

06/28/2022

**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 – CFTC Regulation 40.2(a) Notification Regarding the Initial Listing of the “Will a <hurricane\_category> hurricane hit New Orleans?” 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 a <hurricane\_category> hurricane hit New Orleans?” contract (Contract). The Exchange intends to list the contract on a custom basis corresponding to the strength of the hurricane season. The Contract’s terms and conditions (Appendix A) includes the following strike conditions:

- **<date>** (target date)
- **<speed>** (maximum wind speed, corresponding to hurricane\_category)

Along with this letter, Kalshi submits 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 a <hurricane\_category> hurricane hit New Orleans?

Rulebook: HURNO

Kalshi Contract Category: Weather/Climate

Hurricanes New Orleans

06/28/2022

## 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 a <hurricane\_category> hurricane hit New Orleans? Contract is a contract relating to the maximum sustained wind speeds of storms hitting New Orleans. 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.

In the last five years, Atlantic hurricanes have inflicted over \$393 billion worth of damage in the United States.<sup>1</sup> Tropical storms and hurricanes can disrupt essential services and utilities like hospitals, water lines, and electricity, displace individuals, destroy homes, and lower property values of affected areas. Climate change may, scientists report, both increase the frequency of tropical cyclones and increase their severity. “Since 1975,” a 2013 study concludes, “there has been a substantial and observable regional and global increase in the proportion of Cat[egory] 4-5 hurricanes of 25-30 percent per °C of anthropogenic (human-caused) global warming.”<sup>2</sup> Naturally, the larger the size of the hurricane, the larger the economic impact. The Contract allows affected individuals, businesses, and other investors to hedge the risk that a hurricane or tropical storm poses to their livelihood.

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<sup>1</sup> <https://weather.com/safety/hurricane/news/2021-04-28-hurricanes-united-states-toll-last-five-years>

<sup>2</sup> Holland, G., Bruyère, C.L. Recent intense hurricane response to global climate change. *Clim Dyn* 42, 617–627 (2014). <https://doi.org/10.1007/s00382-013-1713-0>

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 the maximum sustained wind speeds are at least <speed> in New Orleans between Issuance and <date>, 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).

*Eliezer Mishory*

By: Eliezer Mishory

Title: Chief Regulatory Officer

Date: 06/28/2022

**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 a <hurricane\_category> hurricane hit New Orleans?**

**Rulebook: HURNO**

## HURNO

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

**Underlying:** The Underlying for this Contract is:

- The set of maximum sustained wind speeds recorded in New Orleans, Louisiana for each day from Issuance until <date> (inclusive) according to the Daily Climate Report of the National Weather Service.
- The set of maximum sustained wind speeds in locations within the limits of New Orleans, Louisiana included in the set of Post-Storm Hurricane Reports issued by the National Weather Service for each day from Issuance until <date> (inclusive). (Any speed of 999 should be ignored, as it represents a missing value and not a wind speed of 999 knots or miles per hour).
- Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

**Instructions:** The Daily Climate Report for New Orleans, Louisiana can be accessed here: <https://www.weather.gov/wrh/climate?wfo=lix>. Click on “Observed Weather”. Under “Choose a Location”, select “New Orleans, LA”. The Underlying is in the section labeled “Wind (MPH)” with the row labeled “HIGHEST WIND SPEED”. Please note that the Underlying is **not** the value in the row labeled “HIGHEST GUST SPEED”. Data that is revised past the Expiration Date and Expiration time of the contract will not be used to determine the Expiration Value of the Contract.

An example from Florida (not New Orleans) is shown below. As seen below, at those locations, the maximum sustained wind speed at the three locations were 30 knots, 28 knots and 18 knots



respectively.

A. LOWEST SEA LEVEL PRESSURE/MAXIMUM SUSTAINED WINDS AND PEAK GUSTS

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 METAR OBSERVATIONS...

NOTE: ANEMOMETER HEIGHT IS 10 METERS AND WIND AVERAGING IS 2 MINUTES  
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LOCATION	ID	MIN	DATE/	MAX	DATE/	PEAK	DATE/
LAT	LON	PRES	TIME	SUST	TIME	GUST	TIME
DEG	DECIMAL	(MB)	(UTC)	(KT)	(UTC)	(KT)	(UTC)

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 KEYW-KEY WEST INTERNATIONAL AIRPORT

24.56	-81.76	1003.4	04/0953	150/030	03/2049	140/044	03/2031
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KNQX-NAVAL AIR STATION KEY WEST BOCA CHICA FIELD

24.58	-81.68	1003.4	04/0953	150/028	03/2056	140/036	03/2043
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KMTH-FLORIDA KEYS MARATHON INTERNATIONAL AIRPORT

24.73	-81.05	1003.4	04/1953	160/018	03/1844	190/036	04/1125
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**Source Agency:** The Source Agency is the National Oceanic and Atmospheric Administration’s National Weather Service.

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

**Issuance:** After the initial Contract, Contract iterations will be listed on an as-needed basis at the discretion of the Exchange and corresponding to the risk management needs of Members.

**<hurricane\_category>:** Kalshi may list contracts with <hurricane\_category> levels of either <hurricane category number> from 1 through 5 or <tropical storm>. For example, <hurricane\_category> could take the value “Hurricane Category Two”, or “tropical storm”.

**<speed>:** Kalshi may list iterations of the Contract with <speed> levels that fall within an inclusive range between 0 and 200 at consecutive increments of 1. Due to the potential for variability in the Underlying, the Exchange may modify <speed> levels in response to suggestions by Members.

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

**Payout Criterion:** The Payout Criterion for the Contract encompasses the Expiration Values that contains a value that is greater than or equal to <speed>. The value of speed should correspond directly to the value of <hurricane\_category> using the Saffir-Simpson scale, replicated below:

- The threshold for a tropical storm is sustained wind speeds of at least 39 miles per hour
- The threshold for a Hurricane Category 1 is sustained wind speeds of at least 74 miles per hour
- The threshold for a Hurricane Category 2 is sustained wind speeds of at least 96 miles per hour
- The threshold for a Hurricane Category 3 is sustained wind speeds of at least 111 miles per hour
- The threshold for a Hurricane Category 4 is sustained wind speeds of at least 130 miles per hour
- The threshold for a Hurricane Category 5 is sustained wind speeds of at least 157 miles per hour

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

**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 ET following the occurrence of an event that is encompassed in the Payout Criterion, the first 10:00 AM ET following the release of the data for all of <date>, or one week after <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.