



## DISPUTES AND INVESTIGATIONS

# Market Conduct Surveillance in Prediction Markets: The Risks, the Challenges, and the Future of Surveillance

## INTRODUCTION BY JOE SCHIFANO, GLOBAL HEAD OF REGULATORY AFFAIRS AT EVENTUS

Prediction markets are entering a defining phase. Over the last two years, the industry has experienced explosive growth in trading activity, retail participation, product expansion, and institutional attention.

Various industry estimates suggest market trading volume grew from less than \$1 billion only a few years ago, to more than \$60 billion in 2025 alone.<sup>1</sup> Markets tied to elections, sports, economic indicators, and geopolitical events have moved from niche products into mainstream financial and cultural conversation. With that growth, however, has come a parallel rise in scrutiny around insider trading, market manipulation, surveillance obligations, and the broader question of how market integrity standards should apply to event-driven trading markets.

Against that backdrop, I began discussing the need for a more practical, first-principles framework for thinking about compliance and surveillance in prediction markets with Jeremy Cusimano and Sarah Fearon-Maradey of A&M's Disputes and Investigations team. Those conversations ultimately led the A&M team to develop this paper, drawing on their deep experience in regulatory compliance, investigations, and surveillance program design. My contribution was more modest: providing commentary and additional context from a practitioner perspective, shaped by years working alongside exchanges, regulators, intermediaries, and surveillance teams as these markets evolve in real time. Together, we saw value in stepping back from the headlines and assessing the broader market integrity questions that prediction markets are now beginning to confront.

This paper is intended to help frame that discussion.

It examines the market conduct risks emerging in prediction markets, the evolving regulatory expectations surrounding those risks, and the surveillance infrastructure, firms will require as the market matures. The paper explores insider trading, wash trading, spoofing, and other manipulative conduct through the lens of prediction markets' unique characteristics, including event-driven outcomes, rapidly evolving products, broad retail participation, and expanding institutional involvement. It also outlines the core elements of a reasonably designed market conduct surveillance program and highlights the practical challenges firms face in implementing those controls in a fast-moving and still-developing regulatory environment.

The catalyst for many of these conversations was FORWARD, Eventus' executive forum on prediction markets and market integrity.<sup>2</sup> The conference brought together regulators, exchanges, intermediaries, legal practitioners, surveillance professionals, and institutional participants to discuss a central challenge facing the industry: how to support innovation and market growth while also building the governance, controls, and compliance infrastructure expected of regulated financial markets.

<sup>1</sup> John C. Murphy et al., "Federal Agencies Signal Renewed Focus on Prediction Markets," February 13, 2026.

<sup>2</sup> For additional information, see the Eventus [FORWARD](#) site.



One theme emerged repeatedly throughout those discussions. Prediction markets may be new, but the market integrity issues surrounding them are not. Insider trading concerns have understandably captured significant public attention, particularly as allegations involving political contracts, sports outcomes, and event-driven trading have become more visible. Regulators and enforcement authorities have also signaled increasing focus on these products. At the same time, much of the work occurring behind the scenes receives far less attention. Exchanges, intermediaries, compliance teams, and surveillance providers are actively investing in controls, restricted participant frameworks, enhanced KYC procedures, and surveillance capabilities specifically designed for event-driven markets. Regulators themselves are engaging directly with market operators, publishing guidance, and participating in industry dialogue around emerging risks and expectations.

What makes prediction markets especially important from a compliance perspective is that many of the foundational questions are still being answered in real time. Firms are building products and surveillance frameworks simultaneously while legal standards, jurisdictional boundaries, and market structures continue to evolve. That creates uncertainty, but it also creates an opportunity to approach these issues thoughtfully before practices become deeply entrenched.

**“Prediction markets may be new, but the market integrity issues surrounding them are not.”**

The objective of this paper is not to advocate for or against prediction markets. Rather, it is to contribute to a more mature discussion about what responsible market oversight should look like in this emerging asset class. If prediction markets continue on their current trajectory, the firms most likely to succeed over the long term will be those that recognize early that surveillance, governance, and market integrity are not barriers to growth, but prerequisites for it.



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# WHAT ARE PREDICTION MARKETS?

Prediction markets are financial trading platforms that allow participants to take financial positions based on the probability that a specific event will occur. These positions are called event contracts.<sup>3</sup> Event contracts cover a wide range of topics, from sports and politics to interest rate changes and the performance of various products in the stock market.<sup>4</sup>

Most prediction markets offer binary event contracts, which are based on a “yes” or “no” framework. Binary contracts pay a fixed amount if an event occurs (typically \$1.00) and pay nothing if the event does not occur. Like traditional US futures and equities markets, prediction markets operate through a central limit order book where participants can trade in and out of positions until the event occurs and the contract settles. A binary contract’s market price reflects the wisdom of the crowd or the crowd-generated probability of whether an event will occur. For example, if a contract price is \$0.45, the crowd believes there is a 45% likelihood that the event will occur. Prediction markets make money by charging fees for each trade.<sup>5</sup>

