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Prediction Markets and Event-Based Contracts: Regulatory Treatment in the United Kingdom

FERDISHA SNAGG & NOAH D'AETH

Cleary Gottlieb Steen & Hamilton LLP

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Panellists:

JACKIE MESA, FIA (Moderator)

CHRISTOPHER COLLINS, Katten
PETER KALS, Citigroup Global Markets
JOHN NICHOLAS, SG Americas Securities
NIHAL PATEL, Fried Frank Harris Shriver & Jacobson
FERDISHA SNAGG, Cleary Gottlieb Steen & Hamilton

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Re: **Prediction Markets and Event-Based Contracts: Regulatory Treatment in the United Kingdom**

1. EXECUTIVE SUMMARY

1.1 Prediction markets are trading platforms on which participants buy and sell contracts whose value depends on whether specified future events occur. Although these markets are often presented as a recent innovation, they are not new. Prediction markets have existed in various forms for decades, both in academic settings and in commercial applications.[1] However, they are currently experiencing a period of rapid growth, driven by technological developments, increasing retail participation and growing interest from market operators seeking to expand into new forms of event-based trading.[2]

1.2 This renewed momentum has led to a growing perception that prediction markets may become an increasingly important tool for anticipating future developments. In this sense, they are sometimes viewed as evolving into a form of forward-looking information infrastructure, with the potential to inform decision-making in a manner analogous to more established forecasting tools.

1.3 At the same time, prediction markets and event-based contracts have emerged as one of the most contested areas at the intersection of financial regulation and gambling law. Their increasing prominence has prompted heightened scrutiny from regulators and policymakers, reflecting broader concerns around consumer protection and the appropriate classification of these products.

1.4 In the United Kingdom ("**UK**"), their regulatory characterisation currently turns on a relatively formal distinction: whether the contract references a financial variable or a non-financial outcome. Where a contract references a financial underlier—such as an index, interest rate, commodity or economic indicator—it may fall within the scope of financial services regulation under the second Markets in Financial Instruments Directive ("**MiFID II**")[3], as implemented in the UK under the Financial Services and Markets Act 2000 ("**FSMA**"). Where, by contrast, it references non-financial outcomes—such as elections, sporting results or cultural events—it is likely to fall within gambling legislation.

1.5 This binary framework reflects a deliberate allocation of regulatory responsibility between financial regulators and gambling authorities. However, the development of

[1] In the United States, exchanges registered with the Commodity Futures Trading Commission ("**CFTC**") have listed event contracts since 1992.
[2] CFTC, Notice of Proposed Rulemaking, Event Contracts, 89 Fed. Reg. 48968 (June 2024, available at: https://www.cftc.gov/sites/default/files/2024/06/2024-12125a.pdf#page=2): since 2021, designated contract markets have listed "a substantial number of event contracts not associated with traditional commodities, financial indices, or economic indicators."
[3] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments.

prediction markets, particularly in digital and cross-border contexts, has brought this distinction into sharper focus.

1.6 This paper examines the UK approach in detail, with particular focus on the regulatory characterisation of event-based contracts and the implications of their classification within either financial services or gambling regulation.

1.7 For the purposes of this paper, the focus is on event-based contracts with a binary payoff structure. These contracts are typically presented as "yes/no" propositions, under which a participant receives a fixed payout if a specified event occurs (or does not occur) by a given date, and no payment otherwise. While prediction markets may take a variety of forms, this binary structure captures the most common and practically relevant category of products for the purposes of the UK regulatory analysis.

1.8 In summary, event-based contracts referencing sports, political developments and other non-financial outcomes are generally treated in the UK as falling within the scope of gambling regulation rather than financial services regulation. By contrast, contracts referencing financial or economic variables are capable of falling within the financial services perimeter. The distinction between these categories is central to the current framework and determines the applicable regulatory regime. However, it is not fixed: it reflects the current scope of regulated activities under FSMA, which can be amended and has evolved over time. The boundary between financial regulation and gambling regulation is therefore ultimately a matter of policy and may continue to develop.

