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Prediction Market ETFs

Structure, Regulation, and Open Questions

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Event contracts—financial instruments that allow participants to trade on the outcomes of real-world events—have surged in popularity in recent years.[1] So far, event contracts have primarily traded directly on exchanges, via centralized systems that match buyers and sellers of individual contracts directly. But as demand to invest in prediction markets has grown, exchange-traded funds (ETFs) that offer investor exposure to event contracts have begun to arise.

Three issuers initially filed registration statements with the Securities and Exchange Commission (SEC) for funds whose principal exposure is to event contracts traded on Designated Contract Markets (DCMs) regulated by the Commodity Futures Trading Commission (CFTC).[2] None have launched: in May 2026, the ETF launches were delayed, and the SEC requested additional detail on product mechanics and disclosures.[3] On June 30, 2026, the SEC announced a request for comment on "novel ETFs," a category that includes funds holding event contracts.[4]

This article describes what these products are, how their proposed structure differs from direct participation in an event contract market, and the regulatory questions the filings raise.

WHAT IS A PREDICTION MARKET ETF?

ETFs are pooled investment vehicles that contain a basket of securities—such as stocks, bonds, commodities, or other assets—often organized around a specific strategy, sector, or market index.[5] Given this structure, many ETFs offer diversified exposure.[6] However, the prediction market ETFs described in the SEC registration statements filed by the three issuers—Roundhill Investments (Roundhill), Bitwise Asset Management (Bitwise), and GraniteShares—present a narrower offering.

The economic exposure for each proposed fund filed before the SEC's request for comment is concentrated in a single event contract. The issuers initially filed six funds, each covering three electoral outcomes: the 2028 U.S. presidential election, control of the U.S. House of Representatives following the 2026 midterms, and control of U.S. Senate following the 2026 midterms, with a separate fund for Democratic and Republican control of each body.[7] Roundhill and Bitwise subsequently filed funds extending the concept beyond politics to economic outcomes tied to technology sector layoffs, recession risk, and prices in cryptocurrency and oil markets.[8]

More recently, after the SEC's request for comment, a fourth issuer—Tidal Trust I (Tidal Trust)—filed two additional funds in July 2026 that instead have exposure to baskets of event contracts, with one fund focused on economic, climate, and policy outcomes, and another fund focused on outcomes of various sports leagues and events.[9]

Event contracts have a binary structure: there are only two possible outcomes, typically paying out $1 for one outcome and $0 for the other. Event contracts are priced based on the perceived probability of the outcome and settle at binary extremes (e.g., $1 if the outcome occurs, and $0 if the outcome does not occur).[10] As such, a fund's net asset value (NAV) invested in a given contract converges toward either $1 or $0 on a per-contract basis at settlement.

In other words, unlike many of the most popular ETFs, such as one that tracks the S&P 500 or one that tracks a basket of both U.S. and international stocks, prediction market ETFs can realize extreme returns, including a risk of close to 100% loss.[11] All proposed issuers so far disclose this "Catastrophic Loss Risk" as the first principal risk listed in their prospectuses.[12] For example, the prospectus for the Roundhill election funds explains that once the outcome of the underlying event is known, "the value of the . . . Contracts [will] immediately converge to their final settlement value (either $1.00 or $0.00)" and "result in a sudden and substantial increase or decrease in the value of the Fund's NAV, which is highly unique among other investment products."[13]

FUND MECHANICS: OBTAINING EXPOSURE AND SETTLEMENT

Most ETFs obtain exposure by directly purchasing underlying assets. For example, an S&P 500 ETF might sell shares of the fund to investors and use the proceeds to buy shares in each company in the S&P 500 in proportion to its market capitalization.[14] For the prediction market ETFs proposed so far, issuers describe obtaining exposure through some combination of direct investment in the event contracts,[15] swap agreements,[16] and/or prepaid forward contracts.[17] For example, when obtaining exposure through swaps, the prediction market ETF purchases a yield-bearing asset like a Treasury bond and trades that yield for the return of a designated event contract.[18] Prepaid forward contracts operate as a middle ground between directly owning the underlying contracts and the swap arrangement: the fund prepays the full price of an event contract and receives the counterparty's obligation to pay the value of the contract at settlement.[19]