Prediction markets can also offer scalar event contracts, which pay on a continuous scale based on a measurable outcome. Scalar event contracts pay out based on where a final numerical value, such as the outside temperature on a given day, lands within a specific range. The higher the value within the range, the higher the payment and vice versa. Scalar contracts allow traders to make more nuanced predictions as compared to binary contracts.<sup>6</sup>

Retail traders in the US have flocked to prediction markets for a variety of reasons. One reason is that these markets can also serve as information sources and be useful in forecasting future events.<sup>7</sup> For example, early interest in prediction markets was driven by the 2024 presidential election. News outlets reported that prediction markets more accurately reflected the election outcome than traditional polling mechanisms. Retail traders also like the relatively low cost, the accessibility, and the short-term nature of prediction markets.<sup>8</sup>



3 Commodity Futures Trading Commission, “[Understanding Prediction Markets an Event Contracts.](#)” accessed June 2, 2026.

4 Kalshi, “[What Are Prediction Markets?](#)” March 19, 2026.

5 Commodity Futures Trading Commission, “[Understanding Prediction Markets an Event Contracts.](#)” accessed June 2, 2026.

6 Commodity Futures Trading Commission, “[Understanding Prediction Markets an Event Contracts.](#)” accessed June 2, 2026.

7 Victor Mather, “[What Are Prediction Markets, and Why are They Causing Controversy?](#)” The New York Times, April 24, 2026.

8 Paul Solman and Diane Lincoln Estes, “[Why Prediction Markets Are Thriving and Facing Scrutiny.](#)” PBS News Hour, February 19, 2026.



# CURRENT REGULATORY REGIME

Prediction markets that offer event contracts to US customers need to register with the Commodities Futures Trading Commission (CFTC), typically as Designated Contract Markets (DCMs).<sup>9</sup> DCM registration offers two key benefits:

## 1 First

DCMs are classified as self-regulatory organizations (SROs) and are not required to obtain CFTC pre-approval to list new contracts. Instead, DCMs self-certify new contracts by submitting all the required documentation to the CFTC at least one day before listing the contract. The self-certification process is one of the reasons prediction markets have been able to rapidly expand their contract offerings.

## 2 Second

The Commodity Exchange Act (CEA) provides the CFTC exclusive jurisdiction over DCMs, a point prediction markets are using to defend against state gaming cases.<sup>10</sup>

In the context of market manipulation and surveillance, the CFTC and the CEA have laid out several obligations that DCMs must satisfy. DCMs need to comply initially and on an ongoing basis with the CEA's 23 statutory Core Principles, as well as applicable CFTC rules and regulations.<sup>11</sup> Core Principles 3, 4, and 12 address DCMs' obligations to prevent and detect market manipulation.

- Core Principle 3 prohibits the listing of contracts readily susceptible to manipulation, as well as contracts contrary to the public interest under CFTC Regulation 40.11.<sup>12</sup>
- Core Principle 4 requires DCMs to prevent manipulation, price distortion, and disruptions, by employing real-time monitoring of trading and comprehensive trade reconstructions.
- Core Principle 12 requires DCMs to have and enforce rules designed to promote fair and equitable trading and to protect the market and market participants from abusive practices, including fraudulent, noncompetitive or unfair actions.
- In a recent Staff Advisory, the CFTC also reiterated Regulation 180.1, which prohibits manipulation, including insider trading.<sup>13</sup>
- The CFTC has made it clear that it views DCMs as the "first lines of defense" or "front-line regulators" in preventing market manipulation.<sup>14</sup>

Despite the requirements laid out by the CFTC, prediction markets are still facing significant regulatory ambiguity due to multiple pending legal actions.<sup>15</sup> The CFTC has asserted exclusive jurisdiction over event contracts, which it claims qualify as swaps under the CEA.<sup>16</sup> Despite this assertion, several states have brought actions against CFTC-registered prediction markets on the theory that event contracts are gambling, and thus subject to state gaming laws. Given the conflicts between the courts, it is likely that the US Supreme Court will soon make the final decision regarding the legal classification of event contracts.

<sup>9</sup> DCMs can offer event contracts directly to retail customers through a self-clearing model. Alternatively, customers can access prediction markets through intermediaries, such as Futures Commission Merchants (FCMs) or Introducing Brokers (IBs). FCMs also have supervisory and compliance obligations relating to the conduct of those customers.

<sup>10</sup> Commodity Futures Trading Commission, "[CFTC Enforcement Division Issues Prediction Markets Advisory](#)," February 25, 2026.

<sup>11</sup> Commodity Futures Trading Commission, "[CFTC Sues Trio of States to Reaffirm its Exclusive Jurisdiction Over Prediction Markets](#)," April 2, 2026.

<sup>12</sup> Commodity Futures Trading Commission, "[CFTC Staff Issues Prediction Markets Advisory](#)," March 12, 2026.

<sup>13</sup> Commodity Futures Trading Commission, "[CFTC Enforcement Division Issues Prediction Markets Advisory](#)," February 25, 2026.

