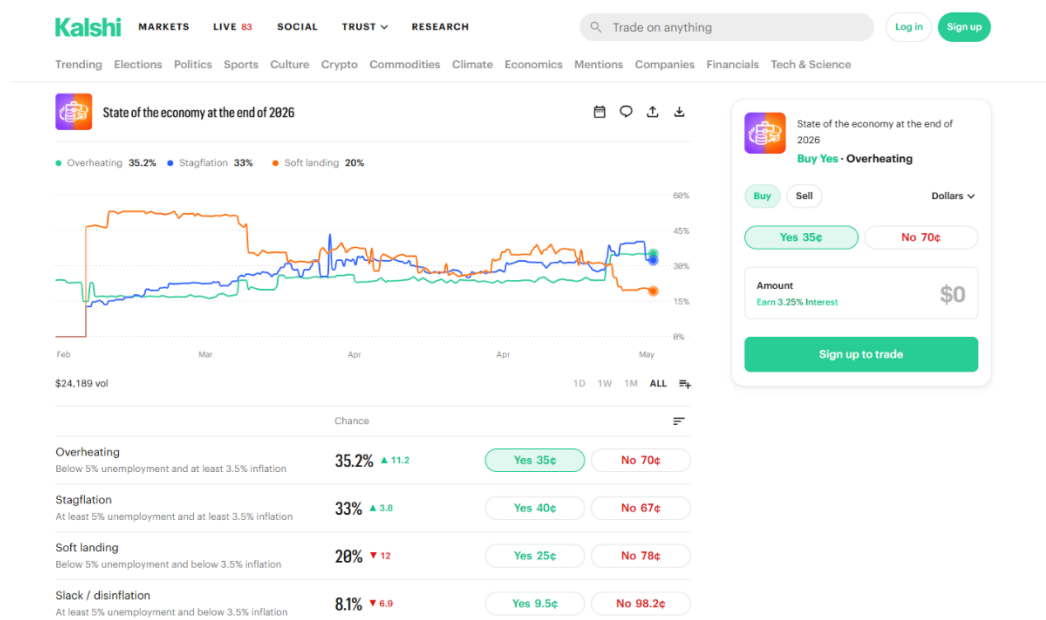
At a high level, prediction markets operate through “event contracts,” typically structured as binary instruments linked to real-world outcomes. Each contract pays a fixed amount if the specified event occurs and \$0 otherwise. For example, a market asking “Who will win the 2024 U.S. presidential election?” may include separate contracts for each candidate, each trading at a price that reflects the market’s assessment of that candidate’s likelihood of winning.²

The picture below illustrates how prediction markets appear in practice. In this Kalshi market, participants can trade contracts tied to different macroeconomic outcomes at the end of 2026, with each outcome displaying an implied probability and corresponding “Yes” and “No” prices. For example, the “overheating” outcome is shown at approximately 35%, with a “Yes” contract priced around 35 cents.

¹ Ng, H., Peng, L., Tao, Y., & Zhou, D. (2026, January 16). *Price discovery and trading in modern prediction markets*. SSRN. <https://doi.org/10.2139/ssrn.5331995>

² Akey, P., Gregoire, V., Harvie, N., & Martineau, C. (2026, March 18). *Who wins and who loses in prediction markets? Evidence from Polymarket*. SSRN. <https://doi.org/10.2139/ssrn.6443103>

The rapid expansion of prediction market platforms such as Kalshi and Polymarket has also drawn increasing attention from the Commodity Futures Trading Commission (CFTC). As these markets continue to evolve, they raise important questions related to regulatory classification, market integrity, and potential litigation risk. Understanding how these markets function is therefore essential for evaluating their legal and economic implications.



Key Risk Areas in Prediction Markets

The rapid growth of prediction markets has introduced a range of legal and regulatory risks, most notably insider trading and market manipulation. These risks arise because participants may possess nonpublic information, trade in ways that distort market prices, or influence the outcome of the event contract.

