

May 25, 2023

SUBMITTED VIA CFTC PORTAL

Secretary of the Commission
Office of the Secretariat
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: KalshiEX LLC - Notification of Rule Adoption under Regulation 40.6(a) regarding the Exchange's Maker Order Protections Program

Dear Sir or Madam,

KalshiEX LLC (“Kalshi” or “Exchange”) hereby notifies the Commodity Futures Trading Commission (“CFTC”) that it is implementing Maker Order Protections Program (“Program”), which are designed to facilitate maker order activity which will increase the liquidity on the Exchange. Specifically, the Program will increase the accessibility of maker order trading across multiple markets on Kalshi in a manner that is similar to the functionality made available to market participants on other markets.

As a high level overview, the Program will allow members to create order groups and assign a risk limit to a group. If the risk limit is met within a 15 second window, then all resting orders in the group that were not already filled are canceled. If the risk limit is not met in the 15 second window and the member does not otherwise cancel the orders, the orders will remain on the Exchange's order book and will be filled when matched. This will allow members to place resting orders on multiple, correlated markets without linearly increasing their maximum downside exposure to dramatic price movements. Members must qualify for the Program. In order to increase the accessibility of maker trading strategies and to increase the number of traders that account for the maker volume on Kalshi, Kalshi designed the criteria to make the Program accessible to individual, non-entity traders who engage in maker trading strategies. The Program will lead to a more liquid environment, and benefit all exchange participants. More detailed information about the Program is included in Appendix A.

The proposed Program will become effective upon the conclusion of the review period under section 5c(c)(2) of the CEA and CFTC Regulation 40.6, which the Exchange anticipates will be June 9, 2023.

Compliance with Core Principles

Kalshi has concluded that the Program is consistent with the CEA and the CFTC's regulations. The following Core Principles most directly pertain to the Program: **Core Principle 2 - Compliance with Rules; Core Principle 3 - Contracts not Readily Susceptible to Manipulation; Core Principle 4 - Prevention of Market Disruption; Core Principle 7 - Availability of General Information; Core Principle 9 - Execution of Transactions; Core Principle 12 - Protection of Markets and Market Participants; Core Principle 18 - Recordkeeping.**

The Program will not impact Kalshi's ability to perform its trade practice and market surveillance obligations under the CEA, and the Exchange's surveillance system will continue to monitor all order activity including the Program. The Program does not render the Exchange's contracts readily susceptible to manipulation. The Program is limited to only those who qualify, which limits its utilization to members who have a demonstrated history of maker trading. Chapter 5 of Kalshi's Rulebook includes prohibitions against fraudulent, non-competitive, unfair or abusive trade practices, all of which apply to trading. Kalshi staff will continue to monitor for manipulative trading, market abuse and other trading violations.

The terms of the Protections will be posted on the Exchange's website and be made publicly available. The Protections do not impact the Exchange's order execution on the Exchange's Central Limit Order Book. The eligibility criteria for utilizing the Protections are set forth in Appendix A, and are non-discriminatory. They are designed to encourage maker trading amongst Kalshi's to Exchange members who have a demonstrated history of maker trading. This limits the potential for abuse or other disruptive consequences from the use of the Protections. The increased liquidity encouraged by the Protection will enhance the competitiveness and efficiency of the market. Notification of the filing is posted to Kalshi's website. Finally, Kalshi will keep records of those members who qualify for and utilize the Protections.

Accordingly, Kalshi certifies that the Program complies with the Commodity Exchange Act and Regulations thereunder, and a notice of pending certification with the Commission and a copy of the submission, concurrent with the filing of a submission with the Commission, was posted on Kalshi's website. Kalshi is not aware of any opposing views to the implementation of the Program.

In addition to this cover letter, Kalshi included the terms of the Program as well as other details in Appendix A, which will also serve as an FAQ designed to inform market participants about the Program. Kalshi included confidential information about the Program in Appendix B, filed under a request for confidential treatment under the rules in Rule 40.8 and 145.9.

If you have any questions or comments or require further information, please do not hesitate to contact me.

Sincerely,
Elie Mishory
Chief Regulatory Officer
KalshiEX LLC
emishory@kalshi.com

Enclosures:
Appendix A
Appendix B - confidential

Appendix A - Maker Order Protections Program FAQ

Q.1 What are the protections under the Program?

Members who qualify to utilize the Program are able to establish “order groups.”

Definition

Order groups are a collection of resting orders, with the following two properties:

- A “market category”. This refers to a particular type of market underlying. For example, “economic” markets, or “weather” markets.
- A “delta limit”, measured in contracts. This defines the maximum rapid change in exposure across the group. This behavior is described in more detail below.

Apart from the functionality described below, orders that are part of a group behave exactly like those that are not part of a group.

Functionality

Order groups have two special features:

- All orders in a group can be canceled at once
- If a member’s positions in the group change by the specified “delta limit” within a 15 second window, the remaining orders in the group are automatically canceled.

If the member does not cancel the orders and their positions do not change by the specified “delta limit” within a 15 second window, the orders all remain on the order book and will be filled if matched.

Creation and modification

When an order group is initially established it is empty and contains no orders. The group’s category and delta limit are defined at the time of the group’s creation and cannot be modified.

Once the order group is created, newly placed maker orders can be added to that group at the time of order creation, so long as the order satisfies certain restrictions, outlined in detail below. If a member attempts to place an order within a group that does not satisfy these restrictions, the order will be rejected and the group will remain unchanged. Orders cannot be removed from a group.

