

Polymarket & The Financialisation of Everything

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Polymarket has recorded a cumulative trading volume of 61 billion dollars (Qin and Yang, 2026). This number is increasing by day, with Polymarket alone recording three billion dollars in trades during the last US presidential elections. Platforms like Polymarket now market to the masses and are seen everywhere. Most recently, platforms have been advertising themselves for everyone to see in the Fifa World Cup with the likes of Cristiano Ronaldo celebrating their goals in front of prediction market billboards. Prediction markets are now simply too large to ignore or not investigate. This paper seeks to shed light on prediction markets. It proceeds in four parts. First, it explains what prediction markets are and how they operate. Second, it examines two structural problems undermining their integrity: insider trading and wash trading. Third, it evaluates the claim that prediction markets provide a societal benefit as reliable aggregators of information. Finally, it compares the regulatory approaches adopted in the United Kingdom and the United States, with particular attention to whether the UK's response is justified.

What are Prediction Markets?

Before evaluating the structural mechanics of these platforms, it helps to clarify exactly how prediction markets work. These are blockchain-based platforms where participants place financial wagers on the outcomes of future events, including political elections and macroeconomic data. The core concept relies on the "wisdom of the crowd." By aggregating the financial commitments of thousands of independent actors, the market is intended to generate an accurate, real-time probability model that forecasts real-world outcomes.

To understand precisely how these decentralised markets function, we must look at how they are built. The answer lies in analysing the exchange's order book which is the record of how much people want to buy or sell of the product and at which price.

Prediction markets operate on a binary complementary system. Each market consists of a "YES" token and a "NO" token, with the smart contract guaranteeing that one YES combined with one NO can always be redeemed for exactly one USD Coin (USDC), a cryptocurrency pegged to the US dollar, once the market resolves (Miah, 2026). If the 'YES' option were priced at £0.67 then this means that the market believes there is a 67% chance of an outcome occurring. Should that predicted outcome then occur, the profit for each YES token would be calculated at £0.33. Crucially, if that outcome does not occur then the investor is left with £0.00 and loses all the money that they have invested. This effectively means that prediction markets are zero-sum games with always one loser on the other end of a YES or NO transaction.

Insider trading

Retail participants face severe distortions from insider trading and information asymmetry, which compromise market equity (UMass Amherst, 2025). Prediction markets are often described as aggregates of public knowledge, but they remain highly vulnerable to individuals trading on asymmetric, non-public information (Poole College of Management, 2026). This vulnerability was clearly illustrated when a US soldier was federally charged with using classified military intelligence to secure guaranteed profits on prediction market bets (US Department of Justice, 2025).

This imbalance extends far beyond classified government or corporate secrets. It routinely manifests through physical latency exploits like pitch-side trading, commonly known as courtsiding (Betting USA, 2026). In these instances, individuals physically present at a live event, such as a sports match, a product launch, or a political press conference, exploit the slight technological delay between the real-world action and the official broadcast feed (Betting USA, 2026). By using this split-second speed advantage, pitch-side traders instantly buy up contracts on an outcome that has already happened in real life before the slower digital market or everyday at-home traders can react (Betting USA, 2026). When insiders and courtsiders exploit these information gaps to capture mispriced odds, it corrupts the platform's price-discovery function, forcing regular retail traders to absorb the financial losses (UMass Amherst, 2025).

Illusion of Volume & Wash Trading

Any genuine engagement with the structural integrity of decentralized prediction markets requires a concession: the organic, democratic consensus of retail participants is, statistically, a marginal feature of the platform. The overwhelming majority of market volume is generated not by crowdsourced human wisdom, but by automated entities exchanging capital in closed, coordinated loops (Siroly et al., 2025). On the surface, the explosive growth of prediction markets, which saw unique monthly interacting wallets nearly triple to 840,000 in the six months leading up to February 2026, appears to validate the ecosystem's democratic mandate (TRM Labs, 2026). It does not. The statistical hyper-abundance of volume reflects the extent to which the system has been reorganized to artificially simulate demand, a change that is both ideologically driven and structurally consequential.