<sup>14</sup> Commodity Futures Trading Commission, "[Remarks at NYU Law School – CFTC Enforcement Priorities, Insider Trading in the Prediction, and Cooperation with the CFTC](#)," March 31, 2026.

<sup>15</sup> Andrew C. Adams et al., "[State and Federal Regulators Face Off Over Prediction Markets](#)," Steptoe, May 5, 2026.

<sup>16</sup> Commodity Futures Trading Commission, "[CFTC Sues Trio of States to Reaffirm its Exclusive Jurisdiction Over Prediction Markets](#)," April 2, 2026.

# KEY MARKET CONDUCT RISKS AND SURVEILLANCE CONSIDERATIONS

To build an effective market conduct surveillance program, prediction markets need to understand their key market conduct risks, why those risks exist, and the severity of those risks. The exact risks and their severity vary by platform, customer base, and the type of event contracts offered (e.g., sports versus politics). Prediction markets should look at the CFTC's enforcement priorities, prior DCM actions, and risks identified by other market participants when determining their key market conduct risks.

The following sections primarily focus on the obligations of DCMs, but many of the same risks and supervision obligations also apply to FCMs that intermediate access to prediction markets.

## A. Insider Trading

Insider trading in prediction markets is the most significant market conduct risk and the one that has attracted the most interest from regulators, lawmakers, and the public. On April 23, 2026, as widely reported, the US Department of Justice indicted a US soldier who allegedly used classified government information to buy contracts on Polymarket related to Venezuelan President Nicolás Maduro's removal.<sup>17</sup> Before that, Kalshi announced fines and platform suspensions for several traders tied to insider trading, including multiple politicians betting on their own campaigns and a YouTube streamer's video editor betting on that streamer's videos.<sup>18</sup> Congress also recently announced an investigation into insider trading on prediction markets.<sup>19</sup> The CFTC's Director of Enforcement also identified insider trading, especially in prediction markets, as one of his enforcement priorities.<sup>20</sup>

Insider trading is a risk for all markets, but the risk is amplified for prediction markets because an event contract's payout structure is completely dependent on whether an event occurs, and the list of insiders is potentially limitless. Insider trading is also further complicated by the CFTC's regulations. The CFTC has clear insider trading rules that prohibit trading on material non-public information (MNPI) for employees of the CFTC, CFTC-registered entities, and the

federal government.<sup>21</sup> For all others, the CFTC applies the misappropriation theory under Regulation 180.1. Under that theory, an individual cannot trade on or tip MNPI that they misappropriated in breach of a "duty of trust and confidence to the source of the information" and "must act with scienter."

However, the CFTC has not formally defined who owes a duty of trust and confidence. It has also created further ambiguity by clarifying that individuals with MNPI can trade on that information if the MNPI was "lawfully" obtained.<sup>22</sup> Prediction markets have additional prohibitions for each contract and define individuals or groups of individuals who are prohibited from trading, many of which likely exceed the CFTC's definition. Individuals can therefore be fined and suspended at the exchange level for insider trading yet fail to meet the CFTC's standards for insider trading. This could eventually create an environment in which prediction markets are incentivized to adopt less stringent insider-trading guidance to avoid litigation and remain competitive in a rapidly growing market.

<sup>17</sup> US Department of Justice, "[US Soldier Charged with Using Classified Information to Profit From Prediction Market Bets.](#)" April 23, 2026.

<sup>18</sup> Bobby DeNault, "[Two Insider Cases We've Recently Closed.](#)" Kalshi News, February 25, 2026; Bobby Dnault, "Enforcement Update: Kalshi Continues Crackdown on Political Insider Trading," Kalshi News, April 22, 2026.

<sup>19</sup> Nicholas G. Miller, "[House Republicans Open Investigation Into Prediction-Market Insider Trading.](#)" The Wall Street Journal, May 22, 2026.

<sup>20</sup> Commodity Futures Trading Commission, "[Remarks at NYU Law School – CFTC Enforcement Priorities, Insider Trading in the Prediction, and Cooperation with the CFTC.](#)" March 31, 2026.

<sup>21</sup> [7 USC §13\(e\)](#).

<sup>22</sup> Jay B. Sykes, "[Prediction Markets: Legal and Regulatory Issues.](#)" Congressional Research Service, April 3, 2026.



### **Insider trading prevention and detection start before a contract is even listed.**

- Prediction markets need to establish clear processes for evaluating whether a contract is disproportionately prone to insider trading as part of their obligations under Core Principle 3, and must clearly define who counts as an insider for each event contract.
- Prediction markets and clearing firms must also have robust KYC and client onboarding practices that allow them to clearly identify whether an individual has the potential to obtain MNPI or be exposed to insider information, as well as policies and procedures aimed at customers that define what insider trading is and the fact that it is prohibited on the platform.
- For both DCMs and FCMs, proper supervision in prediction markets will likely require enhanced KYC procedures when compared to existing practices.

