2026 FIA Law & Compliance Conference

Know Your Customer: What's Top of Mind for Buyside Firms?

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Event Contracts / Prediction Markets: Regulatory Developments and Practical Risks for Buy-Side Firms

1. Overview (Why event contracts are top of mind)

Prediction markets (often referred to as "event contracts") have expanded rapidly in visibility and scope, prompting renewed regulatory focus. In 2026, the Commodity Futures Trading Commission ("**CFTC**") has: (i) withdrawn prior policy actions perceived as over-broad; (ii) issued parallel advisories emphasizing market integrity, surveillance, and anti-fraud standards; (iii) launched a formal rulemaking process; and (iv) actively defended exclusive federal jurisdiction over event contracts in federal appellate litigation.

2. Baseline Legal Framework (CEA + CFTC Rules)

Two provisions form the core of the federal framework most commonly discussed in connection with event contracts: (a) the CEA's "public interest" authority over certain event contracts in excluded commodities; [1] and (b) the CFTC's broad anti-fraud and anti-manipulation authority applicable to swaps and contracts traded on registered entities.[2]

3. 2024–2026 CFTC Key Regulatory Developments

A. 2024 NPRM (withdrawn) – what it proposed

In May 2024, the CFTC issued an NPRM[3] to amend Rule 40.11 to further specify categories of event contracts that would be deemed "contrary to the public interest," including by defining "gaming" and identifying illustrative examples (e.g., political contests, awards contests, sports).[4]

B. February 2026 withdrawal – what changed

In February 2026, the CFTC formally withdrew the 2024 NPRM and withdrew a 2025 staff advisory related to sports event contracts.[5] The Commission stated it did not intend to finalize the proposal and would instead consider future action through a new proposal.[6]

C. Chairman Selig's "minimum effective dose" framing

[1] 7 U.S.C. § 7a-2(c)(5)(C) (event contracts; "contrary to the public interest"); 17 C.F.R. § 40.11 (review of event contracts; prohibited categories; 90-day review).
[2] 17 C.F.R. § 180.1 (prohibition on manipulative and deceptive devices).
[3] Event Contracts, 89 Fed. Reg. 48968 (June 10, 2024).
[4] CFTC Press Release No. 8907-24 (May 10, 2024), available at https://www.cftc.gov/PressRoom/PressReleases/8907-24.
[5] Event Contracts; Withdrawal of Proposed Regulatory Action, 91 Fed. Reg. 5386 (Feb. 6, 2026).
[6] CFTC Press Release No. 9179-26 (Feb. 4, 2026), available at https://www.cftc.gov/PressRoom/PressReleases/9179-26.

CFTC Chairman Michael S. Selig has emphasized a principles-based approach that seeks the "minimum effective dose" of regulation—warning that regulating too little can impair integrity and regulating too much can push innovation offshore.[7]

D. Two advisories + ANPRM (Feb. 25 and Mar. 12, 2026)

February 25, 2026 – Division of Enforcement advisory:[8]

- Highlighted misconduct risks in prediction markets and underscored that exchange-level discipline does not preclude CFTC enforcement.
- Discussed misuse of nonpublic information and fraud; referenced CEA § 6(c)(1) and CFTC Rule 180.1.[9]

March 12, 2026 – Division of Market Oversight Staff Advisory (Letter 26-08):[10]

- Emphasized that DCMs are "front-line regulators" and must satisfy core principle obligations for contract design and surveillance.
- Highlighted expectations under CEA § 5(d) / Part 38 and Core Principle 3 (contracts not readily susceptible to manipulation), including Appendix C considerations.
- Discussed settlement-source integrity and the potential incentive to influence data inputs used for cash settlement.

March 12, 2026 – ANPRM:[11]

- How statutory core principles and CFTC regulations apply to prediction markets (including surveillance, compliance, and dispute processes).
- How the CFTC should conduct "public interest" determinations for event contracts, including potentially prohibited categories.
- Inside information, manipulation risks, and the relationship between exchange governance and Commission oversight.
- Cost-benefit considerations and other market-structure topics relevant to event contracts.

