

**Subject** Prohibiting wagers through prediction markets

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## Overview

Prediction markets allow people to purchase a commodity, like a share of stock, that is tied to how likely it is that a future event will occur. The market operates by setting the value of any event happening at \$1. The price of a share is based on the percentage likelihood that the event will occur. If the event is 30% likely to happen, the price of a share that says, “yes, the event will happen” is \$.30. The price of a share that says, “no, the event will not happen” is \$0.70. When the event does, or does not, occur, those who predicted correctly receive \$1.

Unlike sports betting and similar forms of gambling, there is no “house” in a prediction market to create the odds or set the line. Instead, prediction markets adjust based on the number of people purchasing shares in “yes” or “no.” If more people purchase a “yes” share, the market adjusts to predict that the event is more likely to happen and the cost of a “yes” share increases.

Prediction markets have existed in various forms for a long time. There are historical examples from the 16<sup>th</sup> century suggesting that there were prediction markets in Rome related to predicting the outcome of papal enclaves. Modern prediction markets began to expand in 1988 when three professors at the University of Iowa created a prediction market after a surprise outcome in the Iowa Democratic caucus. The professors theorized that a prediction market would be more accurate than polling. In the decades that followed, businesses and other entities began to use prediction markets as a form of crowdsourcing to gain information on if or when a future event would take place.

Around 2020, several businesses (including Polymarket and Kalshi) began operating larger prediction markets that allowed people to purchase “yes” and “no” shares on a wide range of events from the outcome of political contests to the outcome of sports events to whether or not it would rain in New York City on a particular day. States and regulators have brought challenges to the markets alleging that they are a form of gambling. In 2024, Kalshi won a suit in which the Commodities Futures Trading Commission issued an order preventing Kalshi from

allowing people to place money on the outcome of the 2024 congressional election. The court overturned that stay and allowed Kalshi to offer that market.

Prediction markets have received recent scrutiny after traders made hundreds of thousands of dollars predicting military actions – including predicting the arrest of Venezuelan leader Nicolás Maduro and the timing of strikes on Iran.

## Summary

Section	Description
1	<p><b>What are not bets.</b></p> <p>Specifies that shares in a prediction market are not the type of security or commodity excluded from the definition of a “bet.” This means that those shares would be treated as a form of illegal gambling.</p>
2	<p><b>Prediction markets; certain transactions and activities prohibited.</b></p> <p>Defines “public property” as used in this new subdivision. Establishes a felony penalty for an entity that operates a prediction market that allows people to purchase commodities related to the outcome of sporting events, casino-style games, events happening to a person or group, political contests, natural and other catastrophes, and deaths. Establishes a felony for advertising prediction markets under certain circumstances, including at certain times, in a form likely to be seen by a person under age 21, when it contains a statement alleging that the market is legal, and when it is within 500 feet of a school or playground. Establishes a felony penalty for continuing to offer a prediction market after receiving a cease and desist letter from the attorney general. Prohibits a person convicted under this subdivision from receiving any gaming-related license for ten years from the date of conviction. Contains an exception stating that the limit related to sporting events does not apply to pari-mutuel betting on horse racing or to private social bets.</p>



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