Prediction Markets in Canada:
Drawing the Regulatory Line

FAIR Canada's Response to Wealthsimple's

"Prediction Markets in Canada: A Principled Regulatory Framework"

In August 2026, Wealthsimple published *Prediction Markets in Canada: A Principled Regulatory Framework*, advocating for broader retail access to prediction market contracts within Canada's securities regulatory framework. Its central argument is that event contracts should be classified as derivatives based on their legal structure, regardless of the subject matter of the underlying event. On this basis, Wealthsimple argues that these products should be governed through securities regulation rather than gambling law and that Canadian regulators should permit retail trading in a broader range of event contracts.[1]

Wealthsimple's approach gives too much weight to legal form and too little to the product's substance, purpose and function. Whether an activity falls within the statutory definition of a security or derivative is an important threshold question, but it does not determine whether the activity should be permitted within capital markets. Regulators must also consider the nature of the underlying activity, how the product is likely to be used, the benefits it may provide, the risks it may pose, and whether permitting it serves the public interest.

Legal classification is, therefore, only the starting point. A product may meet the legal definition of a security or derivative and still be restricted, excluded or subject to another regulatory regime because of its substance, purpose or broader public-policy implications. The question is not simply whether prediction market contracts can be characterized as derivatives. It is whether the activity underlying those contracts belongs in capital markets and whether making them available to retail investors would serve the public interest.

Canada's current approach reflects this principle. The Canadian Securities Administrators (CSA) and Canadian Investment Regulatory Organization (CIRO) framework permits trading in contracts linked to certain economic, financial-market and climate-related events that may contribute to risk management, price discovery or economic decision-making. At the same time, it does not authorize trading in contracts linked to sports and entertainment events. This

[1] Blair Wiley and Catherine De Giusti, "Prediction Markets in Canada: A Principled Regulatory Framework," Wealthsimple, August 4, 2026, https://newsroom.wealthsimple.com/prediction-markets-in-canada-a-principled-regulatory-framework (Wealthsimple Paper).

distinction shows that legal structure alone does not determine regulatory treatment. The nature of the underlying event and the product's purpose and function also matter.[2]

Any proposal to expand retail access therefore requires a more comprehensive assessment of the products' function, benefits and risks than Wealthsimple's paper provides. The paper does not explain why event contracts tied to activities such as sports and entertainment serve a legitimate capital-markets purpose. Nor does it demonstrate that broader retail access would be consistent with the public-interest objectives of securities regulation.

This paper examines Wealthsimple's principal arguments and explains why the case for broader retail access within the securities regulatory framework has not been made.

Overlapping Securities and Gambling Regimes

Wealthsimple acknowledges that event contracts may fall within both securities and gambling law, but argues that securities regulation is the more appropriate framework. However, classifying an event contract as a derivative does not give securities regulators exclusive jurisdiction or displace the possible application of gambling law. It is ultimately for legislatures, courts and regulators to determine whether securities law, gambling law or both apply.

The "Not a House" Distinction is Not Enough

To distinguish prediction markets from gambling, Wealthsimple relies, in part, on the fact that participants trade with one another rather than against the platform. That position seems to rest on the view that gambling occurs only when a platform takes the other side of a wager and profits from a customer's loss. Wealthsimple contrasts that model with derivatives trading, which is conducted through a regulated structure involving clearing, surveillance, and dealer intermediation.

The distinctions Wealthsimple draws do not determine the applicable regulatory regime under Canadian law. The treatment of poker rooms and pari-mutuel horse-race betting, and the position taken by Canadian lottery regulators, undermine Wealthsimple's claim that market structure separates prediction markets from gambling. A platform does not fall outside gambling law merely because it facilitates transactions and collects fees rather than taking the other side of a wager. Nor does a pooled, cleared, and monitored market cease to involve gambling solely because it resembles a financial market.[3]

Safeguards Do Not Establish Regulatory Fit

Wealthsimple devotes considerable attention to the controls it has implemented to reduce potential harms associated with event-contract trading. While those safeguards are relevant,

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[2] CSA and CIRO, "Prediction markets: CSA and CIRO remind industry and investors of the current rules," April 2, 2026, https://www.securities-administrators.ca/news/prediction-markets-csa-and-ciro-remind-industry-and-investors-of-the-current-rules/.