4. Practical Buy-side Risk Themes (with recent examples)

A. Settlement risk ("definitions" and "edge-case" risk)

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[7] Michael S. Selig, Chairman, CFTC, Prepared Remarks: FIA Global Cleared Markets Conference (Mar. 9, 2026), available at https://www.cftc.gov/PressRoom/SpeechesTestimony/opaselig2.
[8] CFTC Press Release No. 9185-26 (Feb. 25, 2026), available at https://www.cftc.gov/PressRoom/PressReleases/9185-26.
[9] 17 C.F.R. § 180.1.
[10] CFTC Staff Letter No. 26-08 (Mar. 12, 2026), available at https://www.cftc.gov/csl/26-08/download.
[11] CFTC Press Release No. 9194-26 (Mar. 12, 2026), available at https://www.cftc.gov/PressRoom/PressReleases/9194-26; Prediction Markets, 91 Fed. Reg. 12516 (Mar. 16, 2026).

Recent public reporting regarding leader-change contracts illustrates that event contracts can generate disputes over resolution triggers and settlement methodology (including how contract rulebooks treat death as a resolution driver and how "last traded price" fallbacks operate).[12] For buy-side users, this resembles the "definitions" risk familiar from complex OTC documentation, but with operational and reputational overlays given the public nature of event outcomes.

Buy-side checklist (settlement):

- Confirm the objective resolution criteria and authoritative sources.
- Identify timing triggers for resolution.
- Understand dispute resolution mechanics and any discretionary "fair value" determinations.
- Assess liquidity and unwind options as the market approaches resolution.

B. Source / information-integrity risk ("truth pipeline" risk)

A separate risk theme arises where settlement depends on how events are characterized in public reporting or by official sources. In March 2026, a Times of Israel military correspondent publicly described being pressured and threatened to revise reporting, reportedly because contract rules distinguished between an intercepted projectile and a qualifying strike.[13] The episode illustrates a potential incentive to influence not the underlying event, but the information inputs that determine settlement.

Buy-side checklist (source risk):

- Map the "truth pipeline" (which sources control, update cadence, and susceptibility to dispute).
- Avoid large exposure where settlement turns on subjective characterization or a small set of sources.
- Adopt an internal conduct policy prohibiting outreach to journalists/data sources tied to open contracts.
- Document trading rationale and information sources for significant positions.

5. Practical Compliance and Disclosure Steps for Institutional Participants

A. Internal policies and controls

- Update MNPI / market-abuse policies to expressly cover event contracts and the misappropriation theory referenced by the CFTC.

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[12] *See* Bloomberg Law, Kalshi Sued Over Death Carveout in Iran Leader Prediction Market (Mar. 6, 2026), available at https://news.bloomberglaw.com/securities-law/kalshi-sued-over-death-carveout-in-iran-leader-prediction-market.

[13] *See* Bloomberg, Missile Dispute, Reporter Threats Expose Prediction Market Risk (Mar. 19, 2026), available at https://www.bloomberg.com/news/articles/2026-03-19/how-irrelevant-prediction-market-detail-led-to-death-threats.

- Implement a pre-trade review protocol for event contracts traded in size (resolution criteria, settlement sources, dispute mechanics).
- Add a conduct rule prohibiting attempts to influence settlement sources or the characterization of settlement-relevant events.

B. Fund disclosures (PPMs / offering documents)

- Settlement and resolution risk (contract terms may produce non-intuitive outcomes in edge cases).
- Source / information-integrity risk (outcomes may hinge on characterization by public reporting or official sources).
- Regulatory change and jurisdictional risk (pending litigation and the ANPRM may reshape product availability and governance expectations).

6. Conclusion

Event contracts are increasingly being addressed through the CFTC's existing derivatives-market framework, supplemented by guidance, enforcement signaling, and an active rulemaking docket. For institutional participants, the most immediate considerations are practical: (i) settlement risk (definitions, timing, dispute processes) and (ii) source risk (information inputs and integrity). Firms should consider calibrating policies, governance, and disclosures accordingly while monitoring developments in the ANPRM and ongoing jurisdictional litigation.