> *ETFs are pooled investment vehicles that contain a basket of securities—such as stocks, bonds, commodities, or other assets—often organized around a specific strategy, sector, or market index.*

After expiration, all funds except for the Bitwise election funds and the Tidal Trust funds automatically roll forward their positions.[20] If the contract settles at $1 (i.e., the outcome occurs), these funds use the proceeds to roll positions into the subsequent period's relevant contract (e.g., the 2032 U.S. presidential election, 2027 technology sector layoffs, etc.), with some funds also paying a distribution based on realized gains.[21] However, if the contract settles at $0, these funds use a reverse stock split to consolidate the small remaining value from their collateral into a smaller number of shares at a proportionally higher price so that the fund can continue to trade in a reasonable price range.[22] The fund then reinvests whatever remains into the subsequent period's contract.

HOW THE FUNDS DIFFER FROM TRADING EVENT CONTRACTS DIRECTLY

Like trading event contracts directly, prediction market ETFs could offer opportunities to hedge risk, engage in speculation, and provide viewpoints and information to markets.[23] The ETF "wrapper" around trading event contracts has additional properties that distinguish these vehicles from direct participation in prediction markets, including:

- **Access:** Shares would trade on a securities exchange and could be purchased through a brokerage account, including tax-advantaged accounts such as IRAs.[24] Investors do not need to open an account on a prediction market platform in order to participate and can instead use existing brokerage accounts.[25]
- **Blended offerings:** Although most of the funds proposed so far registered single-contract funds, prediction market ETFs like the Tidal Trust funds can diversify holdings, granting investors more convenient access to blended event contract portfolios without having to purchase a series of individual contracts.
- **Professional management:** The prospectuses indicate that funds are managed by professional portfolio managers.[26] One of the main management offerings of the funds proposed so far is that these managers handle complex operational issues on behalf of fund investors: selecting swap counterparties, managing Treasury collateral, and operating creations and redemptions. The Tidal Trust ETFs offer additional value in the form of actively selecting contracts and managing exposure to a basket of contracts, and future prediction market ETFs may continue to expand these additional offerings.
- **Additional costs:** ETFs have an extra layer of costs in the form of management fees.[27] For the proposed prediction market ETFs in particular, there are also transaction fees tied to the use of swaps and prepaid forward contracts.[28] In contrast, the principal fee for trading event contracts directly on prediction market platforms is a single formulaic per-trade exchange fee.[29]
- **Regulatory protections:** ETFs are subject to regulatory requirements and exemptions developed to protect investors. These include board oversight, limits on affiliate transactions, and periodic reporting requirements.[30] In addition, ETFs must publish on their websites information on daily holdings, historical premiums and discounts, and median bid-ask spreads.[31]
- **Rolling positions:** As described above, almost all of the proposed funds automatically roll forward positions. While investors can sell their fund shares before positions are rolled, investors not paying close attention to the ETF may end up with exposure to a contract they did not intend to have.

REGULATORY CONSIDERATIONS

Prediction market ETFs sit at the intersection of two regimes. Event contracts are regulated under the Commodity Exchange Act and are listed on DCMs subject to CFTC oversight. In contrast, the funds themselves would be registered investment companies under the Investment Company Act of 1940 (Investment Company Act), with shares registered under the Securities Act of 1933 (Securities Act) and listed on an exchange subject to SEC oversight.

