

Prediction markets form coalition amid scrutiny from state regulators

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Several major prediction market operators have joined forces to push for federal oversight of the industry as state regulators clamp down on online betting, including recent actions in Arizona and Nevada.

Companies including Kalshi, Crypto.com, Coinbase, Robinhood and Underdog Markets banded together to form the Coalition for Prediction Markets, a national group that says it is focused on “preserving safe, transparent and federally supervised access to prediction markets.”

Unlike sports betting, prediction markets allow people to place binary “yes” or “no” bets on seemingly anything. Users can bet on outcomes of real-world events such as election outcomes, Fed rate cuts, stock prices, awards shows and the weather.

It’s become a major industry: A Crypto.com report from last month found that from January through October of this year, trading volume reached \$27.9 billion.

Sports betting is legal in 39 states and Washington, D.C. But as prediction markets have gained popularity, states have begun to push back. Nearly two dozen states and tribal gaming authorities have filed federal lawsuits against prediction market operators.

Maryland, Massachusetts, New Jersey, New York and Ohio are all currently in litigation with prediction markets operators over this issue — including Kalshi, Crypto.com and Robinhood. Connecticut and Illinois have sent cease and desist notices to prediction market operators. Regulators in Michigan and Pennsylvania have warned licensed operators in the state not to partner with prediction markets.

Last month, the prediction market platform Kalshi, which is best known for betting on elections, had to cease operations in Nevada after a federal judge ruled it was subject to the state's gaming rules, siding with the Nevada Gaming Control Board. Separately, the same judge also rejected Robinhood's request to let its customers make sports-related trades on Kalshi's exchange in the state. Robinhood on Dec. 1 opted to temporarily pull its prediction market product out of the state.

Scrutiny from state regulators has led to Crypto.com pulling its sports event contracts or prediction markets offerings from nine states: Arizona, Illinois, Maryland, Massachusetts, Michigan, Nevada, New Jersey, New York and Ohio.

Matt David, president of North America and chief corporate affairs officer at Crypto.com who is serving as an executive board member of the coalition, said in a statement announcing the coalition that the United States is “the biggest frontier for prediction markets,” and that current momentum around the product “makes a unified industry voice not just important, but necessary.”

“Prediction markets are a new layer of civic infrastructure — public-good technology that gives people clearer insight and helps institutions make better decisions,” David said. “They democratize financial participation by rewarding what people know, not who they know. As consumer interest accelerates and regulation evolves, this coalition will champion responsible, transparent growth to ensure the benefits of prediction markets reach the broader public.”

The newly formed coalition is advocating for prediction markets to be regulated by the Commodity Futures Trading Commission and not fall under the purview of state regulators.

Kalshi made that argument to U.S. District Judge Andrew Gordon in Las Vegas in the case last month. The Nevada Gaming Control Board sent a cease and desist letter to Kalshi in March, stating that the company violated state law on several fronts. Gordon initially sided with Kalshi in April and granted a preliminary injunction; in October he denied a similar request for a preliminary injunction from Crypto.com.

Kalshi argued in court it is a designated contract market and should fall under the jurisdiction of the CFTC. The judge disagreed.

Gordon in his decision wrote: “Kalshi relies on a strained reading of the already convoluted Commodities Exchange Act (CEA) in an attempt to evade state regulation. Kalshi’s interpretation would require all sports betting across the country to come within the jurisdiction of the CFTC rather than the states and Indian tribes. That interpretation upsets decades of federalism regarding gaming regulation, is contrary to Congress’ intent behind the CEA, and cannot be sustained.”

The following week, regulators in Arizona revoked the license of another prediction markets operator.

The Arizona Department of Gaming on Dec. 5 sent a Notice of Violation and Intent to Revoke to Underdog Markets, which partners with Crypto.com to offer prediction markets in the state. A spokesperson for the Arizona Department of Gaming told State Affairs in a statement that the notice had been sent because of the partnership with Crypto.com. The company had stopped offering prediction markets in the state on Dec. 2.

“The Department issued a notice of intent based on the licensee’s continued partnership with an operator that the Department had previously ordered to cease certain activities in Arizona for conduct alleged to be unlawful, despite prior notice and warnings,” the spokesperson said.

The spokesperson said the notice is subject to an administrative appeals process and a final determination has not been made, adding that “the licensee remains authorized to operate pending the outcome of that process.” Underdog has the right to appeal within 30 days of the notice.

In the statement announcing the coalition, Sara Slane, head of corporate development at Kalshi and an executive board member of the coalition, said the company has been working with the CFTC for years: “from day one we wanted to be regulated.”

“Americans deserve clarity, not 50 conflicting interpretations,” Slane said. “As the first federally regulated prediction market, Kalshi saw firsthand how quickly this space was growing — and how urgently a unified industry voice was needed to advocate for access and consistency nationwide.”

Faryar Shizad, chief policy officer at Coinbase, in the same announcement statement, said prediction markets are beneficial because they offer a level playing field for information.

“At Coinbase, our mission is to deliver financial freedom to the world — and prediction markets by nature democratize fact finding and the seeking of truth,”

Shizad said. “We’re proud to join the Coalition for Prediction Markets — as they work with policymakers to ensure these markets develop and remain accessible to the American people.”

Others oppose wider access to these betting platforms.

Les Bernal, the national director of Stop Predatory Gambling, told State Affairs that prediction markets are “a prime example of how the institution of predatory gambling has proven itself to be a cruel and oppressive system and has been an epic public policy failure by every measure.”

“Because state governments have been relentlessly promoting and expanding more and more extreme forms of commercialized gambling into the lives of everyday Americans, they’ve normalized it, a result mostly benefitting the billionaire racketeers behind it and those seeking to climb the political ladder on the backs of others,” Bernal said. “Normalizing commercialized gambling in this way has paved the way for so-called prediction markets which are an online gambling platform masquerading as if they’re the same thing as trading in pork bellies futures.”

Bernal said Americans are on pace to lose \$1 trillion to “state lotteries, regional casinos, and online gambling combined over the next five years,” and prediction markets will “make an already desperate situation catastrophic for tens of millions of Americans.”

Cole Wogoman, director of government relations and league partnerships at the National Council on Problem Gambling, said “from a problem gambling standpoint, betting on futures is functionally gambling.”

“The line between purchasing futures and gambling has particularly blurred with markets offered related to sporting events,” Wogoman said. “NCPG is concerned about a form of gambling taking place outside of the responsible gambling tools framework and problem gambling safeguards required by gambling regulators.”

Wogoman said individuals who gamble or trade are more likely to experience gambling-related harm. Unlike other addictions, these can often go unnoticed by others “because the high-risk behaviors common in problem gambling are frequently normalized or overlooked in a trading environment, as many don’t recognize trading itself as a form of gambling” — making it harder for those struggling to get help.

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