The scale of this reorganization is demonstrated most clearly by empirical research conducted by Columbia Business School, which exposes the mechanisms of artificial volume inflation through wash trading (Columbia Business School, 2025). Wash trading refers to the illicit practice of simultaneously buying and selling securities without taking a net market position, strictly for the purpose of artificially inflating recorded volume and projecting a false narrative of market demand (Siroly et al., 2025). While strictly prohibited in traditional, regulated United States financial markets, the pseudo-anonymous architecture of blockchain exchanges provides a space for such activity to flourish undetected by the casual observer (Gwrx2005, 2025).

Using a novel iterative network-based detection methodology, researchers Siroly, Ma, Kanoria, and Sethi mapped the transaction patterns on Polymarket, identifying approximately closed clusters of colluding counterparties (Siroly et al., 2025). These networks of wallets, which function as closed loops of bot accounts, were found to frequently trade exclusively with one another, deliberately bypassing authentic, independent market participants (Siroly et al., 2025). This is not an isolated phenomenon within decentralized finance; similar sybil attacks and wash trading operations, such as those executed on MYX Finance, have historically been

utilized to engineer short squeezes, inflate valuations, and extract capital from retail traders who misinterpret artificial volume as genuine liquidity (Rekt News, 2025). Retail investors are the biggest losers from wash trading as they may be misled about demand, buy into a market with distorted prices, and then when the wash traders leave the market it is normal retail investors who are left to absorb losses.

The data exposed by the Columbia methodology reveals a market structure fundamentally dependent on manipulated metrics:

Time Period	Estimated Wash Trading Volume Share	Trend Context
July 2024	Upward Trend Initiated	Coordinated transaction clusters begin mimicking organic market interest (Sirolly et al., 2025).
December 2024	60% of Total Exchange Volume	Peak algorithmic manipulation artificially inflating pre-election market demand (Sirolly et al., 2025; Columbia Business School, 2025).
Late April 2025	Highly Active but Subsiding	Wash trading persists at elevated levels before a temporary structural decline (Sirolly et al., 2025).
October 2025	20% of Total Exchange Volume	Resurgence of closed-cluster trading activity mimicking authentic flow (Sirolly et al., 2025).

For everyday traders, these artificially inflated numbers look like reliable market signals, tricking them into trusting the market's health and accuracy (UMass Amherst, 2025). This inflation of volume is not a harmless glitch; it fundamentally shifts the platform away from finding actual truth. Instead, this fake volume serves a specific

purpose: it resolves the 'unbearable dilemma' for platform operators who must attract venture capital and retail liquidity while maintaining the appearance of a bustling, organic marketplace (Idea Usher, 2026). By allowing automated programs to create up to 60 percent of the trading volume, prediction markets generate a harmful illusion of a massive market. Everyday traders mistakenly believe this massive volume represents the "wisdom of the crowd" (the collective agreement of real people) when it actually reflects artificial, highly coordinated trading by automated actors (Sirolly et al., 2025). Ultimately, this deception harms regular traders the most, as they risk their money based on the false idea that the market is thriving and accurate.

Information Providing Benefit

Shayne Coplan has claimed that prediction markets are 'the most accurate thing that we have as mankind right now' (60 Minutes, 2025). Polymarket has been extensively marketed as a reliable information aggregator which billions of people can use when making decisions or trying to understand what is really going on in the world. These are bold claims, worthy of investigation because if Polymarket can truly be characterised as a source of truth then it is providing a net benefit to society, which would warrant a more tolerant regulatory response. The claim that prediction markets are reliable sources of information is logical, in theory. This is because traders in platforms such as Polymarket have a high financial stake in their predictions. This creates an incentive to research and discover information before making a prediction in a market (Wolfers & Zitzewitz, 2008). Due to the financial stake that investors have when making a prediction, Polymarket is viewed as a more reliable aggregator of information than other traditional sources such as polls where respondents usually have no stake in what they predict. This may explain why prediction markets were able to correctly predict the outcome of the 2024 US Presidential elections.

