The Challenges Of Detecting Event Contract Manipulation

By **Shaun Ledgerwood, Yingzhen Li and Alexei Orlov** (February 23, 2026)

Shaun Ledgerwood

Yingzhen Li

Alexei Orlov

Concerns about possible manipulation and insider trading[1] in event contracts — the payoff of which typically ties to the binary outcome of a specific event — increasingly have been raised by market observers.[2] For example, a suspected insider trade on Polymarket betting that Venezuelan President Nicolás Maduro would be out of office by the end of January has received great attention.[3]

The suspicious timing of the $30,000-plus winning bet, which was placed just hours before Maduro was captured and resulted in an over-$400,000 payoff, prompted 12 U.S. Senators to send a joint letter to newly appointed U.S. Commodity Futures Trading Commission Chairman Michael Selig, urging the CFTC to ensure that event contract markets are protected against insider trading and manipulation.[4] The lawmakers took the opportunity to inquire about how the CFTC monitors suspicious trading in event contracts, and what process exists for identifying and addressing these concerns.[5]

These inquiries are especially pertinent in light of the core principles that the Commodity Exchange Act prescribes to designated contract markets that list event contracts, such as Polymarket and Kalshi.[6] In particular, DCMs must be able to detect, investigate and rectify violations of any rules of the contract market (Core Principle 2), and cannot list contracts that are susceptible to manipulation (Core Principle 3).[7]

This article distinguishes hedging from speculation in event contracts, discusses how the latter can incentivize market manipulation, and highlights issues in surveillance and detectability of manipulation in prediction markets.

Distinguishing a Speculative Position From a Hedge

A central issue in many — if not all — court cases tied to event contracts is whether they are "excluded commodities"[8] that fall under the CEA's definition of a "swap," and, in particular, whether there is an association with a "financial, economic, or commercial consequence."[9]

The resolution of other important issues being litigated, such as federal preemption or the CFTC's "exclusive jurisdiction,"[10] per Title 7 of the U.S. Code, Section 2(a)(1), hinges directly on answering the question regarding the swap definition.

While this is best answered in the context of each individual contract, one can offer useful generalizations as to whether — and when — event contracts can legitimately serve as hedges.

In many circumstances, this could be so. For example, let's say a basketball player's team pays him $50,000 for scoring 20 or more points in a game. Theoretically, the player could

enter an event contract that would pay him some amount of money net of costs in the event that he fails to score 20 points.[11] If $X is less than $50,000, the player would still be incentivized to score 20 points or more, as the financial reward to doing so is greater than the payoff from the event contract.

In this scenario, the hedge to the player's performance does not interfere with a pro-competitive outcome: The player will continue to compete to try and score 20 or more points, consistent with his arrangement with his team, while the opposing team will try to prevent him from doing so. This typically should not raise concerns of gaming or manipulation, as the outcome should be the same with or without the existence of the event contract.

However, problems can arise as the size of the player's event contract position increases. If the player is perfectly hedged — i.e., $X is equal to $50,000 — the player is indifferent with respect to the number of points he scores. While there is no manipulation risk — per se — the player no longer has the incentive to perform according to the terms of his arrangement with his team.

If the size of the player's event contract position increases further, such that $X is greater than $50,000, the player now has a speculative position that gives him the incentive to purposely score fewer than 20 points because the payoff from the event contract is greater than from the arrangement with his team.[12]

This presents a type of market failure, as there is no mechanism in place to prevent the player from intentionally scoring fewer than 20 points; his teammates cannot force him to score more, and the opposing team is only happy to oblige him in meeting this goal.

Such intentional losses have been the bane of sports betting, beginning with the 1919 Chicago Black Sox scandal[13] and continuing to very recent examples in professional basketball.[14] While event contracts were not at issue in these cases thus far, the potential payoffs provided by such contracts can incentivize similar behavior.

Although arguments could be made by the parties to event contracts that the payoffs are meant to legitimately hedge them against an adverse outcome in the underlying event, the reality is that many such positions are speculative in nature — i.e., there is little basis to assert that the position will serve as a legitimate hedge from an economic perspective. This can be highly problematic because such positions increase the incentive for bad actors to engage in fraudulent activity designed to influence the outcome of the event — e.g., to sway the results of an election to which the event contract is tied.

