

February 23, 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 student debt be forgiven?” 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 student debt be forgiven?” contract (Contract). The Exchange intends to list the contract on an annual frequency. The Contract’s terms and conditions (Appendix A) includes the following strike conditions:

- **<date> (the target date)**
- **<expo_date> (the latest possible Expiration Date)**

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 student loan debt be forgiven?

Rulebook: SDEBT

Kalshi Contract Category: Political Decision

Student Loan Forgiveness

February 23, 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 student loan debt be forgiven?” Contract is a contract relating to whether there will be broad-based student loan debt forgiveness. 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 application for designation as a Contract Market (“DCM”) that was approved by the Commission.

Total student loan debt in the United States currently exceeds \$1.7 trillion, with 43.2 million borrowers averaging over \$39,000 in debt.¹ As a result, many within the Democratic Party have argued that the President (or Congress) should forgive some of that debt in order to provide an economic boost and enhance economic mobility for lower-income individuals. Others within the party have rebuffed those efforts on the grounds that many of the benefits will go to the relatively well-off and might have a muted economic effect considering the price tag. As a result, the fate of broad-based student debt forgiveness remains up in the air.

This contract regards broad-based student loan debt forgiveness. There are many different kinds of existing student loan forgiveness programs, ranging from the expansive (forgive up to \$50,000 for every student) to the narrow (targeted debt relief for front-line health care workers). This contract is designed to target the former only.

¹ <https://educationdata.org/student-loan-debt-statistics>

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 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 a broad-based student debt forgiveness has been enacted (please see Appendix A for the legally binding terms and conditions), 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.



By: Eliezer Mishory
Title: Chief Regulatory Officer
Date: February 23, 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 student debt be forgiven?

Rulebook: SDEBT

SDEBT

Scope: These rules shall apply to this contract.

Underlying: The Underlying for this Contract is Executive Orders from the President of the United States issued between Issuance and <date> according to the Office of the Federal Register and bills that have become law between Issuance and <date> according to Congress.gov (even if the effective date of the Executive Order or bill is after <date>). Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Instructions: Executive Orders are available here: <https://www.federalregister.gov/presidential-documents/executive-orders/joe-biden/2021>. Congressional bills that have become law are available here:

<https://www.congress.gov/search?q=%7B%22congress%22%3A%5B%22117%22%5D%2C%22source%22%3A%22all%22%2C%22bill-status%22%3A%22law%22%7D> . These instructions are provided for convenience only and may be modified at any time.

Source Agency: The Source Agencies are the Office of the Federal Register and the Library of Congress.

Type: The type of Contract is a Binary Contract.

Issuance: This contract is intended to be issued on a bi-annual basis.

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

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

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that include documentation that a bill has become law or an Executive Order has been enacted that implements broad-based federal student loan forgiveness or cancellation.

To qualify as “broad-based” federal student loan forgiveness or cancellation, a given bill that has become law or executive order that has been enacted must meet the following criterion: (a) The maximum benefit size must be at least \$5,000 (in total); (b) The bill or executive order will only be considered “broad-based” if it is available to all federal student loan² borrowers without any

² “Federal student loans” are defined as loans that are made, insured, or guaranteed under part B, D or E of Title IV of the Higher Education Act of 1965

restrictions on eligibility for forgiveness other than the restrictions listed in this subsection (a). A bill or executive order may still be considered “broad-based” even if it contains the following restrictions:

- Restricting eligibility to only forgive or cancel debt on federal student loans
- Restricting eligibility to those below a certain income threshold
- Restricting eligibility to those who filed a federal tax return within a given period
- Restricting eligibility to those who have been employed within a given period
- Restricting eligibility to those loans which are subsidized federal loans
- Restricting eligibility to those who are U.S. citizens
- Restricting eligibility to those who are undergraduate students³
- Restricting eligibility to exclude PLUS loans for parents of students
- Restricting eligibility to those who enrolled in two-year institutions/community colleges⁴
- Restricting eligibility to those who enrolled in four year-institutions
- Restricting eligibility to those who enrolled in a public university
- Restricting eligibility to exclude those enrolled in a for-profit college
- Any combination of the above restrictions

Any modification to the timeline of Income-Driven Repayment’s forgiveness criterion is not sufficient to qualify as “broad-based”.