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Treasury Clearing: Buy-side Legal Roadmap

U.S. Treasury Clearing Mandate

In December 2023, the Securities and Exchange Commissions (SEC) adopted Rules 17ad-22(e)(18)(iv)(A) and (B) (together, the "Trade Submission Requirement") that will require most transactions in the U.S. Treasury market to be centrally cleared through an SEC-approved Covered Clearing Agency (CCA).[14] Under the Trade Submission Requirement, U.S. Treasury CCAs must adopt and enforce written policies requiring their direct participants to submit all eligible secondary market Treasury transactions for clearing and settlement. CCAs must also monitor compliance and establish procedures to address failures to submit trades. For purposes of these rules and notwithstanding available exemptions, eligible secondary market Treasury transactions include:

1. All repo and reverse repo transactions on U.S. Treasuries (UST) entered into by a direct participant;
2. All cash transactions in U.S. Treasuries if the direct participant is an interdealer broker; and
3. All cash transactions in U.S. Treasuries entered into with a broker-dealer, government securities dealer, or government securities broker.

While the Trade Submission Requirement's clearing mandate does not directly require buy-side firms to clear their trades, it is expected to materially affect them because buy-side transactions with dealer counterparties—most of whom are direct participants—must be submitted for central clearing, particularly in the U.S. Treasury repo and reverse repo markets. Critically, submission of eligible secondary market Treasury transactions must occur in accordance with the following phased compliance schedule, which the SEC has signalled are unlikely to be further extended.[15]

(i) December 31, 2026, with respect to eligible cash market transactions; and
(ii) June 30, 2027, with respect to eligible repo and reverse repo transactions.[16]

In treasury clearing, the CCA interposes itself between buyer and seller of UST cash and repo transactions. Once a trade is submitted for clearing and accepted, the CCA becomes the counterparty to each side, manages margin, and nets exposures across participants. At present, the only relevant CCA for U.S. Treasury securities and repo is Fixed Income Clearing Corporation (FICC), a subsidiary of DTCC. However, on December 2, 2026, CME Group announced that it had received SEC approval of a new registered securities clearing agency, CME Securities Clearing Inc. Expected to launch in the second quarter of 2026, CME Securities Clearing Inc. is intended to support market participants in meeting the SEC's Trade Submission Requirement clearing mandate in light of the previously discussed phased compliance schedule, and may serve as a

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[14] Exchange Act Release No. 34-99149 (Dec. 13, 2023), 89 FR 2714 (Jan. 16, 2024) ("Adopting Release").

[15] Update on Working Toward Treasury Clearing Implementation, Statement of Commissioner Mark T. Uyeda, U.S. Securities and Exchange Commission (Sept. 30, 2025) ("At the present, the Commission does not intend to consider further extensions of the compliance dates.").

[16] Securities and Exchange Commission, *Extension of Compliance Dates for Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities*, Exchange Act Release No. 34-102487, File No. S7-23-22 (Feb. 25, 2025), https://www.sec.gov/files/rules/final/2025/34-102487.pdf.

welcome addition as market participants respond to increasing regulatory demand for clearing infrastructure.[17]

Buy-Side Legal: Documentation Preparation

It is important to note that under the SEC's framework, only CCA direct participants – principally, dealer members of FICC's Government Securities Division – have the ability (and obligation) to submit eligible secondary market Treasury transactions for clearing. Buy-side firms typically are not direct participants and therefore cannot access the CCA independently; instead, in accordance with the currently dominant access model – FICC Sponsored Member Program (SMP)[18] – they participate as limited purpose Sponsored Members through a direct participant Sponsoring Member dealer, who acts as guarantor of the customer's positions facing the CCA. It is important to note that while an alternative to SMP exists in FICC's Agent Clearing Service (ACS) model[19], as of the date of this paper it remains in the early stages of market adoption, with limited dealer buildout, sparse buy-side onboarding, and no broad, scaled availability across the market. Under the ACS model, a buy-side customer does not need to become a member of Fixed Income Clearing Corporation and can execute trades with either its dealer clearing member or third parties, while the clearing member intermediates and remains fully liable to FICC. The structure mirrors an FCM-style arrangement, where the customer is not directly facing FICC but instead faces the clearing member acting as agent. This model may appeal to clients that prefer not to onboard with FICC and who find the FCM similarity attractive. However, given the limited market availability, early buy-side adopters must weigh the costs of potentially longer onboarding timelines against the upside of being first movers on setting market terms.