From a detection standpoint, insider trading has been a notoriously challenging scenario for surveillance programs to manage in more traditional markets (e.g., equities, options) due to the volume of alerts and investigation time. Traditional insider trading surveillance models generate alerts when an instrument experiences a significant price movement and/or a news event preceded by unusually large trading activity in a client account within a certain time window. These scenarios will likely not work for prediction markets because whether an event occurs (or does not occur) is the entire basis for the contract, contract volume can be low, and unusual price movements are unlikely. Instead, insider trading scenarios will need to focus on pattern anomaly detection, such as first-time traders placing concentrated bets on one topic, unusually high “winning” rates, early windfalls immediately after opening an account, and activity across

related products. However, this may be easier said than done, especially because so many accounts are new and do not necessarily have trading patterns to use as reference. Given the breadth of individuals who may qualify as “insiders,” investigating these cases may also be challenging.

### **To make surveillance more efficient, prediction markets should consider:**

- Automatically integrating data from the client onboarding process into alert generation and investigation.
- Developing tools that identify more nuanced client connections that may provide access to confidential information. Kalshi, as an example, recently announced that it is collaborating with Wharton Forensic Analytics Lab to identify potential connections.<sup>23</sup>
- Identifying coordinated trading across multiple related products. Traders may divide trading activity across related products that may all yield similar outcomes based on the same news to avoid detection by traditional insider trading models.
- Exploring opportunities to use artificial intelligence to improve alert and investigation productivity. Polymarket, for example, recently announced its adoption of Vergence AI.<sup>24</sup> Polymarket plans to use Vergence AI’s integrated AI-based infrastructure to provide trade monitoring, near real-time anomaly detection, prohibited trading screening, operations center enablement, and compliance reporting.
- Identifying data that can be used to analyze average trading patterns and size, as well as normal price volatility.
- Using non-traditional data sources for insider trading detection. For example, firms could incorporate geolocation data to identify where a person is located when executing trades or whether there is physical clustering among individuals placing unusual trades.

<sup>23</sup> Tarek Mansour (@mansourtarek\_), “On Insider Trading,” X (formerly Twitter), February 5, 2026, 9:20 a.m., [x.com](#).

<sup>24</sup> Palantir Technologies, “Polymarket Partners With Palantir and TWG AI to Build Next-generation Sports Integrity Platform,” March 20, 2026.

## B. Prearranged and Wash Trading

In addition to insider trading, prediction markets will have similar market conduct risks to other markets with central limit order books. The CFTC Director of Enforcement recently highlighted concerns around “pre-arranged, noncompetitive trading and wash sales.”<sup>25</sup> Prearranged trading is where the buyer and seller agree to certain terms before executing the trades on the venue. Wash trading involves riskless buying and selling of the same product. Both practices are often undertaken to artificially inflate market volume, particularly in new or relatively illiquid products or to secretly transfer funds, conceal assets, or launder money. Since prediction markets are priced on crowd sentiment and participation is driven by attention in the media, wash and prearranged trading can mislead other participants about the market depth and the probability of an event occurring.

Prediction market platforms often highlight their own “trending” contracts and allow users to sort contracts for purchase by a variety of factors, including liquidity and volume. This type of ranking system can incentivize traders to manipulate liquidity signals to profit from increased attention and participation. Prearranged and wash trading are generally less prevalent with standard retail investors, but as more institutional traders, algorithmic traders, and market makers enter prediction markets, this may become a more significant issue.

### **For prearranged and wash trading, prediction markets need to:**

- Ensure that accounts are appropriately flagged to identify related accounts.
- Apply risk-based thresholds for wash trades that reflect the liquidity and volume of the specific product, as well as the volume at that specific time (e.g., during overnight hours or closer to the event liquidity can decrease leaving contracts more prone to manipulation).
- Identify market makers and put in place reasonable wash trading controls around these accounts.
- Perform pattern and practice reviews where wash trading-like activity is reviewed on a trending basis.

## C. Spoofing and Other Disruptive Trading Practices

Based on the recent prediction-market-focused staff advisory and the March 31, 2026, statements of the Director of Enforcement, the CFTC remains focused on spoofing.<sup>26</sup> Spoofing involves the practice of placing orders with no intention of executing those orders. Similar to wash trading, the purpose is to mislead other participants about the depth, interest, and probability of certain events. Spoofing risks will rise as more institutional traders, algorithmic traders, and market makers enter prediction markets, given the limited ways most retail traders will interact with the market and order book.

### **For spoofing, prediction markets should ensure that they are:**

- Capturing canceled orders and the rates of cancellation for certain accounts.
- Surveilling activity without requiring an opposite side execution.
- Examining trading and order patterns in related products.
- Setting risk-based thresholds that reflect the product’s overall liquidity and the liquidity available at the time of order entry; relevant thresholds may include the volume of the spoofing order(s), the pricing from the best bid and offer, and the time from order entry until order cancellation.
- Conducting pattern and practice or trend-based reviews to identify ongoing, systemic, or repeated manipulative conduct.



25 Commodity Futures Trading Commission, “CFTC Enforcement Division Issues Prediction Markets Advisory,” February 25, 2026.

26 Commodity Futures Trading Commission, “Remarks at NYU Law School – CFTC Enforcement Priorities, Insider Trading in the Prediction, and Cooperation with the CFTC,” March 31, 2026.