Empirical evidence suggests that trading outcomes in these markets are highly uneven. Using the complete transaction history of Polymarket from November 2022 through October 2025, which covers over 1.4 million users and \$20 billion in trading volume, profits are heavily concentrated among a small subset of participants. The top 0.1% of users capture approximately 58.5% of total gains, while the top 1% account for over 84%. In contrast, more than 70% of users incur losses.³

Although concentrated profits do not by themselves establish misconduct, these patterns suggest that prediction markets may be susceptible to informational asymmetries, particularly where sophisticated participants are able to exploit mispricing or trade on superior information.⁴ From an economic perspective, these cases often require analysis of trading records, open

³ Akey, P., Gregoire, V., Harvie, N., & Martineau, C. (2026, March 18). *Who wins and who loses in prediction markets? Evidence from Polymarket*. SSRN. <https://doi.org/10.2139/ssrn.6443103>

⁴ Akey, P., Gregoire, V., Harvie, N., & Martineau, C. (2026, March 18). *Who wins and who loses in prediction markets? Evidence from Polymarket*. SSRN. <https://doi.org/10.2139/ssrn.6443103>

interest, and whether the trader's activity reflects a broader pattern and practice of trading and incurred losses rather than isolated speculation.

Insider Trading

Insider trading in prediction markets generally refers to trading based on material nonpublic information (MNPI) about the outcome of an underlying event, in potential violation of the Commodity Exchange Act or related regulations. For lawyers, the core questions often mirror traditional insider-trading cases: what information was available to the trader, when did they obtain it, and how does their trading behavior compare to what would be expected from an uninformed market participant.⁵

Recent trading activity provides illustrative examples. An anonymous user on Polymarket profited by more than \$436,000 by appearing to anticipate former Venezuelan President Nicolás Maduro's capture, and the speculative investment was placed shortly before the public announcement.⁶ From a litigation perspective, this type of fact pattern naturally prompts inquiries into the trader's identity, their access to law-enforcement or diplomatic information, and the timing of any communications relative to the trades.

Similar issues arise in markets linked to military or geopolitical events. On February 27, 2026, the day before U.S. and Israeli strikes on Iran, approximately 150 Polymarket accounts placed bets totaling roughly \$855,000 on the likelihood that the U.S. would strike Iran the next day, with 16 accounts each realizing profits exceeding \$100,000. In a related instance, a single account made more than \$553,000 by trading on the removal of Khamenei from power just moments before he was killed. The crypto-analytics firms identified six "suspected insiders" that collectively earned \$1.2 million after Khamenei was killed. Comparable trading patterns were observed on April 7, when at least 50 accounts placed bets that the U.S. and Iran would reach a ceasefire shortly before a public announcement, again suggesting that trading activity may have reflected access to nonpublic information.⁷

In an investigation or enforcement action, these scenarios would typically require detailed analysis of wallet-level trading records, timestamps, and communications, as well as statistical testing to determine whether the timing, size, and profitability of the trades are consistent with chance or instead more plausibly explained by access to MNPI. Economic experts can assist by comparing the observed trading to appropriate benchmarks, quantifying the likelihood of the observed outcomes under a null model of uninformed speculation, and assessing whether the activity fits within a broader pattern of trading by the same participants.

These examples are supported by broader empirical evidence. A recent study by researchers at Columbia University and the University of Haifa analyzed Polymarket trading activity between February 2024 and February 2026, covering more than 93,000 markets and nearly 50,000 unique wallet addresses. The study identified 210,718 wallet-market pairs

⁵ Sykes, J. B. (2026, April 3). *Prediction markets and insider trading law* (CRS Legal Sidebar No. LSB11406). Congressional Research Service. <https://www.congress.gov/crs-product/LSB11406>

⁶ CBS News. (2026, January 6). *Polymarket bettor wins more than \$400,000 on Maduro capture, raising questions about timing*. <https://www.cbsnews.com/news/polymarket-maduro-capture-bet-400000/>

⁷ Aratani, L. (2026, April 18). *Traders placed over \$1bn in perfectly timed bets on the Iran war. What is going on?* The Guardian. <https://www.theguardian.com/world/2026/apr/18/iran-war-bets-ethics-concerns>

consistent with informed trading rather than random speculation and estimated approximately \$143 million in aggregate anomalous profits, with a win rate of 69.9%, statistically significantly exceeding what would be expected by chance. Notably, this estimate is likely conservative, as the analysis focuses on buy-side activity and excludes positions below \$500.⁸

Consistent with these examples, prediction market platforms have begun to implement enforcement mechanisms. For example, Kalshi has indicated that it prohibits insider trading and has opened more than 200 investigations, with over a dozen progressing to active enforcement cases. Kalshi has also frozen and restricted a number of flagged accounts.⁹ For legal teams, these internal controls can be important both as a source of evidence and as a potential point of contention. Counsel may need to understand how a platform's surveillance systems identify suspicious trading, what data and internal reports they generate, and how those processes intersect with regulatory obligations and external enforcement actions. While insider trading theories focus on who knew what and when, prediction markets also raise distinct concerns when participants attempt to shape the underlying event itself or otherwise distort prices, giving rise to potential market manipulation claims.