Additionally, insider trading also contributes to the accuracy of prediction markets. Insider trading is usually undesirable in financial markets. However, when it comes to the accuracy of information in prediction insider trading is very much

desired. This explains why Robin Hanson, an economist whose ideas contributed to creation of modern prediction markets, says insider trading is to be welcomed in prediction markets (Hanson, 2007).

Despite Shayne Coplan's bold claims on Polymarket's accuracy as a source of information, research shows that only 67 % of predictions in the platform are accurate (Clinton & Huang, 2025). Thus, it has been stated that Polymarket is barely better than a coin-flip in predicting outcomes (More Perfect Union, 2026). Coplan's statement that Polymarket is currently the most reliable source of information for mankind may hence be viewed as an exaggeration or a marketing stunt. The lack of accuracy in prediction markets indicates that not all users are well informed nor does everyone thoroughly conduct their research before making a prediction.

In reality, users in prediction markets are often driven by emotions or personal biases. For example, someone may predict that a certain political candidate will win out of their personal bias and favouritism for that candidate. Making a prediction in markets based on personal biases is a common thing, often referred to as noise betting. (Flepp, Nüesch & Franck, 2014). Other platform users such as large institutions may not make a prediction based on information or research but rather may predict the outcome they fear as a form of hedging against certain risks (Axen & Cortis, 2020). For example, although an institution may believe that an unfavourable candidate would not win, they may still predict that candidate to win to offset any potential losses which they may accrued if the undesired outcome occurs. Hence, investors are not always driven by information or research. This undermines the value and accuracy of information in prediction markets. Finally, the accuracy of predictions can be ruled out in other highly speculative outcomes such as whether 'Jesus will return before 2027' (Polymarket). Overall, the allegation that prediction markets provide a net benefit to society in the form of reliable information is a doubtful one which should not have a huge impact on policy responses to Polymarket.

Regulators' Responses in the UK & US

Prediction markets such as Polymarket have challenged traditional regulatory frameworks by combining characteristics of both gambling and financial trading. Unlike

conventional bookmakers, users trade contracts whose value depends on the outcome of future political, economic or social events. This hybrid structure has generated disagreement over whether prediction markets should be regulated under gambling legislation or financial market regulation. The United Kingdom and the United States have adopted notably different approaches, providing a useful comparison for evaluating regulatory responses.

Rather than reflecting a complete absence of regulation, the challenge posed by decentralised prediction markets is one of regulatory classification. Regulatory classification refers to the process by which legislators and regulators determine which legal framework should govern a particular activity. In the case of Polymarket, this is complicated by the platform's hybrid characteristics: it combines elements of financial trading, speculative investment and traditional betting within a decentralised blockchain-based system. Consequently, the central regulatory question is not whether prediction markets should be regulated, but under which body of law they should fall. The divergent approaches adopted by the United Kingdom and the United States illustrate how differing legal classifications can produce substantially different regulatory responses despite addressing the same underlying technology.

The UK's approach to prediction markets is governed primarily by the Gambling Act 2005, which defines betting broadly. Under section 9, betting includes staking money on: the outcome of an event, whether something will occur, or whether something is true or false. The UK Gambling Commission therefore focuses on the nature of the activity, rather than the technology used to facilitate it. If an activity involves risking money on an uncertain future event for financial gain, it is likely to fall within the definition of betting.

Thus, the UK has officially classified Polymarket as a betting exchange platform which requires licencing from the Gambling Commission. The main purpose of such licencing requirements and restrictions is to protect consumers, ensure fairness, and prevent crime. The issue at the heart of this is that Polymarket has classified itself as a prediction market rather than a gambling platform. However, the UK Gambling Commission has disagreed with this definition stating that 'if a prediction market operator was to launch here in Great Britain, we do not believe that they would be able

to classify themselves as non-gambling products' (Gambling Commission, 2026). This is not an issue of semantics; the legal classification of such platforms matters. Polymarket's classification as a gambling platform subjects it to stricter licensing requirements, consumer protection duties, and marketing rules.

