Prediction markets vs. sports betting: Navigating the future of wagering in Minnesota

Senate Commerce and Consumer Protection

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Introduction



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Our Mission

The Alcohol and Gambling Enforcement (AGE) division mission is to protect and serve the public through uniform interpretation, regulation and enforcement of the state's liquor and gambling laws and rules. AGE maintains stability and integrity in the alcoholic beverage and gaming industries through the management of licensing, education, regulation and enforcement.

Agenda

- Defining prediction markets: The “stock market" for events
- The legal divide: Betting vs. financial contracts
- Jurisdictional challenges: Federal vs. state authority
- Consumer risks: Manipulation and enforcement hurdles

What is a prediction market?

- Core concept: Online platforms where users buy and sell contracts based on future real-world events.
- Scope: Topics range from political elections and economic data to sports.
- Mechanics: Uses “yes/no" binary contracts.
- Payout: Winning shares pay $1; losing shares pay $0.
- Pricing: Prices reflect the crowd's perceived probability of the event occurring.

Market growth and scale

- Explosive volume: Traded over $60 billion in volume in 2025.
- Yearly comparison: Global volume grew from approximately $9 billion in 2024 to over $60 billion in 2025.
- Market fusion: New platforms are rapidly launching, blurring lines between finance and wagering.
- Real-world proof: During a January 2026 snowstorm, millions were wagered specifically on U.S. snowfall totals.

A weather example

- Event: Will Minneapolis get 10+ inches of snow in April?
- Investment: A user buys 100 “yes" shares at $0.60 (Total cost: $60).
- Success: A blizzard hits and the user wins $100 ($40 profit).
- Failure: Early spring results in the user losing the $60 investment.

Legal definition: Is it a bet?

- Minn. Stat. § 609.75: A bet is a bargain mutually agreeing to a gain or loss based on chance.
- The skill factor: Even if skill is involved, if chance dictates the outcome, it remains a bet under state law.
- What is not a bet:
  - Insurance or indemnity contracts
  - Prizes for actual contestants in games of skill
  - Bona fide securities or commodities contracts

The “event contract" loophole

Traditional sportsbook: Gambling

- The house: Play against a bookmaker seeking profit margin.
- Fixed odds: Bookmaker sets fixed odds.
- State gambling: Regulated by individual states.
- Entertainment gaming: It’s for entertainment.

Prediction market: Financial instrument

- Peer-to-peer trading: Trade directly against other users.
- Market demand: Prices determined by real-time supply and demand.
- Federal commodities: Regulated by the Commodities Futures Trading Commission (CFTC) as financial swaps.
- Hedging risk: Discover probabilities and hedge real-world risks, like futures.

Jurisdiction

- Regulatory chaos: Conflicting court rulings nationwide create a massive "gray area."
- April 6, 2026 ruling: Federal appeals court barred New Jersey from enforcing gambling laws against event contracts.
- State battles:
  - Nevada: Fighting in court to block sports event contracts.
  - Massachusetts: Issued injunctions against platforms for evading gaming laws.
  - Tennessee: Federal judge ruled state laws are preempted.
- Federal action: In March 2026, "Prediction Markets Are Gambling Act" introduced to clarify state authority.

Enforcement and consumer risks

- Manipulation: Wealthy "whales" skew probabilities through massive share purchases.
- Insider trading: Trading on nonpublic data like player injuries or one's own candidacy.
- Offshore/Crypto: Platforms like Polymarket operate outside U.S. borders and are nearly impossible to regulate.
- Lack of safeguards: Financial platforms lack mandatory self-exclusion, loss limits or responsible gaming tools.

Thank You!