[3] Wealthsimple Paper, *supra* note 1, (describing its proposed distinction between regulated prediction markets and gambling).

they do not establish that securities regulation is the appropriate framework for every category of event contract or that broader retail access is in the public interest.

Wealthsimple proposes several safeguards that go beyond conventional derivatives controls and resemble protections used to address gambling-related harms. Their inclusion reinforces that some event contracts present risks that securities regulation was not designed to address, and that securities oversight may not be appropriate for every category of contract. The ability to implement risk controls does not mean the product belongs in a regulatory regime built for a different purpose.

Investor Demand Is Not the Same as the Public Interest

Wealthsimple points to the growth of prediction-market platforms and argues that Canadians will seek access, whether or not these products are available domestically. That may be true, but investor demand is not the test. If it were, regulators would be expected to approve any popular product regardless of whether it serves a legitimate capital-markets purpose or is consistent with the public interest.

Securities regulators' mandate is to protect investors, promote fair and efficient capital markets, foster confidence in those markets, and consider whether regulated products support legitimate economic functions. The question is not simply whether Canadians want access, but whether broader retail access serves the objectives that securities regulators are mandated to pursue.

There is also an important difference between investors circumventing regulatory restrictions and regulators implicitly endorsing a product by allowing its distribution through regulated platforms. Offshore activity involving products not approved for trading in Canada justifies enhanced enforcement, consumer warnings or other harm-reduction measures. It does not, by itself, justify regulatory approval or broader retail distribution. Any expansion of retail access should instead be supported by evidence that these products advance legitimate capital-markets objectives.

Hedging Benefits Have Not Been Demonstrated

One legitimate capital-markets objective Wealthsimple identifies is the potential hedging value of event contracts. That rationale may apply to contracts tied to identifiable economic or financial risks, but it is difficult to see how contracts tied to sports, entertainment, political outcomes, or other non-economic events could serve the same purpose. Even among the categories of event contracts that the CSA and CIRO currently permit, there is no evidence that retail investors are using them to hedge risk. If hedging benefits are relied upon to justify retail access, regulators should require evidence that specific categories of contracts are used to manage identifiable risks and function as effective hedges. The theoretical possibility of hedging does not, by itself, establish that retail access serves the public interest.

Price Discovery Has to Be Meaningful

Wealthsimple argues that prediction markets generate economic value by producing useful information and improving price discovery. According to Wealthsimple, contract prices reflect the collective judgment of market participants and can provide meaningful forecasts of future events. Some contracts may produce forecasts, but that does not necessarily mean the information is useful to capital markets. The question is not whether participants can generate a price for any uncertain outcome, but rather whether that price discovery helps with capital formation, asset valuation, or risk management.

Settlement Reliability

Wealthsimple proposes that regulators replace the current restrictions on permissible event contracts with a framework based largely on the reliability of the source used to settle the contract. A reliable settlement source is important because it provides an objective basis for determining the outcomes and is resistant to manipulation. However, settlement reliability addresses how payment obligations are determined, not whether the contract should be offered to retail investors through the securities regulatory framework. A contract may have a clear and reliable outcome without serving a legitimate capital-markets purpose or advancing the public interest.

The CSA's Position on Binary Options

Wealthsimple also questions Canada's longstanding restrictions on trading in binary options with individuals, including the prohibition on binary options with a term to maturity of less than 30 days. That issue is directly relevant because many event contracts fall within the CSA's broad definition of a binary option.[4]

In adopting these restrictions, the CSA described binary options as wagers based on yes-or-no propositions and concluded that their characteristics made them unsuitable for individual investors. The CSA also deliberately framed the prohibition broadly to capture products with the same all-or-nothing structure, regardless of how they were labelled or marketed.[5]

The 30-day minimum maturity requirement reflects the CSA's recognition that product design can influence investor behaviour. Short-duration contracts heighten the significance of chance and short-term outcomes while facilitating frequent participation, rapid turnover and repeated exposure to immediate gains or losses. These characteristics more closely resemble gambling than traditional investing aimed at building wealth.

