

Prediction Markets – What’s Behind the Hype?

(15th of April 2026)

Introduction to Prediction Markets



Definition

Online platforms where users trade contracts based on the occurrence of specific events



Wide Range of Topics

Contracts cover election outcomes, sporting events, central bank decisions, and stock market indices



Technological Basis

Often decentralized and built on blockchains such as Ethereum

Market Mechanics

Prices are determined by supply and demand; higher demand for an outcome increases its share price

Payout System

Investors receive a predefined payout if the event they bet on actually occurs

Regulatory Landscape in Germany

The Core Question

Are these contracts classified as **gambling** or **financial instruments**?

Gambling Regulation

Governed by the 2021 State Treaty on Gambling and supervised by the GGL

Financial Regulation


Governed i.e. by MiFID II and the Securities Trading Act (WpHG), supervised by BaFin

Current Standing

BaFin has **not yet issued** an explicit position on the legal nature of prediction market shares

Authority Conflict

The GGL has already issued warnings, while BaFin's stance remains open

 GGL POSITION

The GGL's Position on "Social Betting"

Definition of Social Betting

Bets on public life events like elections, court rulings, or natural disasters

Strict Warning

The GGL explicitly warns against participating in these "social bets" on prediction markets

Risk Assessment

These events are deemed ineligible for licensing due to a high risk of manipulation


→ Legal Consequence

From the GGL's perspective, social betting is classified as **illegal gambling**

→ Licensing Barrier

Such models currently **cannot obtain a license** under the State Treaty on Gambling

Potential for Legal Sport Betting

-  The authority's ban explicitly refers only to "**non-sporting events**" — leaving a potential opening for sports-related prediction markets.

01

Scope of GGL Statement

The authority's ban explicitly refers only to "non-sporting events"

02

Permissibility

The State Treaty on Gambling allows betting on sports with verifiable results and clear rules

03

Licensing Path

Operators can apply for a license to organize or facilitate sports betting

04

The "Whitelist"

Successful applicants can be included on the official whitelist for legal operators

Structuring as Financial Instruments

1

Jurisdictional Shift

If shares are classified as financial instruments, the GGL has no jurisdiction

2

Strategic Structuring

Contracts could be designed as financial futures or derivatives

3

BaFin Authorization

Offering such products is permissible in Germany if the relevant BaFin licenses are obtained

4

Compliance

Success requires following general rulings and administrative practices for financial firms



Conclusion: Legal operation depends on thorough business planning and individual case circumstances

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