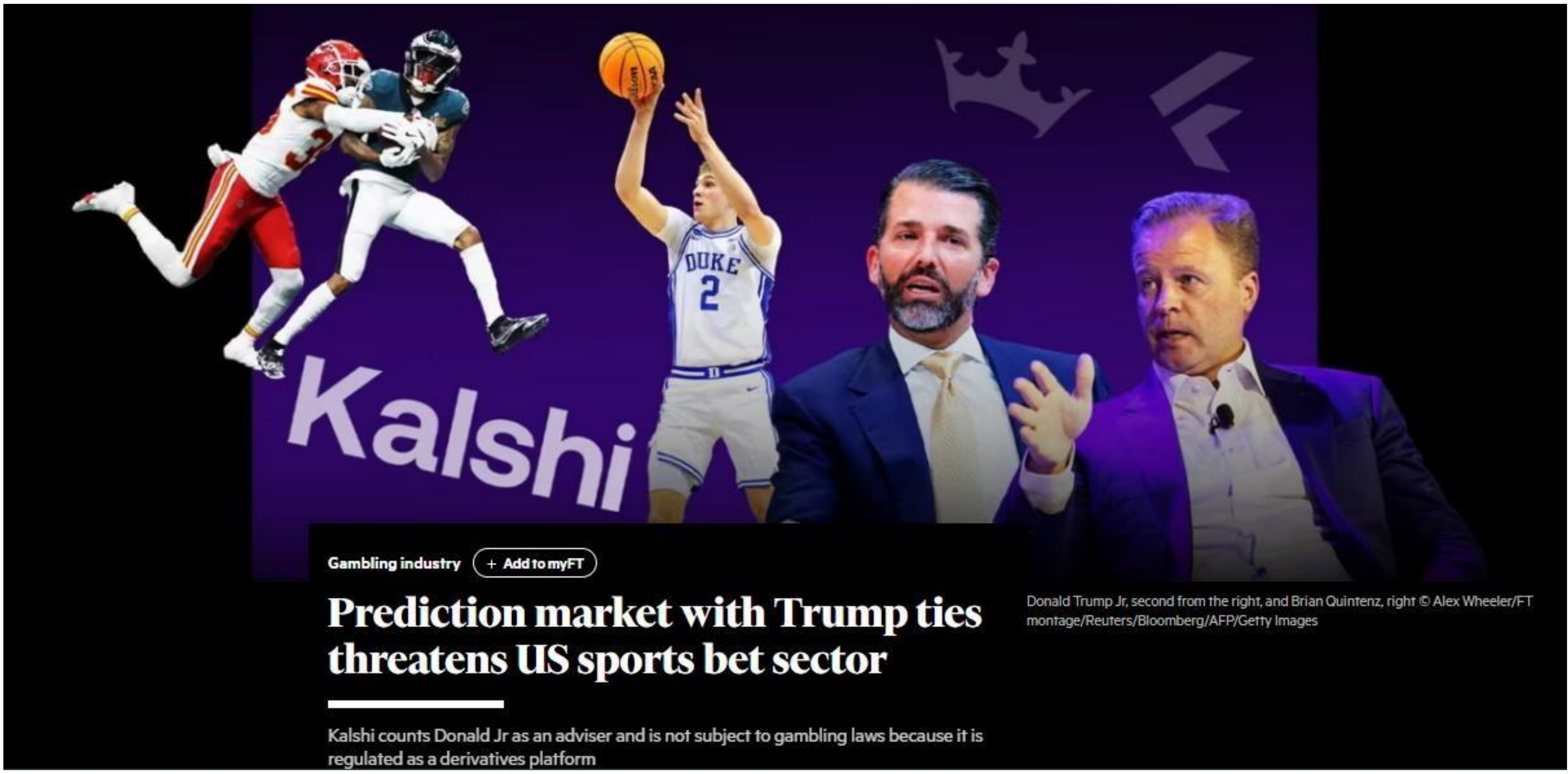

Gambling industry

Prediction market with Trump ties threatens US sports bet sector

Kalshi counts Donald Jr as an adviser and is not subject to gambling laws because it is regulated as a derivatives platform