2. INTRODUCTION: FROM INFORMATION MARKETS TO GAMBLIFIED PRODUCTS

2.1 Prediction markets have long been associated with the "wisdom of crowds" hypothesis, whereby market prices aggregate dispersed information to generate accurate forecasts.[4] Historically, such markets were used in academic or institutional contexts, demonstrating predictive accuracy across elections, corporate performance and scientific research.

2.2 However, their commercialisation has broadened their scope significantly. Modern prediction markets increasingly facilitate trading on events with, arguably, more limited economic significance, including political developments and entertainment outcomes.

2.3 This shift has brought prediction markets into sharper regulatory focus. The central challenge is one of classification: determining whether a given contract is properly understood as a financial instrument or a wager. In the UK, this classification is determinative of the applicable regulatory regime.

3. CHARACTERISATION UNDER UK REGULATION

Historical position: gaming vs financial contracts

3.1 Under English law, wagering contracts were historically regarded with suspicion and were, for a significant period, effectively unenforceable. The Gaming Act 1845

[4] *Prediction Markets*, 91 Fed. Reg. 12,516 (Mar. 16, 2026) (https://www.govinfo.gov/content/pkg/FR-2026-03-16/pdf/2026-05105.pdf): "Prediction markets ''function as information aggregation vehicles'' because the contract prices will reflect the market participants' aggregate beliefs regarding whether the events will occur."

rendered contracts "by way of gaming or wagering" null and void, with no action available to recover winnings.[5] This was reinforced by the Gaming Act 1892, which extended the prohibition to related promises and payments, including commissions and fees connected with such contracts.[6] The legislation did not define "gaming or wagering", leaving the concept to be developed through case law. The classic definition, set out in *Carlill v Carbolic Smoke Ball Company*[7], describes a wager as an agreement between two parties with opposing views on a future uncertain event, where each stands to win or lose depending solely on the outcome, and neither has any other commercial interest in the contract.

3.2 On its face, this definition is sufficiently broad to capture certain derivative contracts entered into for speculative purposes. This created tension with the development of modern financial markets, where contracts such as futures, options and contracts for differences may involve similar economic characteristics.

3.3 That tension was addressed through the financial services regime. Under FSMA (and its predecessor legislation), the Gaming Acts were disapplied in respect of contracts entered into by way of business where the activity constituted a regulated activity and the contract related to specified investments, including derivatives. As a result, such contracts would not be rendered void even if they fell within the common law concept of wagering.

3.4 The position was further clarified by the Gambling Act 2005, which repealed the relevant provisions of the 1845 and 1892 Acts and introduced a new statutory concept of "betting". While broadly defined, betting expressly excludes activities that constitute regulated activities under FSMA. Accordingly, a contract that falls within the financial services perimeter is not treated as gambling, whereas a contract that does not may fall within the gambling regime.

3.5 The practical effect of this framework is to draw a boundary between financial services regulation and gambling regulation. In determining on which side of that boundary a particular contract falls, UK law currently applies a relatively clear, if formalistic, distinction based on the nature of the underlying reference. That distinction is rooted in the different policy treatment of derivatives and betting contracts, as outlined below.

<u>The concept of a derivative under FSMA (policy context)</u>

3.6 The distinction between financial instruments and betting reflects an underlying policy choice as to which contracts should fall within financial regulation. Derivatives markets developed to meet commercial needs, in particular enabling market participants to hedge or price exposure to changes in financial or economic variables. A key feature of derivatives is that their value varies by reference to an underlying variable, so that the