In detail, these are the terms of the restrictions and protections of the Program:

| Factor | Kalshi Maker Order Protections Program |
|------------------------------|--|
| Protections | Auto-cancellation is performed when a group's specified risk limits are hit. |
| Risk Limit Evaluation Window | Risk levels are evaluated across 15 second windows, and are reset at the end of each window. |
| Risk Limit Evaluation Types | <p>One risk limit evaluation type is supported: position delta.</p> <p>This measures how much a user's positions have changed across markets in the order group.</p> |
| Market Level Restrictions | <p>Within an order group, a member's orders on one side of any market cannot exceed the group's delta limit.</p> <p>Ex. in a group with a delta limit of 500 contracts, a member could not place resting orders for more than 500 Yes contracts on any market.</p> |
| Group Level Restrictions | All orders within a group must be placed on markets within the same category. |
| Placement | A group is created with a delta limit and category. Orders can be added to that group, but orders cannot be removed. |
| Visibility | Only the creator of an order group knows which orders are part of a group, or the group's limit. |
| Additional Functionality | All orders within a single group can be canceled with one request. |
| Additional restrictions | Every group's delta limit must be at least 500 contracts. |

Q.2 Can you give me an example of how the Program works?

Here is a high level example:

1. A member qualifies to utilize the Program (for convenience, the qualifying member is referred to as “QM” for qualifying member).
2. QM creates an order group with a delta limit of 500 contracts in the economics category.
3. In economic market M1, QM adds an order for 400 No contracts and an order for 400 Yes contracts to the group. In economic market M2, QM adds an order for 400 Yes contracts to the group.
4. 100 of QM’s Yes contracts are matched in M1. QM’s delta in this window is now 100.
5. 15 seconds pass and that window closes. QM’s delta in the new window is reset to 0.
6. Some point later, 100 more of QM’s Yes contracts are matched in M1. QM’s delta in this window is now 100.
7. An instant later, 250 of a QM’s No contracts are matched in M1. QM’s delta in this window is now 150 (250 - 100).
8. An instant later, 350 of QM’s Yes contracts are matched in M2. QM’s delta in this window is now 500 (150 + 350). As this matches the group’s specified delta limit, the remaining orders in the group are all instantly canceled.

Q.3 What is the purpose of the Program and how does a member qualify?

The purpose of the Program is to increase the accessibility of maker order trading across multiple markets on Kalshi. The reason why the Program will help increase maker trading accessibility is because it will allow traders to place resting orders on multiple, correlated markets without linearly increasing their maximum downside exposure to dramatic price movements.

For example, consider the problem a market maker today faces who wishes to provide liquidity across 10 correlated markets, and is willing to take up to 10,000 contracts of exposure. Without access to the Program, the maker would most likely provide only 1,000 contracts of liquidity on each of the 10 markets, to ensure that even if all their orders were filled at once, they would not exceed their exposure limit. With access to the Program, this maker could provide significantly more liquidity on each market without taking on additional risk from a single fair-value swing. Similar functionality is used by market participants on other markets.

Similar functionality is used by market participants on other markets. We designed our Program in a manner to be more accessible to individual, non-entity traders to qualify, in order to increase the accessibility of maker trading strategies and to increase the number of traders that account for substantial amounts of the maker volume on Kalshi. Because the Program is intended to increase liquidity and maker orders, the qualifying criteria are based on maker volume.

Q.4 How do you qualify to utilize the Program?

All Kalshi members that meet the eligibility criteria may utilize the Program. Note that this includes Kalshi Trading LLC, an affiliate of the Kalshi Exchange, subject to the same eligibility requirements and obligations as all Program participants.

In order to initially qualify to utilize the Program, a member must account for at least a minimum percentage of all maker volume on Kalshi over each of the prior two calendar months. The Exchange will specify the minimum percentage necessary to qualify for the Program on its website. The minimum percentage will be between 1% and 7%, with the goal to have at least more than one qualifying member.

Illustration: The Exchange specifies 3% as the minimum percentage necessary to qualify for the Program for the first 6 months of 2023. A member that accounts for at least 3% of the maker volume on Kalshi in February and March of 2023 qualifies to utilize the Program.

In order to continue to qualify, the member must account for at least 3% of the maker volume on Kalshi in at least one of the prior two months. Eligibility to receive the benefits of the Program will terminate when, for two consecutive months, a Participant does not account for at least 3% of the maker volume on Kalshi.

Illustration: A member that accounts for at least 3% of the maker volume on Kalshi in February and March of 2023 is eligible to receive the Program's benefits in April of 2023. The participant will maintain eligible status through April and May of 2023 even if the participant does not account for at least 3% of the maker volume on Kalshi in both April or May. In such a case, the member's status as a participant will terminate on June 1st, 2023. However, if the participant accounts for at least 3% of the maker volume on Kalshi in either April or May of 2023, the status as a participant will continue in June of 2023.

Q.5 Won't the Program cause phantom liquidity and false signaling to the market that results in false market pricing?

Maker orders that are placed in order groups do not create false signaling, absent some other extrinsic factors. These orders can all be filled and are canceled only if the member cancels the order or the risk limit is triggered. In the absence of either of those events, the orders can all fill, and the signal that they send to the marketplace is not false. Note, though, that all trading on Kalshi is subject to the Exchange's rules, including Rule 5.13, Prohibited Transactions and Activities. All trading, including trading through order groups, must comply with Kalshi's rules, the CFTC's regulations, and the Commodity Exchange Act.