Against this backdrop, in-house legal teams must adopt a structured implementation roadmap focused on documentation and dealer relationship strategy. The first step is scope and dealer triage: legal must work closely with trading and treasury functions to identify repo counterparties that are actively used and which relationships will be maintained post-mandate. In practice, it is likely that many asset managers are rationalizing their dealer panels, concentrating activity among a smaller core group of repo providers. The second step is to select a clearing access model, with the FICC SMP "done-with" structure – where bilateral repo execution and clearing occur with the same dealer Sponsoring Member – emerging as the default baseline in current market practice. While FICC SMP "done away" – which would allow execution with one repo counterparty and clearing through a separate dealer Sponsoring Member – is a market anticipated feature, it remains under development and is not yet widely implemented. Under the FICC SMP "done-with" structure, the salient documentation takeaway is that each dealer with whom the manager intends to transact UST repo will require a separate

[17] CME Group Inc., *CME Group Announces Regulatory Approval of New Securities Clearing House* (Dec. 2, 2025), https://www.cmegroup.com/media-room/press-releases/2025/12/02/cme_group_announcesregulatoryapprovalofnewsecuritiesclearinghous.html
[18] The Depository Trust & Clearing Corp., *Sponsored Service*, DTCC Learning Center, https://dtcclearning.com/products-and-services/fixed-income-clearing/gsd/sponsored-service.html
[19] The Depository Trust & Clearing Corp., *Agent Clearing Service*, DTCC Learning Center (Apr. 3, 2025), https://dtcclearning.com/products-and-services/fixed-income-clearing/gsd/agent-clearing-service.html; see also The Depository Trust & Clearing Corp., *DTCC Receives SEC Approval to Launch Agent Clearing Triparty Service on BNY Platform* (Jan. 7, 2026), https://www.dtcc.com/news/2026/january/07/dtcc-receives-sec-approval-to-launch-agent-clearing-triparty-service-on-bny-platform-b3p9i2aw

clearing relationship, increasing the importance of disciplined counterparty selection, at least until the done away model becomes an established feature of the market. The third step, and the core legal workstream, is negotiation of the documentation stack for each sponsoring dealer. The introduction of the Trade Submission Requirement's repo clearing mandate represents a fundamental structural shift for buy-side participants in the repo space. For most participants, what has predominantly been a bilateral contractual relationship (tri-party repo notwithstanding) has been converted into a hybrid model whereby central clearing infrastructure is overlaid on top of a bilateral repo foundation. As a corollary, the documentation framework will correspondingly become layered, typically consisting of a bilateral trading agreement such as the Master Repurchase Agreement (MRA), a cleared repo addendum or annex to the MRA, and a separate sponsorship or client clearing agreement[20]. Thus, while the bilateral MRA still governs and sets the terms of the counterparty credit, risk, and legal dynamics, the clearing documentation will govern margin, default, porting, and operational controls between the buy-side participant and the sponsoring dealer in the context of CCA novation dynamics. Additionally, the MRA cleared repo addendum or annex integrates the clearing mechanics into the existing bilateral repo framework, including provisions addressing trade submission obligations and fail-to-clear outcomes.[21] In practice, buy-side legal teams are likely not drafting these documents from first principles but are instead negotiating dealer-provided templates, often leveraged off of industry frameworks developed by organizations such as SIFMA.

[20] **Securities Industry and Financial Markets Association,** *Treasury Clearing Documentation* (Jan. 22, 2025), https://www.sifma.org/resources/market-practices-model-documentation/treasury-clearing-documentation (providing links to market standard clearing documents); **see also** Securities Industry and Financial Markets Association, *2024 SIFMA Master Treasury Securities Clearing Agreement: Done-With* (Sept. 25, 2024), https://www.sifma.org/wp-content/uploads/2024/09/2024-SIFMA-Master-Treasury-Securities-Clearing-Agreement-Done-With.pdf (model clearing agreement).

[21] Securities Industry and Financial Markets Association, *2024 SIFMA Done-With Treasury Clearing Annex* (Dec. 11, 2024), https://www.sifma.org/wp-content/uploads/2024/12/SIFMA-Treasury-Clearing-Annex.pdf (model annex for Treasury clearing documentation).