## D. Other Fraud and Manipulation

Prediction markets should also develop controls to address disruptive or manipulative trading practices prevalent in other markets, products, and jurisdictions. Market dominance is a potential risk for prediction markets, given the lack of liquidity in certain markets and as the number of market makers potentially increases. Some prediction markets have put position-limit controls in place, limiting the number of event contracts that can be held by an individual account. To the extent that they have not yet considered it, firms may need to contemplate whether different types of markets require differing contract limits. Prediction markets should also disclose to all clients whether they have any market-maker relationships, how those relationships operate, and how fees are paid to market makers. Furthermore, prediction markets need to actively monitor the activities of market makers to ensure that they are operating as intended and are not harming retail investors or disproportionately influencing the price of any specific contracts.

Manipulation around the close is also a concern highlighted by the CFTC's Director of Enforcement. Event contracts are generally offered 24 hours a day, but some contracts have a key nexus to financial instruments with a more traditional "close", such as equity share prices. Risks around marking the close may be more cogent as the SEC potentially provides guidance over their position on event contracts that may qualify as security-based swaps.

Prediction markets should also be cognizant of potential pump and dump risks. In pump and dump schemes, bad actors use social media or other platforms to encourage trading in specific products to artificially inflate the price and then exit the position at a profit. Given the interwoven relationship of prediction markets, news, and social media, pump and dump may present an increasing risk.

In addition to insider trading, recent articles from Bloomberg News and the Wall Street Journal (WSJ), have analyzed the outcomes in prediction markets and found that the majority of retail traders are losing money.<sup>27</sup> The WSJ found that on one prediction market 67% of profits flowed to just 0.1% of accounts and that more than 70% of users lose money. On another platform, only one out of four traders is profitable.<sup>28</sup>

The WSJ noted that algorithmic trading firms with access to expensive data feeds consistently outperformed casual retail traders. If they continue to have low success rates, retail investors may eventually stop trading leading to a reduction in liquidity and lessening the markets' forecasting value. As more market makers, institutional traders, and algorithmic traders enter prediction markets, DCMs need to adopt policies that promote fair and equitable trading and pricing practices.

Prediction markets should assess how other exchanges have promoted fair and equitable trading in retail markets, including:

- Providing transparency around market making agreements or compensation paid to market makers, an area of significant regulatory focus.
- Implementing batching auctions, which aggregate trading and clearing and limit the advantages of high frequency traders.
- Instituting order size limits.
- Imposing higher fees on large institutional-sized orders.
- Running separate liquidity pools for retail versus institutional investors.
- Throttling algorithmic trading.
- Developing trend-based reports that identify patterns of unusual increases in order or trade volume, unusual market share, or unusual order cancellations, to monitor potential predatory trading behaviors and promote fairness.

Prediction markets may have different or additional risks outside of those discussed above, given the unique nature of each individual market. Prediction markets may differ on a variety of factors including, for example, how traders access their system, the types of contracts offered, the rules, and their primary client type. Prediction markets should conduct a risk assessment prior to instituting a surveillance program to ensure that the program is reasonable and right-sized for their business and their specific market conduct risks.

<sup>27</sup> Carolyn Silverman et al., "[Most Prediction Market Traders Are Losing Money While Bots Rack Up Gains.](#)" Bloomberg News, April 28, 2026.

<sup>28</sup> Neil Mehta et al., "[Why Almost Everyone Loses—Except a Few Sharks—on Prediction Markets.](#)" The Wallstreet Journal, May 3, 2026.



# CRITICAL ELEMENTS OF A REASONABLY DESIGNED MARKET CONDUCT COMPLIANCE PROGRAM

A prediction market registered as a DCM must demonstrate that it has the capability to comply with the CEA's core principles, as well as other relevant CFTC regulations. A significant component of that compliance is implementing a surveillance system to continuously monitor its markets for potential manipulation. However, successful surveillance programs require much more than just implementing an out-of-the-box vendor surveillance tool.