Market Manipulation

Market manipulation in prediction markets generally refers to conduct intended to distort market prices or to influence the outcome of an event contract, in violation of applicable anti-fraud and anti-manipulation provisions. For lawyers, manipulation theories can arise in two related ways: first, where trading activity is alleged to create a false or misleading impression about the likelihood of an event; and second, where a participant takes steps in the real world to alter the underlying event itself in order to profit from a contract payoff. For example, in April 2026, French authorities reportedly investigated suspected tampering with a weather sensor at Paris Charles de Gaulle Airport after anomalous temperature spikes coincided with a \$20,000 Polymarket bet. Climate enthusiasts speculated that a battery-powered hairdryer may have been used to tamper with the sensor, so that the temperature reached 22 Celsius, four degrees higher than the day before.¹⁰

In an investigation or enforcement action, this type of scenario involves both trading-data analysis and questions about causation. Counsel and experts may need to examine order-book and transaction data to determine whether the trader's activity was large enough to move prices or liquidity in the relevant contract, reconstruct the timing of the alleged tampering relative to key trades and payout determinations, and evaluate whether the observed sensor readings are consistent with normal variation or instead indicative of artificial interference. They may also need to assess the role of third-party data providers that feed real-world information into the market, including how disputes over the correct outcome are resolved and how liability might be allocated among traders, platforms, and data sources.

⁸ Mitts, J., & Ofir, M. (2026, March 25). *From Iran to Taylor Swift: Informed trading in prediction markets*. Harvard Law School Forum on Corporate Governance. <https://corpgov.law.harvard.edu/2026/03/25/from-iran-to-taylor-swift-informed-trading-in-prediction-markets/>

⁹ Kalshi. (2026). *Two insider cases we've recently closed*. Kalshi News. <https://news.kalshi.com/p/kalshi-trading-violation-enforcement-cases>

¹⁰ Lister, T., & Elbagir, N. (2026, April 23). *France investigates suspected tampering with weather sensor after Polymarket bets*. CNN. <https://www.cnn.com/2026/04/23/europe/france-weather-sensor-polymarket-bet-intl-latam>

Prediction market platforms have also taken steps to mitigate the risk of outcome-based manipulation. For instance, Kalshi has restricted politicians, athletes, and other relevant people from trading in certain politics and sports markets in which they are participants. These restrictions are intended to address both insider trading and market manipulation risks, because such individuals may possess nonpublic information or have the ability to influence the underlying event.¹¹

Regulatory Landscape

The legal treatment of prediction markets is being shaped by overlapping and sometimes conflicting claims of authority by federal and state regulators. For lawyers, the key questions are which agency's rules apply to a particular product or platform, what enforcement tools those agencies are likely to use, and how federal and state conflicts may affect these claims.

These risks have prompted increasing regulatory scrutiny and enforcement activity from both the CFTC and individual states, who both claim jurisdiction over prediction markets. The CFTC takes the position that many event contracts fall within its jurisdiction as regulated derivatives. In particular, the CFTC has stated that event contracts are “swaps” under the Commodity Exchange Act (CEA).¹²

As a result, prediction markets are subject to a range of regulatory requirements intended to ensure fair outcomes for market participants. Trading exchanges are required to implement market surveillance programs to detect and prevent fraud and manipulation. In addition, Bank Secrecy Act rules also apply, requiring CFTC-registered entities to collect customer information as part of anti-money laundering measures and to monitor for potential insider trading.¹³

On February 25, 2026, the CFTC issued an advisory discussing two Kalshi cases involving the misuse of nonpublic information and fraud, highlighting insider trading risks in prediction markets. The advisory emphasized that the CFTC has “full authority to police illegal trading practices” in event contract markets. It also noted that certain conduct may violate Section 6(c)(1) of the CEA and Commission Rule 180.1.¹⁴

On March 12, 2026, the CFTC published an Advanced Notice of Proposed Rulemaking (ANPRM) seeking public comment on the need to amend or issue new regulations concerning event contracts traded on prediction markets. Chairman Michael S. Selig described this as an important step toward promoting responsible innovation while clarifying the Commission's interpretation of the CEA and reaffirming its jurisdiction over these markets.¹⁵

¹¹ Kalshi. (2026, February 25). *New guardrails: Insider trading, politics, and sports*. <https://news.kalshi.com/p/kalshi-new-guardrails-insider-trading-politics-sports>