[5] Section 18.
[6] Section 1.
[7] [1892] 2 Q.B. 484, per Hawkins J: "a wagering contract is one by which two persons, professing to hold opposite views touching the issue of a future uncertain event, mutually agree that, dependant upon the determination of that event, one shall win from the other, and the other shall pay, or hand over to him, a sum of money or other stake; neither of the contracting parties having any other interest in that contract than the sum or stake he will so win or lose, there being no real consideration for the making of such contract by either of the parties. It is essential to a wagering contract that each party may under it either win or lose, whether he will win or lose being dependent on the issue of the event and, therefore, remaining uncertain until that issue is known. If either of the parties may win but cannot lose, or may lose but cannot win, it is not a wagering contract."

payoff reflects the degree of movement in that variable over time. By contrast, a "fixed-odds bet" provides for a fixed payoff upon the occurrence or non-occurrence of an event, without regard to the extent of any variation.[8]

3.7 This distinction has informed the development of the regulatory perimeter. Financial regulation has focused on instruments linked to financial variables and capable of supporting hedging, pricing and liquidity in underlying markets, regardless of whether they are used for commercial hedging or speculative trading.

3.8 However, the legal form of a contract does not always map neatly onto its economic function. Instruments may be identical in structure whether used for hedging or speculation, and some products, such as binary options, sit close to the boundary between derivative and bet. The current UK framework therefore resolves this tension not by reference to use, but by reference to classification within the regulatory perimeter.

The binary distinction: financial vs non-financial underliers

3.9 Where a contract references a financial variable (for example, an interest rate, commodity price, inflation index or other economic indicator), it is likely to fall within the definition of a financial instrument under FSMA. In such cases, activities relating to the contract, including operating a trading venue, require authorisation from the Financial Conduct Authority ("**FCA**").

3.10 By contrast, contracts that reference a non-financial outcome, such as an election result or sporting event, will generally fall outside the scope of financial services regulation. Instead, it will be treated as betting and subject to the Gambling Act 2005 and oversight by the Gambling Commission.

3.11 The operation of this distinction in practice can be seen in the UK's historical approach to binary options. When the first Markets in Financial Instruments Directive ("**MiFID I**")[9] was originally transposed, the UK did not extend FSMA to cover such instruments, with the result that binary options were generally classified as bets and regulated by the Gambling Commission rather than the FCA. This position was consistent with contemporaneous European guidance[10] but diverged from the approach taken in some other European Union ("**EU**") Member States, which treated certain binary options as financial instruments. The resulting inconsistency created both regulatory uncertainty and disparities in consumer protection across the EU.

3.12 In the context of MiFID II, and against the backdrop of the growth of the binary options market and increasing consumer protection concerns, HM Treasury revisited this approach.[11] The UK ultimately concluded that binary options referencing financial

[8] *See* Committee of European Securities Regulators ("**CESR**"), Draft Technical Advice on Possible Implementing Measures of the Directive 2004/39/EC - 2nd Set of Mandates" (October 2004, available at https://www.esma.europa.eu/sites/default/files/library/2015/11/04_562.pdf), p. 21.
[9] Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments.
[10] *See* CESR (note 8).
[11] HM Treasury, Transposition of the Markets in Financial Instruments Directive II (March 2015, available at: https://assets.publishing.service.gov.uk/media/5a7f778540f0b6230268fab3/PU_1750_MiFID_II_26.03.15.pdf), chapter 9 and Transposition of the Markets in Financial Instruments Directive II: response to the consultation (February 2017, available at:

underliers should be brought within the financial services perimeter, on the basis that they present risks analogous to other derivatives. This led to amendments to FSMA[12], bringing such instruments within the scope of "specified investments" where they are cash-settled and relate to financial variables such as currencies, indices, commodities or economic statistics.[13]

3.13 The government deliberately sought to preserve the boundary by limiting this extension to binary options with financial underliers.[14] Contracts referencing non-financial events were left outside the financial services regime and continue to be treated as betting. The result is the current framework, in which classification turns on the nature of the underlying reference rather than the economic structure of the contract, with the consequence that products with similar payoffs may fall on opposite sides of the regulatory perimeter.

4. FCA REGULATION

4.1 Where prediction market contracts fall within the financial services perimeter, they are subject to the FCA's regulatory framework.