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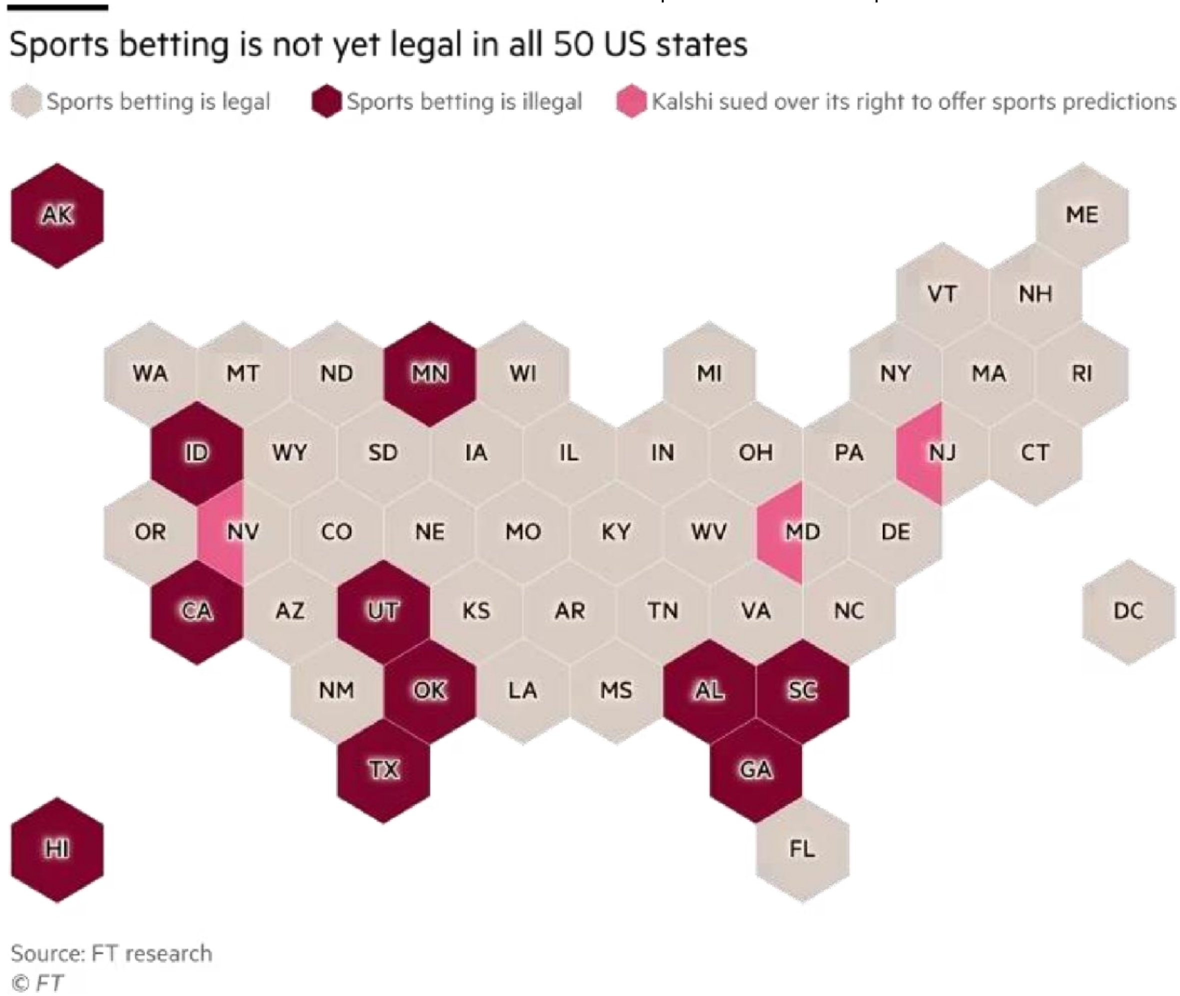
Flutter and DraftKings are weighing their responses to a new threat to their dominance of the $14bn US sports betting sector, as prediction markets led by politically connected Kalshi exploit a regulatory quirk to offer wagers on contests even where gambling groups cannot.

