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Prediction markets: Paths to entry

Finding the right path for your strategy, resources, and risk appetite.

US prediction markets have undergone a dramatic transformation. Combined trading volume across Kalshi and Polymarket exceeded $40 billion in 2025, up from roughly $9 billion in 2024,[1] representing over 400 percent year-over-year growth. Kalshi alone generated $263.5 million in fee revenue on $22.9 billion of volume,[2] while Polymarket surpassed $3 billion in monthly volume by October 2025.[3]

On the regulatory front, the Commodity Futures Trading Commission (CFTC) has shifted toward accommodation while awaiting the outcome of numerous court cases. In January 2026, Chairman Michael Selig withdrew a proposed rule that would have prohibited political- and sports-based event contracts, and directed staff to draft new rulemaking establishing clear standards for prediction markets. Seventeen new designated contract market (DCM) applications have been filed since early 2025, with seven approved (including Polymarket's US re-entry and Gemini's first crypto-native prediction market license). DraftKings launched as a CFTC-registered Introducing Broker in December 2025, bringing prediction markets to 38 states through its existing user base. Additionally, because CFTC-regulated prediction markets are governed by federal commodities law rather than state gaming statutes, they can be offered nationally across all 50 states, even where traditional sportsbook betting is not authorized. That nationwide availability is being actively challenged by state regulators in multiple courts, but the current CFTC has publicly signaled a shift towards a more proactive posture in defending its jurisdiction and the legality of CFTC-regulated event contracts.[4,5]

Industry growth forecasts vary, with some gaming research firms predicting these markets could reach $1 trillion dollars in annual trading volume by the end of this decade.[6] For firms evaluating how to participate, the question is which entry path best fits their strategy, resources, and risk appetite.

This document outlines five primary entry models under consideration from our clients, from lightweight partnerships to full exchange ownership, with the key trade-offs between them. Offering access to these markets in an unregulated manner could subject a firm to CFTC-levied enforcement actions.

1 Tanya Chepkova, "Why Brokers and Exchanges Are Racing Into Prediction Markets – and What Comes Next," Finance Magnates, February 4, 2026.
2 Daniel O'Boyle, "Kalshi Fee Revenue In 2025 Was $263.5 million, With 89% Coming From Sports," InGame, January 9, 2026.
3 Vini Barbosa, "Polymarket Handles $3B Volume on Polygon, 338,000 Unique Traders," CoinSpeaker, November 18, 2025.
4 Commodity Futures Trading Commission, Release No. 9183-26: "CFTC Reaffirms Exclusive Jurisdiction over Prediction Markets in U.S. Circuit Court Filing," February 17, 2026.
5 Commodity Futures Trading Commission, "Chairman Selig: Op-Ed | States Encroach on Prediction Markets," February 17, 2026.
6 Contessa Brewer, "Prediction markets could hit a trillion dollars in trading volume by the end of this decade, new report says," CNBC, December 17, 2025.

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The table below summarizes key tradeoffs across each path to entry.

	TSV	IB and GIB	FCM	DCM	DCO
Regulation	Minimal	Low–medium	High	Very high	Very high
Timeline*	1–3 months	3–6 months	6–12 months	12–24+ months	12–24+ months
Capital requirements	None	$45,000	$1 million and up	$5 million and up	$10 million and up
$10 million and up	Service contract dependent	Commissions (0.5%–2%)	Clearing + commission (1%–3%)	Full stack (0.07%–7%)	Clearing fees (cost-recovery)
Design and list new contracts	None	None	None	Full	None

*Note: Timelines are approximate and can vary significantly based on operational preparedness, scale and capacity.

1. Technology service vendor

Definition: A concept in the derivatives markets, certain app-based companies are entering the prediction markets as "technology service vendors" (TSV) in a partnership with DCMs. These partnerships benefit both sides—the app-based company is able to quickly make event contracts available to its customer base, while the DCM benefits from the additional volumes and liquidity in its marketplace. We caution that the TSV concept is new and untested with regulatory authorities.

Regulatory burden: Limited

Timeline: Varies widely based on firm's technology strategy

Capital requirements: No CFTC-mandated minimum

Fee capture: Service contract dependent

2. Introducing broker

Definition: A CFTC-registered entity that solicits or accepts orders to buy or sell futures, options, or event contracts, but does not accept or hold customer funds. Must route all customer orders and funds through a registered futures commission merchant (FCM).