4.2 Under FSMA, firms carrying on "regulated activities" (including dealing in investments, arranging deals, or operating a trading venue) in the UK must be authorised unless an exemption applies. The UK financial promotion regime (section 21 FSMA) further restricts the communication of invitations or inducements to engage in investment activity unless made or approved by an authorised person. Importantly, this regime has extraterritorial reach: overseas firms may be caught where they target UK investors, including via digital platforms.

4.3 In particular, operators of trading venues—regulated markets ("**RMs**"), multilateral trading facilities ("**MTFs**") and organised trading facilities ("**OTFs**")—must be authorised to operate multilateral systems in which third-party buying and selling interests interact in financial instruments.

4.4 These venues are subject to extensive organisational and conduct requirements, including:

(a) transparent trading rules;

(b) governance and "fit and proper" requirements for management bodies;

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https://assets.publishing.service.gov.uk/media/5a7f75daed915d74e622a978/PU2037_MIFID_final_web.pdf), chapter 9.

[12] Specifically the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ("**RAO**"), which specifies the activities and investments deemed regulated under FSMA.

[13] Article 85(4A) and (4B) of the RAO.

[14] *See* HM Treasury, Transposition of the Markets in Financial Instruments Directive II: response to the consultation (note 11), paragraph 9.9: "The government considers that it is important to limit the perimeter to binary options with certain underlyings, for example, those that relate to financial instruments, and not bring into scope contracts that are in fact more comparable to bets. The consequence of the drafting is that a binary option is a financial instrument in circumstances where similar derivative contracts would also be regarded as financial instruments, including where the option relates to currencies, stock indices, individual shares, commodity prices and economic statistics".

(c) systems and controls for risk management and orderly trading;

(d) admission criteria ensuring instruments are capable of fair and efficient trading; and

(e) monitoring for disorderly trading and market abuse.[15]

4.5 In addition, the FCA retains significant product intervention powers. The most notable example is the permanent ban on the sale of binary options to retail consumers. The FCA imposed this ban on the basis that such products:

(a) have a negative expected return;

(b) exhibit characteristics similar to gambling;

(c) pose a high risk of consumer harm.

4.6 The ban applies to FCA-licensed firms and captures marketing, distribution and sale.[16]

4.7 In addition, where event-based contracts are structured as financial instruments, they may fall within the scope of the UK Market Abuse Regulation ("**UK MAR**").[17] UK MAR applies to: (i) financial instruments admitted to trading on, or for which a request for admission to trading has been made on, a UK, Gibraltar or EU RM; (ii) financial instruments traded on, admitted to trading on, or for which admission to trading has been requested on, a UK, Gibraltar or EU MTF; (iii) financial instruments traded on a UK, Gibraltar or EU OTF; and (iv) financial instruments not falling within the foregoing categories, the price or value of which depends on, or has an effect on, the price or value of such instruments, including derivatives such as contracts for difference.[18] Where event-based contracts fall within these categories, they will be subject to the UK MAR regime.

4.8 This introduces a further layer of regulatory constraint, including:

(a) the prohibition of insider dealing; [19]

(b) the prohibition of unlawful disclosure of inside information; [20] and

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[15] *See* FCA Market Conduct Sourcebook (MAR) 5 (Multilateral Trading Facilities (MTFs)) and 5A (Organised trading facilities (OTFs)), FCA Recognised Investment Exchanges Sourcebook (REC), and The Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges, Clearing Houses and Central Securities Depositories) Regulations 2001.

[16] *See* "FCA confirms permanent ban on the sale of binary options to retail consumers". (https://www.fca.org.uk/news/statements/fca-confirms-permanent-ban-sale-binary-options-retail-consumers), Policy Statement PS19/11, Product intervention measures for retail binary options (March 2019, available at: https://www.fca.org.uk/publication/policy/ps19-11.pdf) and Conduct of Business Sourcebook (COBS) 22.4 (Prohibition on the retail marketing, distribution and sale of derivative contracts of a binary or other fixed outcomes nature).

