

8/9/2021

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 RECNC 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 RECNC contract (Contract) to be listed for trading on Kalshi and effective on Wednesday, August 11 for trading on that date.

Along with this letter, Kalshi submitted the following documents:

- A concise explanation and analysis of the Contract;
- The Contract's specifications;
- 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
Rule 40.2 New Contract Submission: RECNC
Budget Reconciliation Bill
8/9/2021

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 RECNC Contract is a contract relating to the passage of a budget reconciliation bill by the U.S. Senate. In mid-July, President Joseph R. Biden announced a blueprint for a budget reconciliation bill that would authorize \$3.5 trillion in spending on a variety of Democratic priorities, including spending hundreds of billions of dollars on universal Pre-K, free community college, paid leave, clean energy research & development and more¹. 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.

Since mid-July, many members of the House of Representatives have announced they will not take up the Senate’s version of the bipartisan infrastructure deal unless they also pass a reconciliation bill². Meanwhile, several Democratic members of the Senate have announced that they are not certain they will support the reconciliation bill, thus rendering the final outcome unclear.

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.

¹ <https://www.nytimes.com/2021/07/14/us/politics/biden-social-spending-deal.html>

² <https://thehill.com/homenews/sunday-talk-shows/565838-ocasio-cortez-more-than-enough-votes-to-prevent-infrastructure>

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. 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 Senate has passed a budget reconciliation bill before <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.



By: Eliezer Mishory
Title: Chief Regulatory Officer
Date: 8/9/2021

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

Contract: RECNC

Contract: RECNC

Scope: These rules shall apply to this contract.

Underlying: The Underlying for this Contract is bills that have passed the Senate, as captured by Congress.gov's legislation tracker (available at <https://www.congress.gov/search?q=%7B%22source%22%3A%22legislation%22%7D>). In particular, the Contract will be resolved depending on two parts of the Underlying. The first is the bill's "Tracker," which reports whether the bill has "Passed House," "Passed Senate," "Became Law," and so on as well as the date of passage. The second is the full text of the law, which is available by clicking on the bill and then the "text" tab of the bill. Revisions after Expiration will not be accounted for in determining the Expiration Value.

Source Agency: The Source Agency is the Library of Congress..

Type: The type of Contract is a Binary Contract.

Issuance: The Issuance of the initial Contract will be on or after August 11, 2021. 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.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that include a Bill that meets the following two conditions: first, Congress.gov's legislation tracker records that it has "Passed Senate" before <date> and after the date of Issuance; second, that the bill contains "reconciliation instructions" (such as beginning with the phrase "To provide for reconciliation pursuant to..." followed by the relevant section of the concurrent resolution on the budget for that fiscal year with instructions for specific committees).

Date: <date> refers to a date specified by Kalshi. Kalshi may list contracts corresponding to different statistical periods of <date>, ranging from August 9, 2021 to January 1, 2023.

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: Unless otherwise noted by the Exchange and indicated on the Exchange website, the Last Trading Date for the Contract will be <date> The Last Trading Time will be the same as the Expiration time.

Settlement Date: The Settlement Date of the Contract shall be the day after the Expiration Date, unless the Market Outcome is under review pursuant to Rule 7.1.

Expiration Date: Unless otherwise noted by the Exchange and indicated on the Exchange website, the Expiration Date of the Contract shall be two days following <date>.

Expiration time: The Expiration time of the Contract shall be 8:00 PM ET.

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

Expiration Value: The Expiration Value is the value of the Underlying (i.e. all bills listed on Congress.gov with the status of “Passed the Senate”), as documented by the Source Agency, that passed the Senate after the time of Issuance and before the Target Date.

Contingencies: Before Settlement, Kalshi may, at its sole discretion, initiate the Market Outcome Review Process pursuant to Rule 6.3(c) of the Rulebook.