The potential for such behavior runs the risk of eroding trust in the outcomes of such events more broadly, damaging the integrity of the market in which they occur. If unchecked, this can cause faith in the process underlying the event — in the prior example, the electoral process — to diminish and (potentially, in a worst-case scenario) collapse entirely.

One important way to prevent such occurrences is to install surveillance and enforcement mechanisms to detect and punish such behavior, and impose a cost high enough to deter intentional losses or other fraudulent behavior designed to benefit the value of speculative positions.

Difficulty in the Effective Surveillance of Event Contracts

The Maduro example discussed above suggests that some types of insider trading and

manipulation can be detected by noting the timing of entry and size of the position in the event contract relative to the event, then relying on market participants — presumably those on the losing side of the contract — to identify the suspicious behavior.

While this approach might work on occasion, it is not a robust methodology for detecting manipulation, given the large number of false positives it will generate — i.e., disgruntled market participants with losing positions erroneously claiming that the events were rigged.

To abate such concerns, some efforts are underway to limit those with predictable access to inside information from trading event contracts, such as public officials.[15] However, this too is only a partial solution to a much broader problem.

Concerns of rigged betting raise at least two questions: First, can the CFTC — or the DCMs themselves — detect and deter manipulative behavior when they hold no jurisdictional authority over the underlying events, such as a basketball game or an election? Second, even if such jurisdictional authority exists, would the CFTC, DCMs or other regulators have the ability to reliably perform surveillance of the underlying event's market to effectively detect manipulative behavior?

From an economic perspective, antimanipulation monitoring, detection and enforcement would likely be difficult and costly, assuming that such regulation is enforceable at all in the context of event contracts.

Proving manipulation or insider trading for traditional financial instruments, such as stocks and derivatives, typically involves identifying abnormal trading patterns, for example, abnormal trading volume and/or price movements.

This, in turn, requires the identification of what a normal trading pattern looks like — a benchmark. Such normal trading patterns are typically established by examining the trading patterns of comparable financial instruments and/or of the instrument in question during a clean trading period.

However, three characteristics of event contracts make it challenging to identify and establish a normal trading pattern, hence reducing the enforceability of antimanipulation regulation for these contracts.

First, each event contract tends to be unique in terms of the underlying event referenced. For example, two recent event contracts listed on Polymarket were "Super Bowl Champion 2026: Seahawks or Patriots?" and "Will the US acquire part of Greenland in 2026? Yes or No?" These events are drastically different.

A baseline trading pattern related to the first event could, for example, use data regarding similar wagers made in other gambling books as a benchmark — assuming the regulator could access such data. Still, fewer benchmarks would be available than for traditional financial instruments — e.g., for stocks using comparable companies, or for listed futures and options using different contract months referencing the same underlying asset to establish a normal trading pattern.

By comparison, for the second contract referencing a unique event, it would be challenging, if not impossible, to identify and use comparable data to establish a baseline trading pattern for that event contract.

Second, because each event contract references a unique event, the set of parties with

inside information or the ability to influence the occurrence or outcome of the underlying event is likely to be contract-specific and may not be easily ascertainable. This is especially so if side arrangements are used to transfer information and/or wealth between the party on the winning side of the event contract and the party providing the inside information or affecting the outcome of the event.

Related to the example of the basketball player who intentionally scored fewer than 20 points to garner a bigger payoff than his $50,000 bonus, it would be difficult enough to detect — and prove — that the player intentionally failed to score 20 points, but this proof would be made even harder if the player clandestinely profited from his behavior through payment from a third party who benefitted by winning the related event contract.

For publicly traded companies, the set of potential insiders tends to be the same across firms — e.g., CEOs, chief financial officers and general counsel — as is the set of parties incentivized to benefit from intentionally uneconomic trading. In contrast, identifying and regulating the actions of a specific set of insiders or influencers is likely to be unique to each event contract, thereby increasing enforcement costs and making reliable detection and enforcement very challenging.

Third, event contracts tend to reference events that will materialize in the relatively near term and are nonrecurring. There is typically a limited time window between the listing of a particular contract and the occurrence of a reference event. The lead times vary by type of event contract and can be anywhere from days to years.

Although some event contracts track whether a particular event occurs by a certain date more than a year in the future, which still leaves a relatively short trading period compared to more traditional assets, many are resolved within weeks or several months.