[17] Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, as it forms part of UK domestic law.

[18] Article 2 of UK MAR.

[19] Article 14 of UK MAR.

[20] Article 14 of UK MAR.

(c) the prohibition of market manipulation.[21]

4.9 In particular, trading on the basis of "inside information" is prohibited. Inside information is information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.[22] This is conceptually significant in the context of event contracts, as "inside information" may relate to information concerning the outcome or likelihood of the underlying event (for example, unpublished economic data or other non-public information capable of affecting the contract's value). As a result, conduct that might resemble informed betting in a non-financial context may, where the contract falls within the financial services perimeter, instead engage the market abuse regime with potentially significant civil and criminal consequences.

4.10 It is also important to emphasise that insider dealing under UK MAR does not depend on the existence of a fiduciary or similar duty, nor on concepts of deception. The regime is instead grounded in market integrity: trading while in possession of inside information is prohibited, subject only to limited defences. This reflects a deliberately broad approach, designed to prevent informational asymmetry in markets for financial instruments.[23]

5. GAMBLING REGULATION

5.1 Where prediction markets fall outside the financial services perimeter, they are likely to be regulated as gambling. This is not a residual or light-touch regime; rather, it is a comprehensive and highly developed framework under the Gambling Act 2005.

5.2 At its core, any operator providing gambling services to UK[24] consumers must obtain an operating licence from the Gambling Commission.[25] The Gambling Commission has expressly addressed prediction markets in public commentary, suggesting that many prediction market models, depending on their structure, are likely to fall within the scope of betting, and in particular may be analogous to betting exchanges, requiring appropriate licensing where offered in Great Britain.[26]

5.3 Once licensed, operators are subject to the Licence Conditions and Codes of Practice ("**LCCP**"), which impose detailed obligations across a wide range of areas.[27] These

[21] Article 15 of UK MAR.
[22] Article 7 of UK MAR.
[23] This, as we understand it, differs from the approach under US insider trading law. For instance, under Securities and Exchange Commission Rule 10b-5, insider trading liability appears to be framed by reference to a breach of duty, either to trading counterparties (under the "classical" theory) or to the source of the information (under the "misappropriation" theory).
[24] Specifically, Great Britain (England, Wales and Scotland).
[25] *See* sections 33 and 36 of the Gambling Act 2005. Note, in addition, that the Gambling (Licensing and Advertising) Act 2014 introduced regulation at the "point of consumption".
[26] "Prediction markets - here's what you need to know" (available at: https://www.gamblingcommission.gov.uk/blog/post/prediction-markets-heres-what-you-need-to-know).
[27] *See* Gambling Commission, Compliance webpage (https://www.gamblingcommission.gov.uk/licensees-and-businesses/compliance).

include governance, anti-money laundering controls, marketing practices, and, most notably, consumer protection measures.[28]

5.4 A defining feature of the gambling regime is its focus on behavioural risk and harm prevention. Operators are required to:

(a) monitor customer behaviour for indicators of problem gambling and engage with customers where risk is identified;

(b) implement systems for interacting with customers at risk of harm (including affordability and vulnerability considerations);

(c) ensure that marketing and advertising are socially responsible and not misleading;

(d) prevent underage gambling and ensure robust identity verification;

(e) respect self-exclusion mechanisms and ensure excluded individuals are not targeted.

5.5 These requirements are reinforced by detailed guidance from the Gambling Commission on:

(a) customer interaction and early identification of harm;

(b) prevention of underage access;

(c) marketing and advertising standards;

(d) fair and transparent terms;

(e) exclusion and re-engagement controls.

5.6 These requirements reflect a fundamentally different regulatory philosophy from that of financial services regulation. The FCA focuses on market integrity and prudential soundness; the Gambling Commission focuses on (among other things) addiction risk and consumer vulnerability.

