

SHOULD YOUR COMPANY POLICY COVER PREDICTION MARKETS?

Jun 30, 2026

WHAT HAPPENED

Last month, the U.S. Attorney's office for the Southern District of New York (SDNY) unsealed charges against a software engineer alleging commodities fraud, wire fraud, and money laundering arising from trades in prediction markets based on misappropriation of confidential employer information. According to the charges:

- The employee accessed confidential information through the internal data system of the company, a leading search engine and internet services business, relating to top trending searches.
- The employee acknowledged his understanding of company confidentiality and ethics policies.
- He created an account on a prediction market platform, wagering \$2.8 million in contracts based on top trending searches that generated \$1.2 million in profits, soon after the company publicly announced the top trending searches and the markets resolved.

Earlier this year, the SDNY unsealed charges against a U.S. soldier alleging commodities fraud, wire fraud and money laundering based on unlawful use of classified information regarding the timing of a U.S. military operation for personal gain of more than \$400,000 in profits from prediction markets trading. According to the charges:

- As an active-duty soldier, he signed nondisclosure agreements to not disclose classified or sensitive information.
- He was involved in the planning and execution of a military operation to capture Nicolás Maduro (Operation Absolute Resolve).
- From December 27, 2025 through January 26, 2026, he made 13 bets that the U.S. would take various forms of action in or relating to Venezuela.

- Following public announcement of Maduro's capture, the soldier won wagers on a number of those contracts, resulting in \$400,000 in profits.
- After his trades, he took steps to conceal his identity.

Additionally, the CFTC recently published a [Prediction Markets Advisory](#) highlighting that trading in event contracts can constitute fraud or misconduct under federal law or violate exchange rules if the trader either:

- Has direct or indirect influence over the outcome.
- Has access to material non-public information related to the trades and violates a pre-existing duty, such as a duty of trust and confidence to the source of the information, such as the employer.

TAKEAWAYS

These developments demonstrate that the rapid growth of prediction markets and their potential for abuse have attracted the attention of law enforcement. Even though wagers or participation in prediction markets may not necessarily involve trading in traditional securities, federal authorities view them as potentially implicating anti-fraud and related statutes – with focus on the use of material nonpublic or confidential information.

Companies should consider updating their controls and procedures, which were likely developed before the emergence of events contracts. Careful drafting will be important, including defined terms, scope of trading restrictions, and oversight for internal reporting, compliance and enforcement.

- Codes of Conduct. Key areas of focus could include:
 - Reviewing prohibitions on use of confidential information for personal gain – whether they capture new types of trading or betting.
 - Consider expressly addressing prediction markets, as well as prohibiting betting or trading based on confidential information.
 - Potential application of policies relating to conflicts of interest and reputational risk.
- Insider Trading Policies.
 - Consider addressing trading based on confidential information that may not involve securities, such as event-based contracts or otherwise not involving company stock.
 - Consider whether to reference or include relevant provisions of the Code of Conduct in such policies.

- Any discussion of Rule 10b5-1 plans may need to be revised as it may not be clear how the Rule could work, if at all, for prediction market contracts.
- Education.
 - Many employees may not recognize the relevance of compliance rules to prediction markets given the wide proliferation of betting on political, sporting and other public events.
 - Consider whether to address these concerns in training materials, including examples of problematic event-based trades.
 - Consider whether to address them in employee certifications.

These issues also have potential relevance to other organizations, such as private companies or nonprofits, as they are often unrelated to traditional securities. As a result, those organizations could benefit from conducting similar reviews of controls and procedures, particularly their policies related to confidentiality, conflicts of interest or reputational risk, as well as codes of conduct.

Related Capabilities

- Securities & Corporate Governance
- Securities Litigation and Enforcement

Meet The Team



R. Randall Wang

Senior Counsel, St. Louis

randy.wang@bclplaw.com

[+1 314 259 2149](tel:+13142592149)



William L. Cole

Partner, St. Louis

bill.cole@bclplaw.com

[+1 314 259 2711](tel:+13142592711)



Eric Rieder

Senior Counsel, New York

eric.rieder@bclplaw.com

[+1 212 541 2057](tel:+12125412057)

This material is not comprehensive, is for informational purposes only, and is not legal advice. Your use or receipt of this material does not create an attorney-client relationship between us. If you require legal advice, you should consult an attorney regarding your particular circumstances. The choice of a lawyer is an important decision and should not be based solely upon advertisements. This material may be "Attorney Advertising" under the ethics and professional rules of certain jurisdictions. For advertising purposes, St. Louis, Missouri, is designated BCLP's principal office and Kathrine Dixon (kathrine.dixon@bclplaw.com) as the responsible attorney.