Because each event contract tends to have a relatively short trading period, less trading data is available to establish a normal trading pattern, making it challenging to determine whether a particular trading pattern under scrutiny is abnormal from a statistical standpoint.[16]

Considering Difficulties in Detection and Enforcement in Rulemakings and (Self-)Certifications of Event Contracts

The considerations offered in this article are particularly important in light of the aforementioned Core Principle 2 (ability to detect and rectify manipulation) and Core Principle 3 (prohibition on listing contracts that are susceptible to manipulation) that the CEA prescribes to DCMs. These statutory prescriptions, coupled with the inherent difficulty in monitoring, detecting and enforcing the rules governing manipulation and related insider trading in prediction markets, suggest that, at a minimum, the CFTC should exhibit great diligence in its approach to the (self-)certification of event contracts.

An economic approach that would be helpful in this assessment would include: (1) a determination as to whether the event contract in question would primarily reflect a legitimate hedge versus a speculative position for most or all market participants; and (2) whether the characteristics of the event contract will be amenable to adequate surveillance, detection and enforcement, given the lack of jurisdictional reach into the underlying event and the limited availability of necessary benchmarks to distinguish anomalous trading from legitimate behavior.

CFTC Chairman Michael Selig on Jan. 29 directed the CFTC staff to draft an event contracts

rulemaking in order to provide clarity and certainty to market participants.[17] The CFTC and U.S. Securities and Exchange Commission will also develop joint interpretations of definitions used in Title VII of the Dodd-Frank Act to more clearly distinguish between security-based and nonsecurity-based swaps.[18]

If successful, this impending regulatory work may help bring clarity to ongoing court cases involving event contract platforms such as Kalshi, Robinhood and Crypto.com, the resolution of which will rely on the definition of a swap and the exclusivity of the CFTC's jurisdiction.[19]

Notwithstanding these regulatory efforts, the recurrent question of whether a specific event contract falls within the definition of a CFTC-regulated swap is likely to continue to be litigated. The economic considerations discussed above might prove helpful in resolving such disputes.

Shaun Ledgerwood is a principal and co-leader of the regulatory investigations and enforcement practice at the Brattle Group Inc.

Yingzhen Li is a principal and co-leader of the credit, derivatives and structured products practice at the firm.

Alexei Orlov is a senior associate at the firm.

[1] Inside information can improve the efficiency of prediction markets by making prices more accurately reflect the likelihood of an occurrence of events or outcomes thereof. However, the fraudulent use of inside information – for example, to induce counterparties into contracting for events with known outcomes or to change the outcome of the underlying event – is problematic for market integrity. It is the latter type of behavior that this article considers under the term "insider trading."

[2] While the term "insider trading" does not appear in the Commodity Exchange Act (CEA) or in CFTC regulations, the CFTC previously has brought enforcement actions under its anti-manipulation authority. See CFTC v. EOX Holdings LLC, Case No. 1:18-cv-08890 (S.D.N.Y. Sept. 28, 2018) (vacated for lack of notice on Jan. 8, 2024). Manipulation is governed by 7 U.S.C. § 9 ("Prohibition regarding manipulation and false information"), 17 CFR § 180.1 ("Prohibition on the employment, or attempted employment, of manipulative and deceptive devices"), and 17 CFR § 180.2 ("Prohibition on price manipulation").

[3] Theo Francis, "Traders Made Timely Bets on Maduro Ouster," The Wall Street Journal, January 3, 2026, https://www.wsj.com/livecoverage/venezuela-strikes/card/traders-made-timely-bets-on-maduro-ouster-3lDg9hjZ63vBLXgLBuVD.

[4] Catherine Cortez Masto et al. to Michael Selig, January 11, 2026, https://www.cortezmasto.senate.gov/wp-content/uploads/2026/01/2026-January-Cortez-Masto-et-al-Letter-to-CFTC-Chair-Selig-re-Suspicious-Polymarket-Trade.pdf.

[5] Ibid.

[6] The Maduro contract at issue traded on a Polymarket exchange that is not registered with the CFTC.

[7] See 7 U.S.C. §7(d)(2)(B) ("Capacity of contract market") and 7 U.S.C. § 7(d)(3) ("Contracts not readily subject to manipulation").