> *Several state gaming regulators have asserted jurisdiction over event contracts, and the question of whether CFTC regulation of DCMs preempts state gaming law remains in active litigation.*

Rule 485(a)(2) of the Securities Act provides that a post-effective amendment becomes effective 75 days after filing unless the SEC acts.[32] The February 2026 filings relied on that automatic effectiveness. As the 75-day windows were closing, the SEC asked the issuers for additional information about fund mechanics and disclosures, and the launches were postponed.[33]

Shortly after, SEC Chairman Paul Atkins stated on May 20, 2026, that "[n]ovel products raise novel questions" and directed the staff to seek public input.[34] The June 30, 2026, request for comment followed, posing questions around the status of certain novel ETFs as investment companies, the application of Rule 6c-11 exemptive relief, and the operation of the registration process.[35] However, this release does not yet propose any potential rule text.[36]

Separately, several state gaming regulators have asserted jurisdiction over event contracts, and the question of whether CFTC regulation of DCMs preempts state gaming law remains in active litigation. Prospectuses from Roundhill and Bitwise identify this litigation and jurisdictional dispute as a material risk to the funds.[37]

OTHER INVESTOR CONSIDERATIONS

In addition to the risks discussed above, prediction market ETFs face additional risks disclosed in the fund prospectuses that investors should consider, including:

- **Concentration risk:** Because ETFs are premade funds, investors cannot influence what the fund decides to invest in and therefore cannot influence the fund's degree of concentration. While the Tidal Trust prediction market ETFs offer a diversified portfolio, the economic exposures for most of the proposed prediction market funds so far are concentrated in single event contracts.

  Liquidity risk: Event contracts can trade with limited depth and episodic activity, particularly for outcomes far out on the calendar. Roundhill's filing notes that bid-ask spreads can widen and that fair-value methodologies may be required when reliable quotations are unavailable.[38] However, fair-value determinations for these funds are governed by Rule 2a-5 under the Investment Company Act, which assumes that valuations can be tested against independent pricing data.[39] Third-party pricing services for individual event contracts are less developed than those available for equities, bonds, or listed derivatives, and so assessment of reasonableness of fair-value methodologies may be more challenging for these types of funds.

  More generally, prices of ETF shares can become dislocated from fund NAVs, especially where the underlying assets of the ETF have low liquidity.[40] If that happens, the fund can trade at a discount to NAV, and investors who bought when the share price was equal to NAV may take losses unrelated to performance of the underlying assets. Alternatively, the fund can trade at a premium to NAV, and investors who purchase shares at such a premium can take losses unrelated to performance of the underlying assets if that premium erodes.

- **Settlement risk:** The prospectuses state that the listing DCM's rules, and not any independent determination of the referenced event, govern whether the fund's positions settle at $1 or $0, and that the fund and its advisor have no discretion over that process.[41] The filings further state that if a settlement outcome is later determined to have been incorrect, shareholders may have no recourse.[42]

> *Prediction market ETFs face additional risks disclosed in the fund prospectuses that investors should consider.*

- **Insider trading risk:** Insider trading enforcement in prediction markets is nascent. Roundhill specifically flags government employees with early access to unreleased economic data, and corporate human resources/executive personnel with advance knowledge of pending layoffs, as potential informed traders the fund has no ability to screen out.[43]

- **Tax treatment:** The filings describe unsettled treatment. Roundhill states that the Internal Revenue Service has not adopted an official position on event contracts and that a traditional analysis "would lean toward treatment as wagering contracts," which would result in ordinary income characterization, potential excise tax exposure, and limits on the deductibility of losses.[44] Prospectuses also describe that because the funds expect to effect creations and redemptions for cash, creations and redemptions may constitute taxable events, and as a result the funds may have to sell securities and recognize capital gains.[45] This is different from other ETFs which generally make redemptions in-kind, avoiding capital gains.[46]

- Counterparty risk: Counterparty risk is heightened where exposure runs through over-the-counter swaps or prepaid forward contracts, since the fund pays the full notional amount upfront and becomes an unsecured creditor with no collateral if the counterparty defaults.[47] Liquidity risk, discussed previously, may also heighten counterparty risk if the contracts rely on a small number of swap counterparties and market makers.

WHAT TO WATCH

The comment period for the SEC's request for comment on novel ETFs closes at the end of August 2026. The request for comment is not connected to a proposed rule, and the SEC has not indicated whether it will act on the pending filings before or after any resulting proposal.