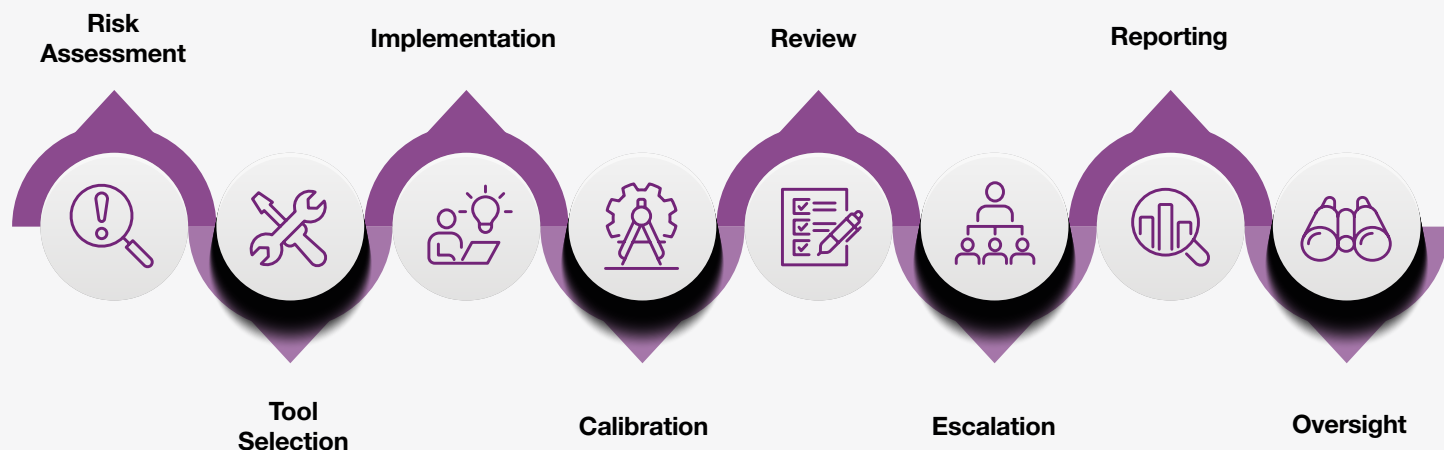
Prediction markets will need to establish supporting program and governance structures to maintain an effective surveillance program long-term. Reasonably designed surveillance programs are not only critical for satisfying the registration requirements

but they may also provide corporate safeguards from future enforcement penalties. The CFTC and DOJ both offer declinations or reductions in penalties for firms that self-report and cooperate with investigations.

**To develop an effective market conduct compliance program that is right-sized and fit for purpose, a prediction market needs to consider its overall business structure, product offerings, clients, and risk tolerance.**

Below we discuss some of the key components that prediction markets should consider when designing and implementing a market conduct surveillance program.

## Key Elements of a Market Conduct Compliance Program



# CRITICAL ELEMENTS OF A REASONABLY DESIGNED MARKET CONDUCT COMPLIANCE PROGRAM

## A. RISK ASSESSMENTS

- I. Prediction markets should conduct a preliminary market abuse risk assessment to determine their key market conduct risks and the severity of those risks. Platforms need to understand what risks exist based on the products they trade, how clients access their system, their main client base, fee and rebate structures, and technology.
- II. Prediction markets may want to consider assessing their risk for each product category (e.g., sports, politics, weather) as the risks may differ depending on the product. Although the risks may be relatively standard, the risk assessment will allow the prediction market to demonstrate the reasonableness of the program it designs and implements.