Whether Polymarket satisfies the UK's legal definition of gambling remains the central point of regulatory disagreement. Functionally, the platform allows users to buy and sell contracts based on the outcome of uncertain future events, including elections, sporting events and economic indicators. Participants invest money in anticipation of financial gain if their prediction proves correct. This closely resembles the statutory definition of betting contained within the Gambling Act 2005. Users are effectively staking money on the likelihood of an event occurring, even though the platform presents these transactions as trades rather than conventional wagers. The UK's legal framework generally places greater emphasis on the substance of an activity than on the terminology used to describe it.

However, important differences distinguish Polymarket from traditional bookmakers. Unlike fixed-odds betting operators, Polymarket operates as a peer-to-peer marketplace where prices fluctuate according to supply and demand. Participants may also close positions before the event concludes, making the platform resemble a financial exchange. Supporters therefore argue that prediction markets generate valuable information by aggregating collective expectations rather than merely facilitating gambling. These competing interpretations create regulatory ambiguity. While Polymarket exhibits many characteristics associated with betting, its decentralised and market-based structure blurs the distinction between gambling and financial trading. Consequently, existing legislation, written long before blockchain prediction markets emerged, does not explicitly address platforms of this kind.

Decentralisation presents additional challenges for regulators because platforms such as Polymarket operate on blockchain infrastructure rather than through conventional corporate intermediaries. Transactions are settled using cryptocurrency and participation may occur across multiple jurisdictions without a central operator exercising direct control over market activity. Consequently, enforcement mechanisms

that were developed for traditional gambling operators become considerably more difficult to apply, contributing to regulatory uncertainty.

The UK's strict approach to prediction markets stands in large contrast with the approach taken in the United States. In the US, prediction markets fall under the umbrella of the federal agency of the Commodity Futures Trading Commission (CFTC). This means that Polymarket is under very little oversight in the US as compared to how heavily regulated it is in the UK. The approach taken to prediction markets in the US provides platforms including Polymarket with numerous advantages. Most importantly, the platforms are federally regulated meaning that they do not fall under individual state gambling laws. Polymarket is hence able to offer its products to all 50 US states thereby avoiding all state-level gambling rules. Additionally, Polymarket's classification as a financial market which offers event contracts, more commonly known as 'swaps', allows it to avoid the strict consumer protection rules and levies which gambling platforms face. Federal regulation is also a source of legitimacy for the platforms which allows them to access more institutions and users. It is fair to say that the current Trump administration has taken a lenient approach towards prediction markets. Most recently, the CFTC has created an 'innovation' council which includes the CEO of Polymarket, Shayne Coplan, and which advises the CFTC on how prediction markets should be regulated.

However, this lenient approach to prediction markets is not without resistance in the US. Platforms like Polymarket and Kalshi have been brought to court by numerous states who do not agree with their classification as a financial instrument (AP, 2026). For example, the state of Nevada has won an injunction which allowed it to force Kalshi to drop entertainment as well as sport and election-related prediction contracts. Such movements by different states reinforce the argument that no matter what prediction markets call themselves they are more akin to gambling than other financial instruments. Nonetheless, this issue is not settled with the CFTC now pushing back and suing the states to protect its exclusive jurisdiction over the regulation of prediction markets. This further reflects the favourable view taken by the federal government towards prediction platforms.

The lenient approach taken by the US government towards prediction markets may be explained by a multitude of factors. First, the current administration generally takes a pro de-regulation approach particularly to financial innovations such as crypto with major Crypto CEOs involved in the same aforementioned CFTC advisory body. Thus, the lenient approach towards Polymarket could be said to be part and parcel of a broader de-regulation approach. However, the current Republican administration also tends to politically favour states' rights to regulate which means that their consistent intervention against numerous states' attempts to ban prediction markets is ideologically confusing.