5.7 The Gambling Commission exercises active supervision through compliance assessments, requiring licensees to demonstrate ongoing suitability. It has broad enforcement powers, including the ability to impose sanctions, conduct licence reviews and, in serious cases, revoke licences or pursue criminal action.

5.8 In addition, the regime extends to product-level and technical requirements, including the testing of gambling products to ensure fairness and integrity. Operators are also responsible for the conduct of third-party providers within their supply chain.

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[28] *See*, in particular, Extract of Licence Conditions and Codes of Practice (LCCP) for Gaming machines and gambling software (Version effective from 19 January 2026: https://www.gamblingcommission.gov.uk/licensees-and-businesses/lccp/print/machines) and Extract of Licence Conditions and Codes of Practice (LCCP) for Betting (Version effective from 19 January 2026: https://www.gamblingcommission.gov.uk/licensees-and-businesses/lccp/print/betting).

Implications of classification as gambling

5.9 For prediction market operators, classification as gambling has significant consequences.

5.10 First, the regulatory focus shifts from transaction-level conduct to ongoing monitoring of user behaviour. This requires systems capable of identifying harmful patterns of engagement—something that may be challenging in high-frequency or decentralised environments.

5.11 Secondly, the regime imposes constraints on product design and user interface, particularly where features may encourage excessive or impulsive behaviour. This is directly relevant to modern prediction markets, which often incorporate gamified elements similar to online betting platforms.

5.12 Thirdly, the licensing framework creates jurisdictional exposure. Any operator offering betting services to UK consumers must be licensed, creating enforcement risk for offshore platforms.

5.13 Finally, the enforcement posture of the Gambling Commission (which combines regulatory and criminal powers) introduces a distinct risk profile compared to financial regulation.

6. CAN FIRMS OPERATE IN BOTH REGIMES?

6.1 As a matter of law, we are not aware of any express prohibition on a firm holding both FCA authorisation and a Gambling Commission licence. In principle, therefore, a trading venue operator may operate both:

(a) an FCA-authorised trading venue; and

(b) a gambling-licensed prediction market.

6.2 However, the two regimes operate on fundamentally different logics and should therefore be treated as legally and operationally distinct.

6.3 In practice, firms would likely need to adopt ring-fenced structures or even operate through separate legal entities. This reflects several considerations:

(a) the need to maintain clear regulatory perimeter boundaries;

(b) the risk of product mischaracterisation;

(c) differences in conduct obligations and consumer protection frameworks;

(d) financial promotion and marketing constraints;

(e) supervisory expectations around governance and risk management.

6.4 Combining both activities within a single platform or customer journey creates regulatory risk, particularly in relation to consumer confusion between investment and betting products.

7. FUTURE EXPANSION OF THE FINANCIAL SERVICES REGULATORY PERIMETER?

7.1 The current UK framework leaves open the possibility of future perimeter change. HM Treasury retains the power to amend the scope of regulated activities under FSMA, including the definition of financial instruments and the categories of specified investments. In principle, therefore, the boundary between financial regulation and gambling regulation is not fixed and could be revisited in light of market developments.

7.2 However, recent statements from the FCA, in relation to spread betting, suggest that, at present, there is no clear policy intention to expand the financial services perimeter to capture non-financial prediction markets. [29] Parliamentary engagement with the government similarly indicates a continued view that contracts referencing non-financial outcomes are more appropriately regulated as gambling.[30]

7.3 Looking forward, however, as prediction markets evolve—particularly in areas such as political risk and macroeconomic forecasting—the case for bringing certain contracts within financial regulation may strengthen. Contracts that are closely linked to financial variables, or that are used by market participants to hedge or price real economic exposures, may increasingly resemble traditional derivatives in both function and risk profile.