Prediction sites allow users to stake money on anything from economic data to the weather. Because their products are structured as peer-to-peer trades, providers are regulated not as betting groups but derivatives platforms, allowing them to bypass sports gambling bans in 11 states.

Kalshi counts Donald Trump Jr, son of the US president, as a strategic adviser. Board member Brian Quintenz is President Donald Trump's nominee to chair the Commodity Futures Trading Commission, the derivatives regulator whose remit includes oversight of prediction markets, although he has pledged to step down from the start-up should he be confirmed.

The business made its first incursion into sports predictions in January with contracts on the following month's Super Bowl that it said generated $27mn in trading volume, while subsequent trades on the March Madness college basketball tournament generated $500mn. Kalshi now offers prices on a vast array of events, from this summer's Wimbledon tennis tournament to next year's football World Cup.

The sudden arrival of a new type of competitor threatens to disrupt an industry that has grown rapidly since the Supreme Court overturned a near-nationwide ban on sports gambling in 2018. Traditional sports betting generated $14bn in US revenues last year, according to data provider Yield Sec.



DraftKings and Flutter — which account for more than 80 per cent of the US sports betting market, according to Barclays — are now considering how to fight back. "This is something everybody is talking about right now . . . it is happening whether you want it or not," said Jason Robins, chief executive of DraftKings, adding that the company was monitoring the development of prediction markets, which "warrant thoughtful consideration".

US-listed Flutter, which last year moved its headquarters from Dublin to New York and offers sports bets to Americans through its FanDuel business, has moved some of its engineers across the Atlantic from UK division Betfair to develop plans on how to respond to the new threat. Peter Jackson, chief executive, said the company was "looking very carefully" at the sports contract market and thinking of "how to attack the prediction market".

Both companies this month lowered their full-year US forecasts after a second straight quarter in which sports betting profits declined.

Platforms offering or seeking to offer trades on sports events, including Kalshi, Crypto.com, Sporttrade and Robinhood, have "snuck up on the gambling companies . . . it just wasn't on their radar", according to Rick Arpin, head of US gaming at consultancy KPMG. "It is not like anything we have seen in a long time, it is unique . . . it could change how gambling companies operate in the US forever."

Industry observers have speculated that traditional gambling groups will look to secure licences from the CFTC to offer prediction markets, or simply buy one of their small rivals. But some analysts say the newcomers have first-mover advantage — especially in states where legacy groups cannot operate, such as California, Florida and Texas.

In new markets, “one of the most important ingredients for future success is being there from day one”, said Brandt Montour at Barclays. “Customers will download one app and go from there . . . they won’t download a new app every time some company launches their product.”

DraftKings and Flutter had little choice but to respond, he added, saying the newcomers were “a critical threat . . . It is something they can’t ignore.” Trades on Kalshi are structured as short-term derivatives contracts on a binary outcome — for example, whether the US will, or will not, win this year’s Ryder Cup golf competition against Europe. Users open a Yes or No position, priced at the time of writing in the golf example at $0.58 and $0.45, respectively, with all contracts paying out $1 if the choice proves correct. The platform takes a cut of each transaction.

Derivatives exchanges have to adhere to US financial rules but their overall compliance costs are lower than those of gambling groups, which are subject to additional state taxes and anti-addiction rules.

Privately owned Kalshi, which was last valued in 2022 at $787mn, according to PitchBook, does not disclose details such as revenues or user numbers.