Separately, the CFTC's June 2026 rulemaking on prediction markets and the pending state-law preemption litigation will continue to shape which event contracts remain available to serve as reference assets.

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ENDNOTES

1 For more information on prediction market mechanics, see Nicole Moran, Laurent Samuel, and Mariano Palleja, "Event Contracts: A Primer on Growth, Mechanics, and Regulation," *Westlaw Today*, November 6, 2025, https://www.cornerstone.com/insights/articles/event-contracts-a-primer-on-growth-mechanics-and-regulation/.

2 "Prediction Markets Could Soon Be Available in Your Retirement Accounts," *CNBC*, April 24, 2026, https://www.cnbc.com/2026/04/24/prediction-markets-could-soon-be-available-in-your-retirement-account.html. See also Roundhill ETF Trust, Form 485APOS (filed February 13, 2026); Bitwise Funds Trust, Form 485APOS (filed February 17, 2026); GraniteShares ETF Trust, Form 485APOS (filed February 17, 2026).

3 "US SEC Review Delays First Prediction-Market ETFS," *Reuters*, May 4, 2026, https://www.reuters.com/legal/government/us-sec-review-delays-first-prediction-market-etfs-2026-05-04/.

4 "SEC Seeks Public Comments on Novel Exchange-Traded Funds," *SEC*, June 30, 2026, https://www.sec.gov/newsroom/press-releases/2026-60-sec-seeks-public-comment-novel-exchange-traded-funds. See also "Request for Comment on Novel ETFs," 91 Fed. Reg. 40,647 (July 2, 2026).

5 "What Is an ETF?," *Fidelity*, July 6, 2026, https://www.fidelity.com/learning-center/smart-money/what-are-etfs.

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[6] "Exchange-Traded Funds (ETFs)," *SEC*, https://www.investor.gov/introduction-investing/investing-basics/investment-products/mutual-funds-and-exchange-traded-2; "What Is an ETF?," *Fidelity*, July 6, 2026, https://www.fidelity.com/learning-center/smart-money/what-are-etfs.

[7] Roundhill ETF Trust, Form 485APOS (filed February 13, 2026); Bitwise Funds Trust, Form 485APOS (filed February 17, 2026); GraniteShares ETF Trust, Form 485APOS (filed February 17, 2026).

[8] Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026); Roundhill ETF Trust, Form 485APOS #2 (filed April 24, 2026); Bitwise Funds Trust, Form 485APOS (filed April 23, 2026); Bitwise Funds Trust, Form 485APOS (filed May 1, 2026).

[9] Tidal Trust I, Form 485APOS (filed July 9, 2026).

[10] For more information on prediction market mechanics, see Nicole Moran, Laurent Samuel, and Mariano Palleja, "Event Contracts: A Primer on Growth, Mechanics, and Regulation," *Westlaw Today*, November 6, 2025, https://www.cornerstone.com/insights/articles/event-contracts-a-primer-on-growth-mechanics-and-regulation/.

[11] Even when a contract converges to $0 at expiration, the NAV of the funds will never arrive at exactly $0, as the proposed prediction market ETFs will also invest in short-term U.S. Treasury securities and money market funds as collateral. See, e.g., Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), p. 3; Bitwise Funds Trust, Form 485APOS (filed February 17, 2026), p. 3; GraniteShares ETF Trust, Form 485APOS (filed February 17, 2026), p. 3; Tidal Trust I, Form 485APOS (filed July 9, 2026), p. 3.

[12] See, e.g., Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), p. 5; Bitwise Funds Trust, Form 485APOS (filed February 17, 2026), p. 4; GraniteShares ETF Trust, Form 485APOS (filed February 17, 2026), p. 4; Tidal Trust I, Form 485APOS (filed July 9, 2026), p. 4.

[13] Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), p. 3. See also, e.g., Bitwise Funds Trust, Form 485APOS (filed February 17, 2026), p. 2; GraniteShares ETF Trust, Form 485APOS (filed February 17, 2026), p. 2. Tidal Trust discloses this risk with respect to an investment in a specific event contract rather than the fund as a whole because the ETFs invest in a basket of event contracts. See Tidal Trust I, Form 485APOS (filed July 9, 2026), p. 2.