Regulatory burden: Must register with the National Futures Association (NFA). Guaranteed introducing brokers (IBs), backed by an FCM, face lighter requirements; nonguaranteed IBs must meet independent capital and compliance obligations.

Registration timeline: 3-6 months for complete applications, although timing may vary depending on NFA review timelines and volume of pending applications.

Capital requirements: $45,000 adjusted net capital (nonguaranteed); none if guaranteed by an FCM

Fee capture: Commission or markup on order flow, typically 0.5 percent to 2 percent of customer volume.

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3. Futures commission merchant

Definition: A CFTC-registered entity that accepts orders and holds customer funds in segregated accounts. FCMs execute, clear, and settle transactions and serve as the financial intermediary between customers and the exchange/clearinghouse.

Regulatory burden: Must register with CFTC and NFA; subject to ongoing capital monitoring, customer fund segregation rules (CFTC Part 1), and comprehensive compliance program requirements.

Registration timeline: 6–12 months

Capital requirements: $1,000,000 minimum adjusted net capital (or 8 percent of total risk margin, whichever is greater)

Fee capture: Clearing fees, commission on customer trades (1 percent to 3 percent of volume), margin interest income; can serve multiple DCMs and IBs.

4. Designated contract market

Definition: A CFTC-designated exchange authorized to list and facilitate trading in futures, options, and event contracts. The DCM is the marketplace itself, responsible for product design, trade matching, market surveillance, and regulatory compliance across 23 core principles.

Regulatory burden: Must demonstrate compliance with all 23 core principles under Commodity Exchange Act (CEA) Section 5(d), covering market integrity, surveillance, financial resources, system safeguards, and participant protections

Registration timeline: 12–24+ months (statutory 180-day review begins only when application is materially complete)

Capital requirements: Variable; typically $5 million or more in financial resources to demonstrate operational viability

Fee capture: Full fee stack: transaction fees (0.07 percent to 7 percent on Kalshi), listing fees, market data subscriptions, membership fees, application programming interface access charges. Kalshi generated $263.5 million in fee revenue on $22.9 billion volume in 2025.

5. Derivatives clearing organization

Definition: A CFTC-registered clearinghouse that serves as the central counterparty to all trades on a DCM. The derivatives clearing organization (DCO) manages counterparty credit risk, holds customer collateral in segregated accounts, performs daily mark-to-market settlement, and administers default procedures.

Regulatory burden: Must comply with DCO core principles under CEA Section 5b, including risk management, financial resources, participant fund protection, governance, and system safeguards.

Registration timeline: 12–24+ months

Capital requirements: Variable; typically $10 million or more in financial resources; must maintain risk-based reserves and default fund mechanisms

Fee capture: Clearing fees per contract, membership fees from clearing members. Revenue potential is lower than DCM but provides critical infrastructure control.

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Key takeaways

When deciding the method of entry suitable for your firm, the core trade-off remains speed to market vs regulatory scrutiny, fee capture, and capital investment:

- A TSV approach has recently been the fastest path to market, although it is a new concept in this space and untested with regulatory authorities. The TSV approach differs broadly among firms and specifications may be defined during a service contracting process.
- An IB registration can be completed in a matter of months with minimal capital, making it the fastest path to market, as DraftKings demonstrated in late 2025, but IBs depend entirely on existing exchanges for product offerings and fee structures.
- An FCM sits in the middle ground between IB and DCM/DCO; it allows meaningful fee capture and the ability to hold customer funds, but comes with substantial compliance overhead and a $1 million or more capital requirement.
- A DCM designation offers the greatest long-term value through full control of product design, pricing, and market data, but it demands 12 to 24 months or more of regulatory engagement and significant financial resources; Kalshi's $263.5 million in 2025 fee revenue illustrates the upside.
- DCO registration is typically pursued alongside a DCM application by firms seeking vertical integration across trading, clearing, and settlement.