Its backers include Alfred Lin, a partner at venture capitalist Sequoia Capital, and billionaire investor Charles Schwab, whose granddaughter Samantha Schwab was named deputy chief of staff at the US Treasury soon after Trump took office in January. The start-up's former chief regulatory officer Eliezer Mishory left in March to join Elon Musk's so-called Department of Government Efficiency (Doge) and now leads its team seeking cost savings at the US regulator Securities and Exchange Commission, according to people familiar with the matter.

Another new entrant to the market, Philadelphia-based Sporttrade, this month sought the CFTC's permission to offer its sports events contracts nationwide.

Alexander Kane, its chief executive, said prediction markets would be "disruptive" and hit legacy operators' earnings.

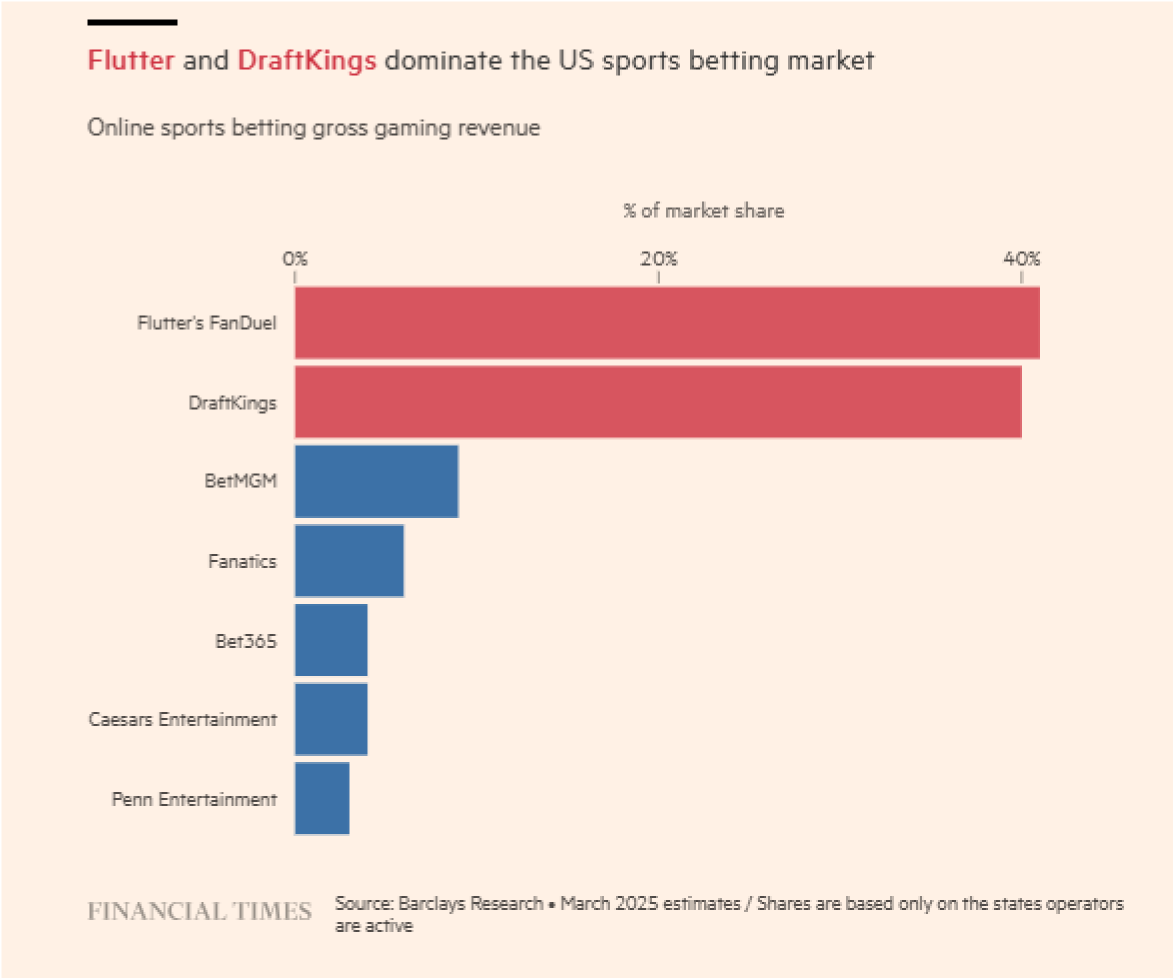
The disrupters may benefit from a perception among their users that prediction markets, which make money regardless of whether users win or lose, are fairer for gamblers than traditional betting sites, where the wager is against the house with the odds stacked against the customer.