There are a few considerations which may provide insights as to why the administration is uncharacteristically willing to go to court against states to legitimise prediction markets. First, there is political affinity between the platforms and President Trump as Polymarket listed higher chances of him winning the last elections compared to traditional news platforms (Polymarket, 2024). Hence, prediction markets may be seen by the administration as a reliable source of truth replacing news polls. Moreover, there are personal ties between Donald Trump Jr and Polymarket as he is an investor in the platform and a paid consultant to it (FT, 2026). The high financial stakes that Donald Trump Jr has in Polymarket certainly raise reasonable doubts about the current administration's lenient approach to prediction markets. This paper does not aim to make political inferences or suspicions; however, the previous considerations are certainly worth raising to aid in explaining the opposite approaches taken to prediction markets in the UK & US respectively.

Overall, the divergence between the UK and US responses to prediction markets reflects fundamentally different approaches to regulatory classification. Whereas the UK primarily evaluates prediction markets according to the legal characteristics of gambling, the United States has generally treated them as financial instruments subject to derivatives regulation. The UK asks, "Is this gambling?", whereas the US has tended to ask, "Is this an unregistered financial contract?"

Is the UK's regulatory response justified?

Assessing whether the UK's regulatory response is justified requires consideration of both legal and political factors. Black (2002) argues, regulation should not be understood simply as the application of legal rules, but as a broader process through which governments seek to achieve public policy objectives. From this perspective, assessing the UK's response to Polymarket requires consideration not only of legal interpretation but also of the policy objectives that regulation seeks to achieve, including consumer protection and market integrity. Regulatory responses are shaped not only by legal interpretation but also by political priorities concerning consumer protection, market innovation and the appropriate role of the state in governing emerging technologies. Within this context, the UK's cautious approach can be justified on consumer protection grounds. If prediction markets effectively function as betting, requiring operators to obtain licences under the Gambling Act helps ensure safeguards relating to anti-money laundering, responsible gambling, and consumer protection. Given the use of cryptocurrency and decentralised infrastructure, regulators also face legitimate concerns regarding enforcement and jurisdiction. This challenge is compounded by the decentralised architecture of blockchain technology; as Lessig (2006) argues, digital technologies frequently challenge traditional legal frameworks because their underlying architecture shapes how regulation can be applied. This is particularly relevant to decentralised prediction markets such as Polymarket, where blockchain infrastructure complicates the application of conventional gambling regulation.

Nevertheless, the current approach has limitations. Because the law was developed before decentralised prediction markets existed, it provides limited certainty regarding how innovative platforms should be classified. This uncertainty may discourage technological innovation while leaving consumers unsure of the protections available when using such services.

The contrast with the United States demonstrates that different legal systems have reached different conclusions about the same technology. Whereas the CFTC has

attempted to regulate prediction markets as financial products, the UK continues to assess them primarily through gambling legislation. Neither approach completely resolves the underlying question of whether prediction markets are fundamentally forms of gambling or novel financial instruments. Nonetheless, because participants risk money on uncertain outcomes for financial gain, platforms such as Polymarket blur the boundary between financial trading and betting, creating significant challenges for regulators seeking to determine the appropriate legal framework.

Conclusion

Overall, the UK's cautious approach appears justified insofar as it prioritises consumer protection and regulatory oversight. However, the absence of legislation specifically addressing decentralised prediction markets means that regulators continue to rely on legal frameworks designed for traditional gambling operators. Consequently, the principal challenge is no longer whether prediction markets should be regulated, but how they should be classified within existing legal and regulatory structures. Greater legal clarity would benefit both regulators and market participants as decentralised prediction platforms continue to develop.

Ultimately, the regulatory uncertainty surrounding Polymarket stems not from an absence of regulation, but from disagreement over its legal classification. The UK adopts a functional approach rooted in gambling law, whereas the US has primarily treated prediction markets as financial derivatives. This variation demonstrates that the central challenge is not technological innovation itself, but the inability of existing regulatory frameworks to categorise decentralised prediction markets consistently.