¹² U.S. Commodity Futures Trading Commission. (2026, February 17). *States Encroach on Prediction Markets*. <https://www.cftc.gov/PressRoom/SpeechesTestimony/seligstatement021726>

¹³ U.S. Commodity Futures Trading Commission. (2026, February 17). *States Encroach on Prediction Markets*. <https://www.cftc.gov/PressRoom/SpeechesTestimony/seligstatement021726>

¹⁴ U.S. Commodity Futures Trading Commission. (2026, February 25). *CFTC Enforcement Division Issues Prediction Markets Advisory* (Press Release No. 9185-26). <https://www.cftc.gov/PressRoom/PressReleases/9185-26>

¹⁵ U.S. Commodity Futures Trading Commission. (2026, March 12). *CFTC Seeks Public Comment on Advanced Notice of Proposed Rulemaking Relating to Prediction Markets* (Press Release No. 9194-26). <https://www.cftc.gov/PressRoom/PressReleases/9194-26>

The Securities and Exchange Commission (SEC) may also play a role in regulating prediction markets, particularly where products implicate traditional securities law concerns. The SEC and the CFTC have indicated that they are coordinating on areas of overlapping jurisdiction. SEC Chairman Paul Atkins has noted that prediction markets present “overlapping jurisdiction” issues between the two agencies and may fall within the SEC’s oversight where contracts are structured to resemble securities.¹⁶ In May 2026, the SEC delayed proposed prediction-market ETFs from Bitwise and other issuers, requesting additional clarity regarding product mechanics, pricing, rolling event exposure, and disputed outcomes.¹⁷

The regulatory landscape for prediction markets is further complicated by an emerging conflict between federal and state authorities. In April 2026, the CFTC escalated this dispute by filing lawsuits against multiple states, including Illinois, Connecticut, and Arizona. The CFTC has asserted that event contracts fall within its “exclusive jurisdiction” under the CEA and has challenged state efforts to regulate these products as gambling, arguing that such actions unlawfully interfere with federal oversight of prediction market platforms.¹⁸

Conclusion

As prediction markets continue to grow and increase their visibility, they are likely to feature more prominently in enforcement actions, internal investigations, and private litigation. Recent trading patterns and empirical evidence indicate that a relatively small group of participants can earn substantial, statistically anomalous profits, and that some trading activity appears closely timed to sensitive geopolitical and policy events, raising questions about the use of MNPI and the integrity of event outcomes. At the same time, the CFTC’s advisories and rulemaking efforts, the SEC’s scrutiny of prediction-linked products, and state-level efforts to classify these markets as gambling all point to a volatile but increasingly active regulatory environment.

For legal teams, several practical questions follow:

- Do existing insider trading and MNPI policies explicitly address prediction-market activity by employees, executives, or key counterparties?
- If a regulator, exchange, or counterparty raised concerns about prediction market trading, what trading, wallet, or communications data should be obtained, and how to best evaluate this information accurately and efficiently?
- In the event of litigation, how to distinguish between ordinary speculative trading and patterns that are more consistent with informed or manipulative behavior, using objective economic evidence?
- How would overlapping CFTC, SEC, and state regulatory theories shape potential claims, defenses, and expert analyses in an investigation or enforcement action?

¹⁶ Goldstein, K., Murphy, J., & Bernstein, W. (2026, April 9). *Insider trading in prediction markets poses compliance risks*. Bloomberg Law. <https://news.bloomberglaw.com/legal-exchange-insights-and-commentary/insider-trading-in-prediction-markets-poses-compliance-risks>

¹⁷ Finimize Newsroom. (2026, May 4). *SEC hits pause on prediction-market ETFs from Bitwise and rivals*. Finimize. <https://finimize.com/content/sec-hits-pause-on-prediction-market-etfs-from-bitwise-and-rivals>

¹⁸ Brassil, G. R. (2026, April 3). *CFTC accelerates prediction market fight with new state lawsuits*. Bloomberg Law. <https://news.bloomberglaw.com/securities-law/cftc-accelerates-prediction-market-fight-with-new-state-lawsuits>

Peregrine Economics assists counsel in addressing these questions by reconstructing and analyzing trading behavior, assessing market efficiency and price formation, and evaluating whether observed profits, timing, and strategies are consistent with chance or instead support theories of informed or manipulative trading. As prediction markets evolve, integrating this type of economic analysis into compliance programs, internal investigations, and litigation strategies will become increasingly important for clients operating in or adjacent to these markets.

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