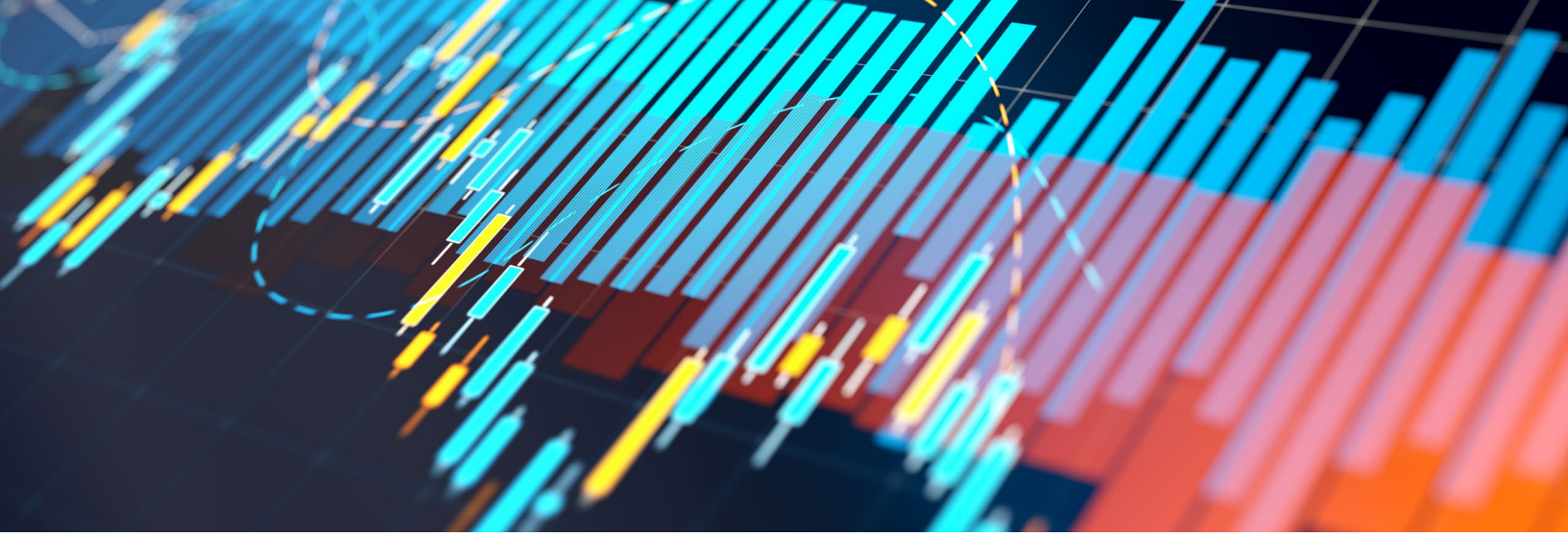
## B. SURVEILLANCE PLATFORM

- I. **Selection:** A prediction market should use its risk assessment to guide the selection of its surveillance tool. Given the nascent nature of this area, there are likely a limited number of surveillance tools that effectively support these markets. Prediction markets need to ensure that the vendors are considering the unique risks of the prediction markets and not merely trying to fit prediction market surveillance into a tool built for other asset classes. Traditional surveillance platforms may not be appropriate or may not have the capabilities to support the dynamic regulatory environment, unique risks, and continuous trading that occurs on prediction markets. Prediction markets should also look for companies with strong customer support, the ability to offer customized scenarios, access to market data, and multi-asset class expertise.
- II. **Implementation:** DCMs and FCMs need to be prepared to dedicate significant resources, time, and money to the surveillance implementation process and to properly document implementation decisions and approvals along the way.
  - They need to prepare and format their data to align with their selected tool, source market data, validate the completeness of their data, use their risk assessment to select scenarios, independently validate the logic of the scenarios, select, test, and finalize calibration levels, and document each of these steps.

- Prediction markets will also need to test their set-up in production, establish review processes and standards, and train staff to execute these reviews.
- DCMs and FCMs also need to be prepared to repeat this process, or at least portions of it, on an annual basis.

Proper implementation is essential and failing to do so or cutting corners at the outset could lead to significant long-term costs in the form of enforcement actions and exam inquiries.

- III. **Calibration:** DCMs need to implement processes to calibrate their surveillance tools both initially and iteratively throughout a scenario's lifecycle. Proper calibration can be one of the more challenging tasks for even a well-established surveillance program to get right but it is a key component in the assessment of whether a program is reasonably implemented. Programs need to balance risk mitigation versus alert volume and do it in a way that is reasonable based on their business and risk profile. Additionally, the calibration process can differ significantly based on the tool selected. Some surveillance systems offer 10 or more thresholds per scenario and others only offer one. Some surveillance vendors provide recommended thresholds, others provide a comparison to peers, and others decline to provide any guidance. Regardless of the tool selected, there are some overlapping principles that all organizations should apply:
  - DCMs need to re-review thresholds on a regular basis;
  - DCMs need to incorporate their risk assessment results into any review or change; and
  - DCMs should incorporate key surveillance metrics, such as alert volume, true versus false positive rates, escalation counts, and non-alerting scenarios, into the calibration review.



## C. POLICIES AND PROCEDURES

Core Principle 12 requires that DCMs have policies and procedures.

- I. In the context of surveillance, DCMs should publish policies on market conduct that are shared throughout the firm and with their customers.
- II. DCMs should also develop surveillance specific procedures that detail the types of scenarios implemented and key flags reviewers should consider when reviewing that activity, as well as processes for alert review and escalation, calibrations, metrics, and quality assurance.

## D. TRAINING

DCMs need to ensure that surveillance analysts understand the type of activity that they are looking for and where to find the information needed to support those reviews. There are very few surveillance professionals at baseline and even fewer that have experience in the prediction markets, therefore training and ongoing training to capture new industry and enforcement trends will be critical.

## E. PROGRAM GOVERNANCE AND OVERSIGHT

Surveillance tools cannot operate in a vacuum and to demonstrate reasonable oversight, prediction markets should rely on resources in their compliance and legal departments to ensure that programs are reasonable for the risks presented by the trading occurring on the platform. Prediction markets should, at a minimum, establish:

- I. **Alert Lifecycle Processes** – How does an alert move from new to in review to closed? What documentation is required to demonstrate that reviews are done and what is the minimum information required? Who can close alerts and is there a difference depending on the activity? How long after an alert is generated does it need to be reviewed?

- II. **Escalation Protocols** – How are alerts escalated and to whom? How are those escalations recorded and what is the process for closing alerts following an escalation?
- III. **Resources** – Does the firm have the appropriate number of resources reviewing its alerts? Are these resources sufficiently knowledgeable and trained?
- IV. **Reporting** – How are the outcomes of the surveillance program shared with internal stakeholders?
- V. **Oversight** – Does the firm have any processes in place to test the effectiveness of the surveillance program? Are there any QA reviews conducted over alert closures?

## F. DATA GOVERNANCE

Prediction markets must have some controls to ensure that the data consumed by their surveillance tools is complete, accurate, and timely. This includes not only initial onboarding processes but ongoing processes to ensure completeness. Markets must establish processes to address data issues when they occur including escalation pathways, thresholds that require reprocessing of data, and how to handle surveillance data re-runs in the context of 24/7 trading. This is especially critical if the prediction markets have FCM arrangements and the FCMs are using the prediction market's data to conduct their own internal surveillance.