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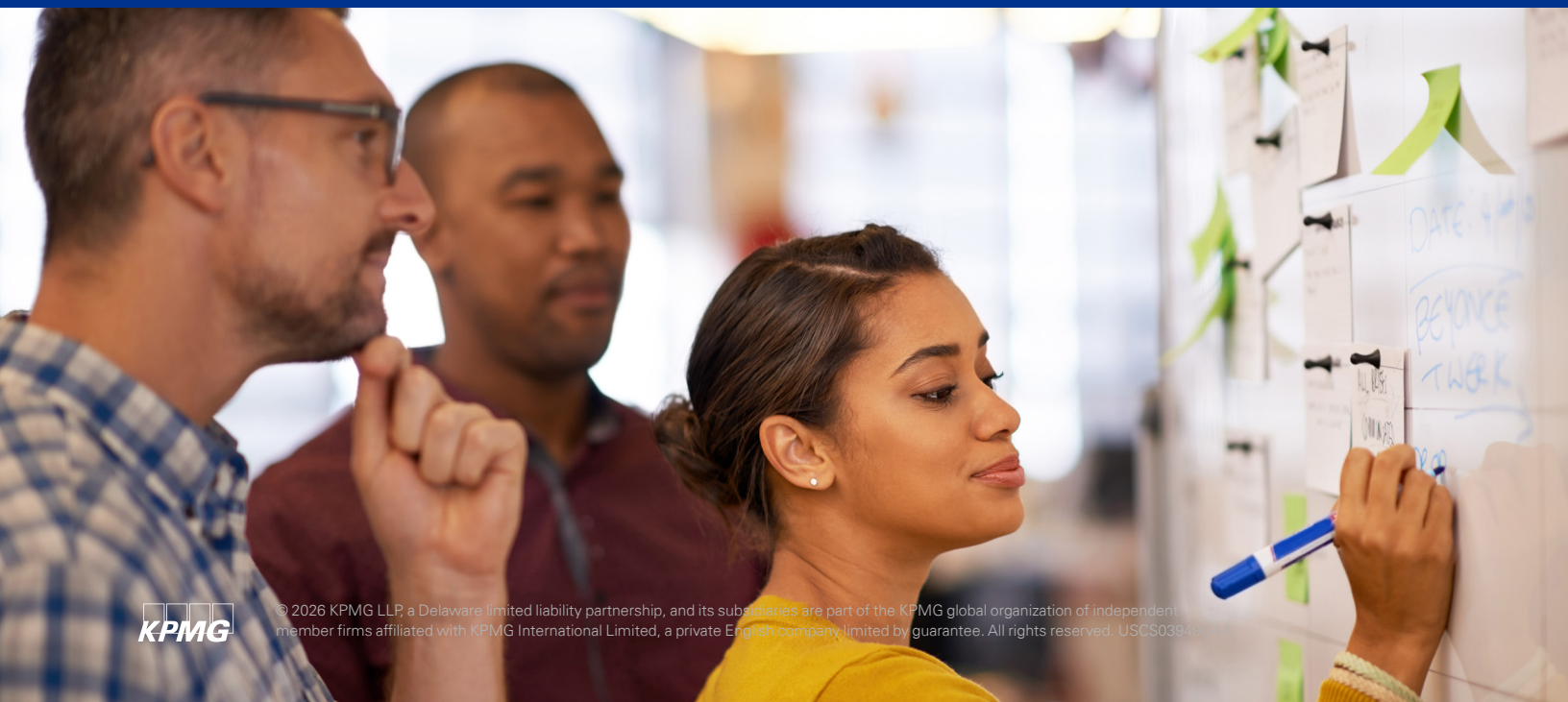
Navigating the path forward: How KPMG can help

KPMG can provide support to help your firm determine your ideal regulatory path and develop a sustainable program. Our structured approach is tailored to your firm and designed to provide clarity, build a robust compliance framework, and streamline the application process.

An example roadmap can be seen below:

Phase	Name	How KPMG delivers value
1.	Strategic advisory	We begin by helping you understand the implications of each path to determine the ideal strategy for your business, advice driven by our years of CFTC and NFA registration experience.
2.	Gap analysis	Our team conducts a thorough assessment of your existing programs and governance against regulatory requirements, delivering a detailed gap analysis with a clear inventory of actionable recommendations based on financial service industry standards.
3.	Program development	We assist in building and enhancing your compliance and operational framework, helping you develop the necessary policies, procedures, and controls to meet regulatory expectations.
4.	Registration support	We provide hands-on support throughout the registration process, from application preparation to managing regulatory Q&A and demonstrations, targeting a smooth path to approval.
5.	Client-specific training	To prepare your team, we develop and deliver a tailored training program, complete with custom materials, covering the new compliance and operational requirements. Legacy sportsbook clients may find this particularly valuable as they move into the federally regulated trading sphere.



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