[8] See, e.g., KalshiEX, LLC v. Flaherty et al. (D.N.J. No. 25-cv-02152), "Complaint for Permanent Injunction and Declaratory Relief" (ECF No. 1) at 10; KalshiEX, LLC v. Hendrick et al. (D.Nev. No. 25-cv-00575), "Order (1) Denying Defendants' Motion for Temporary Restraining Order and (2) Granting Plaintiff's Motion for Preliminary Injunction" (ECF No. 45) at 7; and North American Derivatives Exchange, Inc. et al. v. The State of Nevada (D.Nev. No. 25-cv-00978), "Order (1) Denying Motion for Judgment on Pleadings, (2) Denying Motion for Preliminary Injunction, and (3) Granting in Part Motion to Strike" (ECF No. 105) at 4-5.

[9] See, e.g., KalshiEX, LLC v. Flaherty et al. (D.N.J. No. 25-cv-02152), "Plaintiff's Motion and Memorandum of Points and Authorities in Support of a Temporary Restraining Order and Preliminary Injunction" (ECF No. 2) at 5; KalshiEX, LLC v. Hendrick et al. (D.Nev. No. 25-cv-00575), "Order Granting Motion to Dissolve Preliminary Injunction" (ECF No. 237) at 3 et seq.; and North American Derivatives Exchange, Inc. et al. v. The State of Nevada (D.Nev. No. 25-cv-00978), "Order (1) Denying Motion for Judgment on Pleadings, (2) Denying Motion for Preliminary Injunction, and (3) Granting in Part Motion to Strike" (ECF No. 105) at 2 et seq.

[10] 7 U.S.C. § 2(a)(1) ("Jurisdiction of Commission").

[11] To enter this hypothetical event contract, the player must pay its price and (likely) will need to incur a transaction fee. Note that a centralized platform can provide the cheapest way to open a position and thus could improve the player's ability to hedge.

[12] See Shaun D. Ledgerwood and Johannes Pfeifenberger, "Using Virtual Bids to Manipulate the Value of Financial Transmission Rights," The Electricity Journal, v. 26, issue 9, pp. 9-25 (November 2013).

[13] "Losing Small to Win Big: Uneconomic Trading and Market Manipulation," Energy Risk Magazine, p. 32 (July 2013).

[14] Several high-profile arrests reverberated through the NBA community and beyond in the past year and a half. See, e.g., Pete Brush, "NBA Coach Billups, Guard Rozier Arrested In Gambling Bust," Law360, October 23, 2025, https://www.law360.com/articles/2402930. See also United States v. McCormack, Case No. 1:24-cr-00490 (E.D.N.Y.), in which a gambler was sentenced to two years in prison for placing bets on the performance of the gambler's co-conspirator, who intentionally pulled out of two games to ensure winning bets on the player's underperformance. For further discussion, see Stewart Bishop, "Gambler Gets 2 Years For NBA Bet-Rigging Scheme," Law360, January 21, 2026, https://www.law360.com/whitecollar/articles/2432716.

[15] See, for example, Aislinn Keely, "NY Dem Looks To Curb Officials' Prediction Market Trading," Law360, January 5, 2026, https://www.law360.com/capitalmarkets/articles/2426485.

[16] Because it is possible that a past event contract exists that arguably referenced a similar event – e.g., contracts for the winning team of the 2026 and 2027 Super Bowls – it may be argued that trading patterns of past event contracts can be used to establish a "normal" trading pattern for current or future ones. Assuming enough past event contracts exist so that a sample of past trading patterns can be compiled, using these past trading patterns to establish a "normal" trading pattern is likely to be a contract-specific exercise involving advanced econometric techniques that are not commonly used for traditional assets such as stock and futures.

[17] Remarks of Chairman Michael S. Selig, "The Next Phase of Project Crypto: Unleashing Innovation for the New Frontier of Finance," CFTC, January 29, 2026, https://www.cftc.gov/PressRoom/SpeechesTestimony/opaselig1.

[18] Ibid.

[19] See, for example, KalshiEX, LLC v. Hendrick et al. (D.Nev. No. 25-cv-00575); KalshiEX, LLC v. Flaherty et al. (D.N.J. No. 25-cv-02152); KalshiEX, LLC v. Martin et al. (D.Md. No. 25-cv-01283); North American Derivatives Exchange, Inc. et al. v. The State of Nevada (D.Nev. No. 25-cv-00978); Blue Lake Rancheria et al v. Kalshi Inc. et al. (N.D.Cal. No. 25-cv-06162); Ho-Chunk Nation v. Kalshi Inc. et al. (W.D.Wis. No. 25-cv-00698); Pelayo et al v. Kalshi Inc. et al. (S.D.N.Y. No. 25-cv-09913).