[14] See, e.g., "Understanding the ETF Creation and Redemption Mechanism," *Charles Schwab*, November 26, 2024, https://www.schwabassetmanagement.com/content/understanding-etf-creation-and-redemption-mechanism.

[15] Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), p. 2; Bitwise Funds Trust, Form 485APOS (filed February 17, 2026), p. 2; GraniteShares ETF Trust, Form 485APOS (filed February 17, 2026), p. 2.

[16] Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), p. 2; Bitwise Funds Trust, Form 485APOS (filed February 17, 2026), p. 2; GraniteShares ETF Trust, Form 485APOS (filed February 17, 2026), p. 2; Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), p. 2; Roundhill ETF Trust, Form 485APOS #2 (filed April 24, 2026), p. 2; Bitwise Funds Trust, Form 485APOS (filed April 23, 2026), p. 2; Bitwise Funds Trust, Form 485APOS (filed May 1, 2026), p. 2; Tidal Trust I, Form 485APOS (filed July 9, 2026), p. 2.

[17] Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), p. 2; Roundhill ETF Trust, Form 485APOS #2 (filed April 24, 2026), p. 2; Bitwise Funds Trust, Form 485APOS (filed April 23, 2026), p. 2; Bitwise Funds Trust, Form 485APOS (filed May 1, 2026), p. 2; Tidal Trust I, Form 485APOS (filed July 9, 2026), p. 2.

[18] See, e.g., Bitwise Funds Trust, Form 485APOS (filed April 23, 2026), p. 3. Treasury bonds serve as collateral in the event the underlying contract at expiration pays $0.

[19] Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), p. 9.

[20] See, e.g., Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), p. 18. The Bitwise election funds terminate and liquidate after expiration. See Bitwise Funds Trust, Form 485APOS (filed February 17, 2026), p. 3. The Tidal Trust funds describe that they may roll positions to successor event contracts, reallocate proceeds into exposure to new event contracts, or exit positions. See Tidal Trust I, Form 485APOS (filed Jul. 9, 2026), p. 2.

[21] See, e.g., Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), p. 4; Roundhill ETF Trust, Form 485APOS #2 (filed April 24, 2026), p. 4.

[22] See, e.g., Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), p. 4.

[23] "Understanding Prediction Markets and Event Contracts," *Commodity Futures Trading Commission*, https://www.cftc.gov/LearnandProtect/PredictionMarkets; "Prediction Market ETFs: A Potential New Frontier of ETF Innovation," *TD Securities*, June 11, 2026, https://www.tdsecurities.com/ca/en/prediction-market-etf-new-frontier.

[24] "Characteristics of Mutual Funds and Exchange-Traded Funds," *SEC*, https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/characteristics-mutual-funds-exchange-traded-funds.

[25] "Prediction Markets Could Soon Be Available in Your Retirement Accounts," *CNBC*, April 24, 2026, https://www.cnbc.com/2026/04/24/prediction-markets-could-soon-be-available-in-your-retirement-account.html.

[26] See, e.g., Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), pp. 94–95.

[27] "Characteristics of Mutual Funds and Exchange-Traded Funds," *SEC*, https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/characteristics-mutual-funds-exchange-traded-funds.

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[28] See, e.g., Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), pp. 8, 18.

[29] See, e.g., "Kalshi Fee Schedule," *Kalshi*, https://kalshi.com/docs/kalshi-fee-schedule.pdf.

[30] "Investor Bulletin: Exchange-Traded Funds ('ETFs')," *SEC*, August 2012, https://www.sec.gov/investor/alerts/etfs.pdf.

[31] "ADI 2025-15 – Website Posting Requirements," *SEC*, January 16, 2025, https://www.sec.gov/about/divisions-offices/division-investment-management/accounting-disclosure-information/adi-2025-15-website-posting-requirements.