Wealthsimple's proposal to reconsider the 30-day threshold therefore requires a clear explanation of why the rationale underlying the CSA's approach no longer applies. The paper explains why the CSA position limits the range of event contracts that could be offered, but it does not explain why short-duration, all-or-nothing contracts no longer raise the investor protection issues that led the CSA to adopt its restrictions in the first place. Relabelling these

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[4] Multilateral Instrument 91-102, Prohibition of Binary Options, December 7, 2017, https://www.osc.ca/en/securities-law/instruments-rules-policies/9/91-102/multilateral-instrument-91-102-prohibition-binary-options; CSA, "Canadian securities regulators announce ban on binary options," September 28, 2017, https://www.securities-administrators.ca/news/canadian-securities-regulators-announce-ban-on-binary-options/.

[5] Ibid., (announcement describing binary options as wagers, identifying their all-or-nothing payout structure, and listing alternative product labels).

products as event contracts or offering them through a securities-regulated platform does not, by itself, resolve those issues.

These concerns are not unique to Canada. Regulators in other jurisdictions have reached similar conclusions.[6] Wealthsimple nevertheless recommends revisiting the binary-options restriction on the basis that the significant concerns arising from product design, investor behaviour and investor outcomes should be managed through risk-control measures rather than preventing retail investors from being exposed to those risks in the first place.

International Approaches

Wealthsimple relies on a June 2026 proposed Commodity Futures Trading Commission (CFTC) rule stating that an event contract "need not have hedging or pricing utility to be permissible."[7] The CFTC proposal is neither final nor settled. It remains the subject of active debate, including opposition from consumer and investor protection organizations.[8] It also reflects a policy choice under the *Commodity Exchange Act*, a U.S. statute with its own purposes and objectives. The proposal does not determine whether Canadian securities regulators, acting under different statutory mandates and public-interest obligations, should permit these products to be offered to retail investors. The U.S. approach should not be treated as an established precedent for Canadian policymakers.

The U.S. proposal is also not representative of international approaches more broadly. Other jurisdictions, including the European Union and several countries in Asia, regulate these products as gambling or restrict them as binary derivatives.[9] Although there is no uniform international approach, the experience elsewhere shows that legal form and safeguards do not necessarily justify broad retail access.

The Case for Broader Retail Access Has Not Been Made

FAIR Canada supports maintaining the existing limits on event contracts. Those seeking broader retail access should be required to demonstrate that expansion would advance the objectives of capital markets and serve the public interest.

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[6] See, for example, European Securities and Markets Authority (ESMA), "ESMA agrees to prohibit binary options and restrict CFDs to protect retail investors," March 27, 2018, https://www.esma.europa.eu/press-news/esma-news/esma-agrees-prohibit-binary-options-and-restrict-cfds-protect-retail-investors; Financial Conduct Authority, "FCA confirms permanent ban on the sale of binary options to retail consumers," March 29, 2019, https://www.fca.org.uk/news/statements/fca-confirms-permanent-ban-sale-binary-options-retail-consumers.

[7] CFTC, "Prediction Markets; Public Interest Determinations," 91 Fed. Reg. 35806, June 12, 2026, https://www.federalregister.gov/documents/2026/06/12/2026-11854/prediction-markets-public-interest-determinations.

[8] Better Markets, Comment Letter, "Prediction Markets RIN 3038-AF65, 91 Fed. Reg. 35,806 (June 12, 2026)," July 27, 2026, https://bettermarkets.org/wp-content/uploads/2026/07/Better-Markets-Comment-Letter-CFTC-Prediction-Markets.pdf; Better Markets, "Consumer Protection Groups Urge Action on Event Contracts," April 30, 2026, https://bettermarkets.org/newsroom/consumer-protection-groups-urge-action-on-event-contracts/.

[9] ESMA, "ESMA adopts final product intervention measures on CFDs and binary options," June 1, 2018, https://www.esma.europa.eu/press-news/esma-news/esma-adopts-final-product-intervention-measures-cfds-and-binary-options; Financial Conduct Authority, "Binary options scams," updated January 19, 2026, https://www.fca.org.uk/consumers/binary-options-scams.

The benefits of event contracts should not be assumed, including for products that the CSA and CIRO have already approved. Securities regulators should continue to evaluate participation, trading activity, investor outcomes, hedging and price discovery benefits, and potential impacts on market integrity and fair access. This evidence should inform decisions about both expanding access and the continued availability of contracts that are already permitted.

A derivative label does not make every wager an investment, and investor demand does not make every product suitable for retail investors. Product innovation should advance the purposes of capital markets and securities regulation without compromising investor protection or the public interest.