## G. DISCIPLINARY ACTION

Institutions must have clear and measurable disciplinary responses when prohibited behavior occurs and this action must be applied in practice. This may include a process for escalating suspicious activity for investigation, a clear referral network, processes for referring activity to regulators as appropriate, and processes for blocking further prohibited behavior (i.e., suspending or terminating accounts).

# ONGOING CHALLENGES

The legal and regulatory landscape for prediction markets continues to evolve. The CFTC issued an Advanced Notice of Proposed Rulemaking in March 2026 focused on prediction markets.<sup>29</sup> Lawmakers have introduced more than 18 proposed pieces of legislation focused on prediction markets, specifically outlawing contracts that involve death or war. US states and the CFTC are also continuing to battle over jurisdiction. The legal ambiguity will be a key concern for those currently in and those looking to enter the prediction markets.

Given the context, there are also several other challenges that prediction markets will need to consider as they continue to build out compliance programs.

- **24/7 Trading** – Event contracts are open from creation until the event occurs. 24/7 trading will present a challenge for surveillance practitioners in terms of calibrations (i.e., these time frames will be less liquid and more prone to manipulation), resourcing if they plan to conduct real-time monitoring, and data governance to the extent that breaks in the data occur.
- **Cross-Market Surveillance** – Multiple markets offer similar contracts and even one market may offer contracts that have the same dependencies (i.e., the closing price of a stock). Prediction markets will need to think about how to consider these holistically and how and when to connect multiple event contracts when conducting surveillance.
- **Super Apps** – Firms are looking to pick up additional market share by offering multiple trading options for their customers from event contracts to crypto assets to traditional brokerage accounts. Companies will need to consider the operational, legal, and regulatory implications of client funds moving across varying asset classes and potentially, different regulatory regimes. Additionally, near-instantaneous conversion of potentially ill-gotten-gains to crypto assets and removal from DCM environments may hamper investigation and enforcement efforts.
- **Artificial Intelligence** – It is impossible to discuss surveillance and not discuss AI. As AI continues to evolve, DCMs need to think about the potential impact of AI on their markets and how they can leverage AI to improve their compliance programs. AI has the potential to improve liquidity, price discovery, and competitiveness for retail traders. Individuals could potentially use AI agents to execute trades and to aggregate large amounts of data to improve trading predictions. However, AI may also open new manipulation opportunities, exacerbate insider trading concerns, and create technical risks for platforms that were not built to handle the pace of AI-driven activities. On the compliance side, DCMs can use AI to streamline operations and create improved connectivity between systems and reporting, integrate pattern and practice reviews, and eventually to perform some initial surveillance reviews and triaging. As technology evolves, prediction markets will need to evaluate their platforms to ensure that they have controls to promote fair markets in an AI-driven world and the appropriate governance over AI-based compliance tools.
- **Contracts Susceptible to Manipulation** – Core Principle 3 prohibits the listing of contracts prone to manipulation. Prediction markets are still too nascent to understand exactly what this means or to anticipate how manipulation in these markets may evolve over time. For example, *60 Minutes* recently highlighted a journalist who reported on a missile strike.<sup>30</sup> The journalist subsequently received multiple threats from prediction market participants who had millions of dollars at stake relating to the missile strike to change his story. If the potential for manipulation continues beyond the execution of trades and the occurrence of events, how will prediction markets safeguard the integrity of their markets?
- **Contracts Contrary to Public Interest** – Under CEA section 5c(c)(5)(C), the CFTC has discretion to prohibit contracts that are contrary to public interest including event contracts that involve war, terrorism, assassination, gaming, or activities unlawful under federal or state law. The CFTC's discretion has recently become a point of controversy, especially in light of national security concerns. Some people believe that Congress needs to ban these product categories, while others argue that the continued discretion is important because of the potential value of the information, the increased risk of pushing these contracts offshore, and the potential hedging value. Prediction markets will need to consider how changes in the CFTC's discretion may impact their overall business and the self-certification process for new products.

29 Commodity Futures Trading Commission, "CFTC Seeks Public Comment on Advanced Notice of Proposed Rulemaking Relating to Prediction Markets," March 12, 2026. The full text of the Advanced Notice of Proposed Rulemaking can be found in the [Federal Register](#), 91 Fed. Reg. 12516 (March 16, 2026).

30 60 Minutes, "Prediction Markets Bets on War Defy Odds," May 17, 2026.



## HOW A&M CAN HELP

A&M has the expertise to help your organization understand, prepare for, and adapt to the evolving prediction market regulations. As CFTC rules evolve, we can assist with implementing necessary enhancements to compliance and risk frameworks, KYC and surveillance systems and tools, data collection and analysis, and alert and model tuning. A&M has extensive experience working with all major US regulatory agencies and is well-positioned to provide tailored, risk-based solutions for clients across different sectors of the financial services industry.

### A&M'S SERVICES INCLUDE:

- Investigation support and market analysis
- Dispute services including expert testimony
- Regulatory change management guidance and implementation
- Compliance program evaluations
- Risk assessments
- Technology selection and implementation
- Control testing
- KYC and surveillance program review and remediation
- Systems calibration and enhancement
- Regulatory data reporting
- Data governance, mapping, and validation



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