Examples: The following examples illustrate the two requirements for a bill or executive order to be considered “broad-based”.

The following is a non-exhaustive list of student loan forgiveness or cancellation-style actions that would be sufficient individually to resolve the contract as YES:

- Forgiveness or cancellation of all student loans held by the federal government

³ “Undergraduate” is defined as per the 117th Congress’s HR 2034 as “a postsecondary program of study at an institution of higher education that leads to an associate or baccalaureate degree”

⁴ Definition of four-year college and two-year college shall be the one used by the Department of Education, available at Issuance at: <https://nces.ed.gov/programs/coe/glossary> under the names “4-year institution” and “2-year institution” respectively:

4-year institution An institution offering at least a 4-year program of college-level studies wholly or principally creditable toward a baccalaureate degree.

2-year institution An institution offering at least a 2-year program of college-level studies which terminates in an associate degree or is principally creditable toward a baccalaureate degree. Data prior to 1996 include some institutions that have a less-than-2-year program, but were designated as institutions of higher education in the Higher Education General Information Survey.

- Forgiveness or cancellation of all subsidized federal student loans
- Forgiveness or cancellation of all federal student loans held by U.S. citizens
- Forgiveness or cancellation of all federal student loans held by students, but not PLUS loans taken out by parents
- Forgiveness or cancellation of all federal student loans for students who have filed a federal tax return in the last three years and have been employed within the last three years
- Forgiveness or cancellation with a maximum benefit of at least \$5,000 on all federal student loans
- Forgiveness or cancellation with a maximum benefit at least \$5,000 on federal student loans for students who enrolled in public colleges and universities
- Targeted forgiveness or cancellation for all federal student loan borrowers earning less than \$70,000 with a maximum benefit of at least \$5,000
- Targeted federal student loan forgiveness or cancellation for those enrolled in a two-year associate degree or four-year bachelor degree program but not available to those in graduate schools
- Any combination of the above (e.g. a sliding scale of forgiveness that phases to zero at incomes above \$70,000 available only to those in a four-year undergraduate college where the max forgiveness value is above the threshold). As written at Issuance, the 117th Congress's [HR 2034](#), the 116th Congress's [S. 2235](#) and the 116th Congress's [HR 3887](#) are examples of such an eligible bill.

The following student loan forgiveness or cancellation-style actions are a non-exhaustive list of actions that are **NOT** sufficient (either individually or together) to resolve as YES

- Targeted forgiveness or cancellation available only for those entering a narrow set of careers (such as public service, teaching or Americorps) or related to military service [fails criteria (b) of “broad-based” because career restrictions are not an eligible restriction]. As written at Issuance, the 117th Congress's [HR 2418](#), [HR 4723](#), [HR 251](#), [HR 2968](#), [HR 4666](#) or [S. 2478](#) are examples of such ineligible bills.
- Targeted forgiveness or cancellation available only for those whose school has closed or whose school's accreditation has been withdrawn [fails criteria (b) of “broad-based” because accreditation restrictions are not an eligible restriction]
- Targeted forgiveness or cancellation available only for those enrolled in a for-profit college (or similar institutions) [explicitly excluded in criteria (b) of “broad-based”]
- Modifications to Income-Driven Repayment Plans that allow for accelerated timelines for forgiveness [explicitly excluded in Payout Criteria]. For example, the 116th Congress's [HR 3257](#) is a bill that is ineligible on these grounds.
- Extended forbearance [is not “forgiveness” or “cancellation”]
- Allowing expanded dischargeability of student loans in bankruptcy [is not “forgiveness” or “cancellation”]

- Targeted forgiveness or cancellation conditional on choice of major [fails criteria (b) of “broad-based” because major restrictions are not an eligible restrictions]
- Targeted forgiveness available only through smaller programs such as discharge due to permanent disability, fraud, death or unfunded refund. [fails criteria (b) of “broad-based” because none of those are listed eligible restrictions]

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 the Contract will be the sooner of the date of the first 10:00 AM following the occurrence of an event that is encompassed in the Payout Criterion (whereupon the Last Trading Time will be 10:00 AM) or <date> (whereupon the Last Trading Time will be 11:59 PM).

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 occurrence of an event that is encompassed in the Payout Criterion, the date of the first 10:00 AM following both Source Agencies updating for <date>, and <expo_date>.

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.