

8/17/21

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 SFDINE 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 SFDINE contract (Contract) to be listed for trading on Kalshi and effective on Thursday, August 19 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
New Contract Submission: SFDINE
San Francisco Ban on Indoor Dining
8/17/21

**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 SFDINE Contract is a contract relating to whether San Francisco will prohibit city restaurants from offering indoor dining. The contract is designed to enable market participants whose businesses or operations are affected by the production or consumption of commercial dining and related services to mitigate the commercial risks associated with changes in public policy, public health, and similar matters affecting the broad availability of public indoor dining facilities in San Francisco. 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.

Beginning in early July, COVID-19 cases in the United States began to rise exponentially. The San Francisco Bay Area was not immune from that rise, with an average of more than 1,000 new cases daily by mid-August¹. The city previously suspended indoor dining twice in 2020, and has imposed new restrictions on indoor dining following the rise in COVID-19 cases during summer 2021.

The Contract has the potential to be a unique risk hedging instrument for a variety of market participants. Indoor dining bans and closures caused outsized negative economic consequences during the pandemic, and the Contract will enable market participants to hedge risks associated with future changes in policy.

¹ <https://abc7news.com/feature/coronavirus-cases-covid-19-map-bay-area-covid/9891245/>

Moreover, the utility of the Contract is not limited to residents of San Francisco or the surrounding area. The public health and lockdown policies of one state or city can also have a broader impact on the interstate commerce of other states. In particular, indoor dining policies in one state have material impacts on commercial activities in another state. Restaurant employees and dining workers moving between states are impacted by the indoor dining policies of multiple states; if their home state closes indoor dining, they may attempt to move to another state to find employment. Further, many restaurants operate as chains or as franchises. Such restaurants and their employees are uniquely affected by state-by-state indoor dining policies, since their revenues depend on multiple locations in multiple states. Additionally, the supply chains for many restaurants are relatively centralized and thus restrictions on indoor dining in a certain state can reverberate across the nation and impact restaurant owners and employees in multiple different states. Thus, the Contract is expected to provide risk mitigation and price-basing utility to market participants outside the San Francisco Bay Area.

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. 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 San Francisco has halted indoor dining by or before December 31st, 2021, 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: 8/17/21

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: SFDINE

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Scope: These rules shall apply to the SDFINE contract.

Underlying: The Underlying for this Contract are business regulations reported by the Government of the City and County of San Francisco (available at <https://sf.gov/operate-your-business-during-coronavirus-pandemic>) and press releases issued by the Office of the Mayor of the City and County of San Francisco (<https://sfmayor.org/news>). Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Source Agency: The Source Agencies are the Government of the City and County of San Francisco and the Office of the Mayor of the City and County of San Francisco.

Type: The type of Contract is a Binary Contract.

Issuance: The Issuance of the initial Contract will be on or after August 19, 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.

<date>: <date> refers to a calendar <date> specified by Kalshi. Kalshi may list iterations of the Contract corresponding to different statistical periods of <date>, ranging from August 19, 2021 to January 1, 2023.

Payout Criterion: The Payout Criterion encompasses the Expiration Values that include an order indicating that indoor dining at any capacity is suspended in San Francisco (from the last ban on outdoor dining: “Restaurants (for takeout and delivery only)”); or an unretracted press release indicating indoor dining at any capacity is suspended in San Francisco. For an example of such a press release, see <https://sfmayor.org/article/san-francisco-roll-back-select-activities-response-increase-covid-19-cases> (“The following activities will halt indoor operations until further notice: Indoor dining at restaurants or bars serving meals in any context...”).

Note: the suspension of indoor dining at any capacity does not have to be in effect at Expiration, rather it has to have been implemented at some point after Issuance and before the Expiration time on the Expiration Date. A retraction made after the Expiration Date and Expiration time will not be taken into account in determining the Expiration Value.

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 for the Contract is December 31, 2021. The Last Trading Time for the Contract is 7:00 PM ET on the Last Trading Date. No trading in the Contract shall occur after its Last Trading Date and Time.

Settlement Date: Unless otherwise noted by the Exchange and indicated on the Exchange website, 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 January 1st, 2022.

Expiration time: Unless otherwise noted by the Exchange and indicated on the Exchange website, the Expiration time of the Contract shall be 6:00 PM ET.

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

Expiration Value: The Expiration Value is the value of the Underlying (e.g., reported business regulations on the San Franciscan government website and press releases issued by the Office of the Mayor) issued between Issuance and the Expiration time on the Expiration Date 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.