

February 15, 2022

**SUBMITTED VIA CFTC PORTAL**

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

Re: KalshiEX LLC – CFTC Regulation 40.2(a) Notification Regarding the Initial Listing of the “Will <year> be the hottest year on record?” Contract

Dear Sir or Madam,

Pursuant to Section 5c(c) of the Commodity Exchange Act and Section 40.2(a) of the regulations of the Commodity Futures Trading Commission, KalshiEX LLC (Kalshi) hereby notifies the Commission that it is self-certifying the “Will <year> be the hottest year on record?” contract (Contract). The Exchange intends to list the contract on an annual basis. The Contracts will expire the sooner of the release of the data (which occurs less than a month after <year> ends) or three months after the end of <year>. The Contract’s terms and conditions (Appendix A) includes the following strike conditions:

- <year> (Year of evaluation)
- <count> (Target value)

Along with this letter, Kalshi submitted the following documents:

- A concise explanation and analysis of the Contract;
- Certification;
- Appendix A with the Contract’s Terms and Conditions;
- Confidential Appendices with further information; and
- A request for FOIA confidential treatment.

If you have any questions, please do not hesitate to contact me.

Sincerely,

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

KalshiEX LLC

Official Product Name: Will <year> be the hottest year on record?

Rulebook: GLBTEMP

Kalshi Contract Category: Weather/Climate

Hottest Year

February 15, 2022

## **CONCISE EXPLANATION AND ANALYSIS OF THE PRODUCT AND ITS COMPLIANCE WITH APPLICABLE PROVISIONS OF THE ACT, INCLUDING CORE PRINCIPLES AND THE COMMISSION'S REGULATIONS THEREUNDER**

Pursuant to Commission Rule 40.2(a)(3)(v), the following is a concise explanation and analysis of the product and its compliance with the Act, including the relevant Core Principles, and the Commission's regulations thereunder.

### **I. Introduction**

The “Will <year> be the hottest year on record?” contract is a contract relating to rising global temperatures resulting from anthropogenic climate change. It is designed to enable market participants whose businesses or operations are affected by climate change to mitigate the commercial risks associated with rising global temperatures. After careful analysis, Kalshi (hereafter referred to as “Exchange”) has determined that the contract complies with its vetting framework, which has been reviewed by the CFTC and formed part of the Exchange’s DCM application approved by the Commission.

During the 20th century, Earth’s average temperature increased by approximately 2°F. Such temperature increases, though they may seem small, have already affected our world: glaciers have melted, sea levels have risen, and heat waves have grown more intense.<sup>1</sup> The Intergovernmental Panel on Climate Change (“IPCC”), a consortium of over 1,300 scientists from around the world, has projected a temperature increase of anywhere from 2.5 to 10°F during the 21st century.<sup>2</sup> The magnitude of the increase, however, will determine the future effects of climate change—including whether sea levels will rise by one foot or eight feet, how often the South is hit by extreme heat waves, how bad droughts are in the Southwest, and how severe wildfires are in California. This Contract allows individuals and corporations to hedge the economic risks associated with the pace of global warming, including the risk of flooding, wildfires, and extreme weather.

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<sup>1</sup> <https://climate.nasa.gov/effects/>

<sup>2</sup> Ibid

The contract is ever more important today given the risks that accelerating climate change is bringing to financial markets and the economy. The CFTC’s Market Risk Advisory Committee report “Managing Climate Risk in the U.S. Financial System” (“MRAC Report”) outlines the criticality of such risks:

“A central finding of this report is that climate change could pose systemic risks to the U.S. financial system. Climate change is expected to affect multiple sectors, geographies, and assets in the United States, sometimes simultaneously and within a relatively short timeframe.”<sup>3</sup>

Further information about the Contract, including an analysis of its risk mitigation and price basing utility, as well as additional considerations related to the Contract, is included in Confidential Appendices B, C, and D.

Pursuant to Section 5c(c) of the Act and CFTC Regulations 40.2(a), the Exchange hereby certifies that the listing of the Contract complies with the Act and Commission regulations under the Act.

**General Contract Terms and Conditions:** The Contract operates similar to other binary contracts that the Exchange lists for trading. The minimum price fluctuation is \$0.01 (one cent). Price bands will apply so that Contracts may only be listed at values of at least \$0.01 and at most \$0.99. Further, the Contract is sized with a one-dollar notional value and has a minimum price fluctuation of \$0.01 to enable Members to match the size of the contracts purchased to their economic risks. The Exchange has further imposed position limits (defined as maximum loss exposure) of \$25,000 USD on the Contract. As outlined in Rule 5.12 of the Rulebook, trading shall be available at all times outside of any maintenance windows, which will be announced in advance by the Exchange. Members will be charged fees in accordance with Rule 3.6 of the Rulebook. Fees are charged in such amounts as may be revised from time to time to be reflected on the Exchange’s Website. Additionally, as outlined in Rule 7.2 of the Rulebook, if any event or any circumstance which may have a material impact on the reliability or transparency of a Contract’s Source Agency or the Underlying related to the Contract arises, Kalshi retains the authority to designate a new Source Agency and Underlying for that Contract and to change any associated Contract specifications after the first day of trading. That new Source Agency and Underlying would be objective and verifiable. Kalshi would announce any such decision on its website. All instructions on how to access the Underlying are non-binding and are provided for convenience only and are not part of the

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<sup>3</sup><https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf>

binding Terms and Conditions of the Contract. They may be clarified at any time. Furthermore, the Contract's payout structure is characterized by the payment of an absolute amount to the holder of one side of the option and no payment to the counterparty. During the time that trading on the Contract is open, Members are able to adjust their positions and trade freely. After trading on the Contract has closed, the Expiration Value and Market Outcome are determined. The market is then settled by the Exchange, and the long position holders and short position holders are paid according to the Market Outcome. In this case, "long position holders" refers to Members who purchased the "Yes" side of the Contract and "short position holders" refers to Members who purchased the "No" side of the Contract. If the Market Outcome is "Yes," meaning that the Land-Ocean Temperature Index Value in <year> is above <count>, then the long position holders are paid an absolute amount proportional to the size of their position and the short position holders receive no payment. If the Market Outcome is "No," then the short position holders are paid an absolute amount proportional to the size of their position and the long position holders receive no payment. Specification of the circumstances that would trigger a Market Outcome of "Yes" are included below in the section titled "Payout Criterion" in Appendix A.

**CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY  
EXCHANGE ACT, 7 U.S.C. § 7A-2 AND COMMODITY FUTURES TRADING  
COMMISSION RULE 40.2, 17 C.F.R. § 40.2**

Based on the above analysis, the Exchange certifies that:

- The Contract complies with the Act and Commission regulations thereunder.
- This submission (other than those appendices for which confidential treatment has been requested) has been concurrently posted on the Exchange's website at <https://kalshi.com/regulatory/filings>.

Should you have any questions concerning the above, please contact the exchange at [ProductFilings@kalshi.com](mailto:ProductFilings@kalshi.com).



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By: Eliezer Mishory  
Title: Chief Regulatory Officer  
Date: February 15, 2022

**Attachments:**

Appendix A - Contract Terms and Conditions

Appendix B (Confidential) - Further Considerations

Appendix C (Confidential) - Source Agency

Appendix D (Confidential) - Compliance with Core Principles

**APPENDIX A – CONTRACT TERMS AND CONDITIONS**

**TERMS OF CONTRACTS TRADED ON KALSHI**

**Official Product Name: Will <year> be the hottest year on record?**

**Rulebook: GLBTEMP**

## GLBTEMP

**Scope:** These rules shall apply to this contract.

**Underlying:** The Underlying for this Contract is the mean Land-Ocean Temperature Index value for <year> reported by NASA's Goddard Institute for Space Studies (GISS). Future revisions to the data after Expiration will not be taken into account.

**Instructions:** The data is available at the table located at the following link:

[https://data.giss.nasa.gov/gistemp/graphs/graph\\_data/Global\\_Mean\\_Estimates\\_based\\_on\\_Land\\_and\\_Ocean\\_Data/graph.txt](https://data.giss.nasa.gov/gistemp/graphs/graph_data/Global_Mean_Estimates_based_on_Land_and_Ocean_Data/graph.txt) which has data on global average temperature going back to 1880.

Specifically, the Underlying is the non-smoothed value of the Land-Ocean Temperature Index, which is located in the table column titled "No\_Smoothing" along the row that represents the year in question. If the URL for the raw data is unavailable, the data can also be found by navigating to the GISS Surface Temperature Analysis (v4)

(<https://data.giss.nasa.gov/gistemp/graphs/>), clicking on "Global Annual Mean Surface Air Temperature Change", and finding the data-point on the graph for the year in question. If there are discrepancies between the two ways of accessing the data, the first

([https://data.giss.nasa.gov/gistemp/graphs/graph\\_data/Global\\_Mean\\_Estimates\\_based\\_on\\_Land\\_and\\_Ocean\\_Data/graph.txt](https://data.giss.nasa.gov/gistemp/graphs/graph_data/Global_Mean_Estimates_based_on_Land_and_Ocean_Data/graph.txt)) will be used. These instructions are provided for convenience only and may be modified or clarified at any time.

**Source Agency:** The Source Agency is the National Aeronautics and Space Administration ("NASA").

**Type:** The type of Contract is a Binary Contract.

**Issuance:** The Contract is based on the outcome of a recurrent data release, which is issued on an annual basis. Thus, Contract iterations will be issued on a recurring basis, and future Contract iterations will generally correspond to the next year.

**<count>:** Kalshi may list iterations of the Contract with <count> levels that fall within an inclusive range between -10.00 and 10.00 at consecutive increments of 0.01. <count> will generally correspond to the highest mean Land-Ocean Temperature Index value previously in degrees Celsius.

**<year>:** <year> refers to a calendar year specified by Kalshi. Kalshi may list iterations of the Contract corresponding to different statistical periods of <year>.



**Payout Criterion:** The Payout Criterion encompasses the Expiration Values that are strictly greater than <count>.

**Minimum Tick:** The Minimum Tick size for the referred Contract shall be \$0.01.

**Position Limit:** The Position Limit for the \$1 referred Contract shall be \$25,000 per Member.

**Last Trading Date:** The Last Trading Date of the Contract shall be 11:59 PM ET on the final day of <year> .

**Settlement Date:** The Settlement Date of the Contract shall be no later than the day after the Expiration Date unless the Market Outcome is under review pursuant to Rule 7.1.

**Expiration Date:** The Expiration Date of the Contract shall be the sooner of the date of the first 10:00 AM following the release of the data for <year>, or three months after the end of <year> .

**Expiration Time:** The Expiration Time of the Contract shall be 10:00 AM ET.

**Settlement Value:** The Settlement Value for this Contract is \$1.00.

**Expiration Value:** The Expiration Value is the value of the Underlying as documented by the Source Agency on the Expiration Date at the Expiration Time.

**Contingencies:** Before Settlement, Kalshi may, at its sole discretion, initiate the Market Outcome Review Process pursuant to Rule 6.3(c) of the Rulebook. Additionally, as outlined in Rule 7.2 of the Rulebook, if any event or any circumstance which may have a material impact on the reliability or transparency of a Contract's Source Agency or the Underlying related to the Contract arises, Kalshi retains the authority to designate a new Source Agency and Underlying for that Contract and to change any associated Contract specifications after the first day of trading.