7.4 In this context, the FCA has also recently articulated its position more explicitly in relation to "prediction market products" ("**PMPs**")[31], describing these as speculative contracts allowing consumers to take binary "yes/no" positions on future events. The FCA has confirmed that PMPs linked to non-financial events, such as sporting or

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[29] FCA, Perimeter Report (March 2026, available at: https://www.fca.org.uk/publications/corporate-documents/fca-perimeter-report): "We consider financial spread betting falls within our regulatory perimeter. However, we believe that sports spread betting could be better served by a distinct framework designed specifically to address the risks from gambling activity and ensure appropriate consumer protections. Financial spread bets may be placed for investment purposes and can fall within MiFID regulation. By contrast, sports spread bets involve sporting or political outcomes and cannot be treated as MiFID instruments. Our regulatory framework is designed for investment-related risks and does not fully address the risks posed by non-financial betting markets. Consumers should not assume that sports or other non-financial betting products are covered by financial compensation schemes or other financial regulatory safeguards. With new products entering the market, clarity from the Treasury on the appropriate regulatory boundary and responsibilities would help ensure consumers receive suitable protections". This position has been maintained by the FCA for a number of years now.

[30] *See* Question for Department for Culture, Media and Sport tabled on 3 March 2026: "To ask the Secretary of State for Culture, Media and Sport, whether prediction markets will be regulated by the (a) Gambling Commission and (b) Financial Conduct Authority". The answer provided on 12 March 2026 stated that "In order to operate in Great Britain, any prediction market would require a licence from the Gambling Commission, the independent regulator for gambling. If approved, they would be classified as a 'Betting Intermediary' and subject to regulation under the Gambling Act 2005. We will monitor the potential impacts of prediction markets and consider further action if needed". (https://questions-statements.parliament.uk/written-questions/detail/2026-03-03/117415)

[31] FCA Perimeter Report (note 29): "Prediction market products (PMPs - also referred to as event, forecast or horizon contracts) are speculative products that allow consumers to take binary 'yes' / 'no' positions on the outcome of future events. These products have expanded rapidly overseas (particularly in the US). PMPs linked to non-financial events (such as sporting or political outcomes) fall under the Gambling Commission's remit. Where PMPs reference financial or certain climatic events, they fall within our regulatory perimeter. Our current view is that the financial PMPs we have seen are binary options. As such they remain subject to the FCA's permanent ban on the sale of binary options to retail consumers, which we consider appropriate given the speculative, gambling-like nature of these contracts and the high risk of consumer harm".

political outcomes, fall within the remit of the Gambling Commission. By contrast, PMPs referencing financial or certain climatic variables fall within the FCA perimeter. The FCA has also confirmed that such financial PMPs are properly characterised as binary options and therefore remain subject to the FCA's permanent ban on the sale of binary options to retail consumers.

7.5 In the same statement, the FCA has also indicated that it will continue to consider the treatment of such products, including whether further work is required on consumer access and/or clarification of the regulatory perimeter. This leaves open the possibility of future policy development, particularly as prediction markets continue to expand and evolve.[32]

8. EU PERSPECTIVE: SIMILAR FRAMEWORK, GREATER FRAGMENTATION

8.1 The EU adopts a broadly similar approach to classification under MiFID II. Where event-based contracts qualify as financial instruments, they fall within the scope of EU financial services regulation and are subject to a broadly harmonised framework, including passporting rights that enable firms authorised in one Member State to provide services across other Member States.

8.2 However, gambling regulation remains largely within Member State competence, resulting in significant fragmentation. National regimes vary widely in terms of licensing, consumer protection and enforcement.

9. A WORD ON CRYPTOASSET REGULATION

9.1 It is not the aim of this paper to provide a comprehensive assessment of the application of UK cryptoasset regulation to prediction markets. However, it is relevant to note that the UK has recently introduced a new statutory framework through the Financial Services and Markets Act 2000 (Cryptoassets) Regulations 2026 (the "**Regulations**"), which brings a range of cryptoasset activities within the financial services regulatory perimeter. The Regulations form part of the UK's broader programme of reforms to the regulatory framework for digital assets and are expected to be implemented on a phased basis, with full commencement from 25 October 2027.

