

Prediction Market Case Will Test US Insider Trading Reach

By **Katherine Goldstein, Jack Murphy and James Benjamin** (June 30, 2026)

As federal agencies turn their attention to insider trading in global prediction markets, they must overcome a threshold issue if the relevant trading activity occurs outside the U.S.: the limited reach of U.S. law.

In charges unveiled on May 27, the U.S. Attorney's Office for the Southern District of New York and the U.S. Commodity Futures Trading Commission filed parallel cases against Michele Spagnuolo, a Google employee and resident of Switzerland, alleging that he traded in Google-related event contracts on a blockchain-based decentralized prediction market while in possession of material nonpublic information.

Cases such as these may help clarify the extraterritorial reach of the Commodity Exchange Act and U.S. agencies' ability to police foreign trading in prediction markets.

U.S. v. Spagnuolo

Event contracts are derivative instruments, regulated by the CFTC as swaps, that allow participants to trade on the outcome of future events, including economic, political and sports-related outcomes.

The government alleges that Spagnuolo used inside information that he obtained as a Google employee to illegally trade in more than 20 different event contracts relating to Google's 2025 "Year in Search," a yearly ranking published by Google that lists the most-searched-for people during the prior year. Among the contracts were: "Will Pope Leo XIV be the #1 searched person?" and "Will Donald Trump rank in the Top 5 most searched?"

The government alleges that, because of his access to material nonpublic information, Spagnuolo correctly predicted the results of virtually every market in which he traded, generating a profit of \$1.2 million.

Spagnuolo is alleged to have placed his trades on Polymarket's blockchain-based international platform, as opposed to its CFTC-registered U.S. exchange. The international platform expressly prohibits U.S. traders from participating. It operates on the Polygon network, and transactions are validated on computer nodes dispersed across the globe, including in the U.S. The government alleges that the decision to list a specific contract for trading is made by a so-called markets team located primarily in New York.

Both the Southern District of New York and the CFTC charged Spagnuolo under the anti-fraud provisions of Section 6(c)(1) of the CEA, enacted as part of the Dodd-Frank Act, which prohibit manipulative or deceptive devices in connection with swaps, among other assets. The Southern District of New York also charged this conduct as wire fraud.



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Extraterritorial Swaps Jurisdiction

U.S. statutes generally do not apply abroad unless Congress clearly says they do. The CEA contains a clear statement of extraterritorial application for the swaps provisions of Dodd-Frank, including Section 6(c)(1). Under that provision, the CEA applies to activities outside the United States if the activities "have a direct and significant connection with activities in, or effect on, commerce of the United States." [1]

In *U.S. v. Phillips*, the U.S. Court of Appeals for the Second Circuit interpreted this language in September 2025 to cover activities that have a direct and significant connection with activities in U.S. commerce, or a direct and significant effect on U.S. commerce.

Phillips involved manipulation of a "one-touch barrier option" based on the exchange rate between the U.S. dollar and South African rand. Phillips, a British citizen and co-founder of a U.K. hedge fund, bought an option that would vest if the exchange rate met or dropped below a specified rate at any time before the option expired.

The government alleged that Phillips sold hundreds of millions of U.S. dollars in exchange for rand, for the unlawful purpose of manipulating the exchange rate and triggering the option. A Southern District of New York jury convicted Phillips in 2023, and the Second Circuit affirmed two years later.

On appeal, Phillips challenged his conviction on the basis that his conduct fell outside the territorial scope of the CEA as defined by Section 2(i). But the Second Circuit rejected this argument, finding that although Phillips' conduct took place entirely abroad, a rational jury could have found a direct and significant connection to activities in U.S. commerce. This is because, among other reasons, the party that ultimately bore the risk of the option was Morgan Stanley, a U.S. bank, which was required to pay \$20 million as an immediate consequence of Phillips' actions that triggered the option.

During trial, the district court rejected other purported connections as insufficient to constitute direct and significant connections to activities in U.S. commerce, including the fact that some of Phillips' trades matched in servers located in the U.S.

Application of Section 2(i) to Spagnuolo

The Southern District of New York and CFTC's parallel cases against Spagnuolo are the first meaningful test of Section 2(i)'s extraterritorial scope in the context of decentralized prediction markets.

Spagnuolo presents a harder case for the government than Phillips because, unlike in the Phillips case, the government has not alleged that any party to any of the contracts executed by Spagnuolo was located in the U.S. Spagnuolo himself resides in Switzerland, and Polymarket's international platform prohibits trading by U.S. persons.

The government appears poised to argue that Polymarket's U.S. location provides the required jurisdictional nexus, but Spagnuolo may have a compelling rebuttal: Even if Polymarket employees in the U.S. were responsible for listing the specific contracts traded by Spagnuolo, the contracts had only an attenuated connection to U.S. commerce because Polymarket prohibited U.S. customers from trading them.

Polymarket's decentralized structure may also weigh against any direct and significant connection to activities in U.S. commerce. While the government alleges that some Polygon

nodes are located in the U.S., other nodes are distributed around the world, and the district court in Phillips rejected the U.S. location of computer infrastructure as a sufficient basis to enforce the CEA with respect to activities outside the U.S.

In addition, while the government may argue that Polymarket performed a similar function as the broker in Phillips, Polymarket's decentralized structure means that all trades were conducted peer-to-peer, i.e., without it acting as a broker or intermediary.

The government's strongest argument may be the alleged harm to Google, a U.S. company. Just as the government in Phillips relied on the direct financial impact on a U.S. bank to prove a nexus to U.S. commerce, the government here may argue that Google was victimized by Spagnuolo's misappropriation of its confidential information.

The government's charging instruments appear to lay a foundation for this argument, alleging that Google's Year in Search data is commercially valuable because it drives user traffic to Google's platforms, generates media coverage and brand engagement, and demonstrates the reach of its search platform to advertisers and partners. But that theory is untested, and the government will have to prove that the alleged harm to Google is enough to create the required U.S. commerce nexus.

Conclusion

U.S. prosecutors and regulators have identified insider trading in prediction markets as an enforcement priority, but the combination of novel financial products and decentralized trading infrastructure may test their ability to bring successful cases.

In particular, because Polymarket's international platform prohibits trading by U.S. customers, trading on that platform may raise substantial jurisdictional obstacles for U.S. prosecutors, even though Polymarket is a domestic company. Misappropriation of confidential information by a non-U.S. resident from a non-U.S. company, for the purpose of trading event contracts on Polymarket, would present a particularly challenging case for the extraterritorial application of the CEA.

For certain event contracts, prosecutors may also have difficulty proving that a connection with activities in U.S. commerce is significant. Mention markets, for example — markets that allow trading based on what a specific person will say at a specific time — may involve events so attenuated from commercial activity that they might not support the required U.S. commerce nexus, even if the speaker is located in the U.S.

Phillips shows that a clear nexus to U.S. financial institutions can support CEA jurisdiction even for foreign conduct. But Spagnuolo may test that principle in a factual context involving decentralized markets, anonymous counterparties, excluded U.S. users and globally distributed infrastructure. Those features are likely to become increasingly important as enforcement agencies seek to apply traditional market abuse theories to decentralized prediction markets.

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[1] 7 U.S.C. § 2(i).