Legacy operators "have brought this upon themselves", said Matt Zarb-Cousin, a prominent campaigner against gambling harms. The traditional business model of online gambling, in which revenue is generated by users' losses, was "commercially incentivised to take as much as it can from the consumer".

However, the newcomers face legal challenges. Seven states have sent ceaseanddesist letters to Kalshi, which they say did not comply with their laws. The company has responded with lawsuits against the gaming regulators of Nevada, New Jersey and Maryland over its right, “subject to the exclusive jurisdiction of our regulator, the CFTC”, to offer sports event contracts in their jurisdictions.

Kalshi last year won a battle with the CFTC to allow trades to be offered on the outcome of elections. Analysts say a similar victory on sports event contracts may open the door for other smaller players to enter the market.

The company argues that its federally regulated contracts supersede state laws. “We’re like, hey, you believe you have some legal theory? Let’s just prove it immediately in court,” Tarek Mansour, Kalshi’s co-founder and chief executive, told the Financial Times.



With federal courts in Nevada and New Jersey already having ruled in the company's favour in preliminary injunctions, campaigners are turning their attention to ensuring the CFTC oversees the market to the same standards as state gaming regulators.

"There absolutely has to be recognition from the CFTC that gambling harm can arise" from prediction markets, said Zarb-Cousin.

The wins in Nevada and New Jersey have put fresh scrutiny on the stance of the CFTC. Robinhood had planned to offer contracts for the Super Bowl but withdrew them after a request from the regulator, which said it had "serious concerns" about event contracts and vowed to "exercise its oversight authority to the fullest extent as appropriate".

The broker said it would follow regulatory guidelines and laws but that this might change if Kalshi won its cases against the states and was permitted by the CFTC to continue offering sports events contracts.

Crypto.com suspended its Super Bowl contracts after being asked to do so by the CFTC. No such request was made of Kalshi, which in the view of US sports wagering lawyer Daniel Wallach operates "almost in a monopolistic vacuum" and had undertaken "a number of moves designed to stack the regulatory deck in its favour".

While Kalshi has ties to the current administration, Mansour — who has posted pictures of himself with members of the Trump family on more than one occasion — insists it has no political affiliation.

Flutter and DraftKings declined to comment on Quintenz's nomination as chair of the CFTC but one insider at a leading US gambling operator said their company was concerned about the potential conflict of interest.

Mansour said "anything that ethically he is going to have to do, he's 100 per cent going to do and he is already doing it. I don't have any kind of concerns around that."

He added that Trump Jr's views on prediction markets were "very" aligned with his, and that "Don has been a huge proponent of this . . . he's helping us with gotomarket and general expansion".

"This year our growth has been incredible — I believe we have the potential to build the largest financial market ever," said Mansour, adding that "more people care about elections or sports or simple questions about the weather than they care about options trading".

He admitted there was "work to be done" on customer protections. "We don't want them to lose the money . . . We have and should have the same types of safety measures" as those required of traditional gambling groups.

But he said he had the impression "a lot of people" did not want his company to succeed because it "may mean taking market share away from them".

The CFTC, Trump Jr and Quintenz did not respond to requests for comment.

Additional reporting by Ray Douglas and Steve Bernard in London and Alex Rogers in Washington

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