9.2 At a high level, the Regulations establish a regime under FSMA by:

[32] "Further to our DP on Consumer Access to Investments, we will consider whether we want to do further work on access to these products, and/or clarify the perimeter".

(a) bringing certain categories of cryptoassets, including "qualifying cryptoassets"[33] and "qualifying stablecoins"[34], within scope;

(b) creating new regulated activities relating to cryptoassets, including issuing qualifying stablecoins in the UK, safeguarding of qualifying cryptoassets and relevant specified investment cryptoassets, operating a qualifying cryptoasset trading platform, dealing in qualifying cryptoassets as principal or agent, or arranging deals in qualifying cryptoassets, and qualifying cryptoasset staking; and

(c) requiring firms carrying on such activities by way of business to be authorised by the FCA.

9.3 In addition, the Regulations introduce elements of a broader market framework, including regimes relating to public offers of cryptoassets, admission to trading on cryptoasset platforms, and the application of market abuse style rules to certain activities.

9.4 The territorial scope of the regime is also significant. The Regulations amend FSMA[35] to clarify when a person is to be treated as carrying on cryptoasset activities in the United Kingdom. In particular, firms involved in the sale or subscription of qualifying cryptoassets to, or by, UK consumers will in many cases require FCA authorisation, regardless of whether they are established in the UK or overseas, including where they operate trading platforms, deal as principal or agent, or arrange transactions. However, the regime adopts a targeted approach: where an authorised UK intermediary stands between the firm and the UK consumer, the overseas firm may not itself require authorisation, and firms dealing exclusively with UK institutional customers may fall outside scope where those customers are not acting as intermediaries for UK consumers. By contrast, activities such as safeguarding and staking carried on in the UK or on behalf of UK consumers, and the issuance of qualifying stablecoins from a UK establishment or through arrangements performed in the UK, will generally require authorisation.

9.5 The effect of this legislation is to extend the FSMA model to cryptoassets, aligning them more closely with traditional financial instruments in terms of authorisation, conduct and market oversight. In the context of prediction markets, this development may be relevant where platforms operate using cryptoassets, as the new regime may

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[33] "Cryptoassets" are already defined in section 417 of FSMA, (as amended by the Financial Services and Markets Act 2023) as being "any cryptographically secured digital representation of value or contractual rights that— (a) can be transferred, stored or traded electronically, and (b) that uses technology supporting the recording or storage of data (which may include distributed ledger technology)." "Qualifying cryptoassets" are defined in the new article 88F of the RAO and are a subcategory of FSMA "cryptoassets" which are fungible and transferable and include "qualifying stablecoin". Tokenised versions of existing specified investments ("**specified investment cryptoassets**") are excluded from the definition. Mere records of value or contractual rights, which may otherwise fulfil the definition (e.g. a cryptographically secured/encrypted spreadsheet) are also excluded from the definition.

[34] "Qualifying stablecoin" is defined in new article 88G of the RAO and is a qualifying cryptoasset that references a national currency and seeks to hold currency and other assets as backing assets to maintain a stable value.

[35] Section 418.

introduce an additional layer of regulatory analysis, depending on whether the relevant activity falls within the scope of the cryptoasset regulated activities.

9.6 More broadly, the extension of the financial services perimeter to cryptoassets illustrates that the UK regulatory boundary is capable of evolving in response to market developments.

10. CONCLUSION

10.1 The regulatory treatment of prediction markets in the UK (and EU) reflects a clear but increasingly exposed distinction between financial instruments and gambling.

10.2 As prediction markets continue to evolve, regulators will need to consider whether existing frameworks remain fit for purpose. Greater coordination between financial and gambling regulators, and a more nuanced approach to classification, may be required to address the challenges posed by these hybrid products.

10.3 For practitioners, the key takeaway is that classification remains determinative. The regulatory treatment of a prediction market currently depends not on its economic function, but on the nature of the underlying event—and that distinction drives the entire compliance architecture within which the product must operate.