[32] "ADI 2019-07 – Review of Certain Filings Under Automatic Effectiveness Rules," *SEC*, April 2, 2019, https://www.sec.gov/about/divisions-offices/division-investment-management/accounting-disclosure-information/adi-2019-07-review-certain-filings-under-automatic-effectiveness-rules.

[33] "US SEC Review Delays First Prediction-Market ETFS," *Reuters*, May 4, 2026, https://www.reuters.com/legal/government/us-sec-review-delays-first-prediction-market-etfs-2026-05-04/.

[34] Statement by Paul Atkins, SEC Chairman, "Statement on Novel Exchange-Traded Funds," May 20, 2026, https://www.sec.gov/newsroom/speeches-statements/atkins-statement-novel-exchange-traded-funds-052026.

[35] "SEC Seeks Public Comments on Novel Exchange-Traded Funds," *SEC*, June 30, 2026, https://www.sec.gov/newsroom/press-releases/2026-60-sec-seeks-public-comment-novel-exchange-traded-funds; "Request for Comment on Novel ETFs," 91 Fed. Reg. 40,647 (July 2, 2026). Using cash rather than in-kind creations and redemptions could raise concerns about affiliation risk under Rule 6c-11 of the Investment Company Act. While the Investment Company Act provides a general bar on principal transactions with fund affiliates, Rule 6c-11 provides an exemption with respect to the deposit and receipt of in-kind baskets. Because these funds expect to transact largely in cash, there may be concerns about whether the exemption applies. See 17 C.F.R. § 270.6c-11(b)(3); "SEC Adopts New Rule to Modernize Regulation of Exchange-Traded Funds," *SEC*, Press Release 2019-190, September 26, 2019, https://www.sec.gov/newsroom/press-releases/2019-190; "SEC Announces Adoption of New Exchange Traded Funds Rule 6c-11," *Sidley Austin LLP*, October 2019, https://www.sidley.com/en/insights/newsupdates/2019/10/sec-announces-adoption-of-new-exchange-traded-funds.

[36] Comments are due 60 days after Federal Register publication. See "Request for Comment on Novel ETFs," 91 Fed. Reg. 40,647 (July 2, 2026).

[37] See, e.g., Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), pp. 10–11; Bitwise Funds Trust, Form 485APOS (filed April 23, 2026), pp. 10–11.

[38] Roundhill ETF Trust, Form 485APOS (filed February 13, 2026), pp. 7, 9.

[39] 17 C.F.R. § 270.2a-5; Good Faith Determinations of Fair Value, Investment Company Act Release No. 34128, 86 Fed. Reg. 748 (January 6, 2021), https://www.federalregister.gov/documents/2021/01/06/2020-26971/good-faith-determinations-of-fair-value.

[40] For example, ETF share prices frequently align with fund NAV via arbitrage: If a fund NAV is higher than the ETF share price, an arbitrageur can buy ETF shares, redeem them for the underlying portfolio assets, and sell the underlying portfolio assets. However, when liquidity of the underlying assets is low, this arbitrage may fail.

[41] See, e.g., Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), pp. 6, 13.

[42] See, e.g., Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), p. 6.

[43] Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), p. 12; Roundhill ETF Trust, Form 485APOS #2 (filed April 24, 2026), p. 12. For more discussion on the economics of insider trading in prediction markets, see Laurent Samuel, Greg Leonard, Nicole M. Moran, Jerrod Attias, and Jonas Dalmazzo, "Regulation of Trading in Prediction Markets," *Cornerstone Research*, July 14, 2026, https://www.cornerstone.com/insights/articles/regulation-of-trading-in-prediction-markets/.

[44] Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), p. 16.

[45] See, e.g., Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), pp. 16–17.

[46] See, e.g., "ETF Tax Benefits: Why ETFs Can Be Efficient Investments," *Invesco*, July 7, 2025, https://www.invesco.com/us/en/insights/tax-benefits-of-etfs.html.

[47] Roundhill ETF Trust, Form 485APOS #1 (filed April 24, 2026), p. 9.

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