

August 16, 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 LCASE 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 LCASE contract (Contract) to be listed for trading on Kalshi and effective on August 18, 2021 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: LCASE

8/16/2021

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 LCASE Contract is a contract relating to the number of new COVID-19 cases reported for a given day over certain period of time in the United States. The emergence of SARS-CoV-2, the coronavirus that causes COVID-19, has had enormous implications for the American economy. Despite vaccination efforts, the virus remains a threat in the United States. 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.

As of June 2021, over 600,000 Americans have died of COVID-19, and over 33 million cases of COVID-19 have been recorded.¹ Millions of Americans have lost loved ones, jobs, and a sense of normalcy. Shutdowns, social distancing requirements, and fear of contracting the virus have shuttered businesses, prompted layoffs, and reduced income streams. Unemployment climbed to 14.8% in April 2020,² before declining to 5.8% in May 2021 -- still over 2 points higher than pre-pandemic levels.³ The number of new COVID-19 cases is an essential indicator of the state of the pandemic. Government officials at the local, state, and federal levels make policy decisions around shutdowns, social distancing measures, and fiscal stimulus based on COVID-19 case counts, among other factors. Fear of contracting or spreading COVID-19 also tracks with new case counts: higher levels of COVID-19 deter would-be customers from eating inside, shopping inside, travelling, and more. The contract allows individuals and institutions to directly hedge the economic fallout that comes with higher COVID-19 levels.

¹ <https://www.nytimes.com/interactive/2020/us/coronavirus-us-cases.html>

² <https://fas.org/sqp/crs/misc/R46554.pdf>

³ <https://www.bls.gov/news.release/pdf/empisit.pdf>

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 reported new COVID-19 cases in the US for any given day after Issuance and before <date> is more than <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.

By: Eliezer Mishory
Title: Chief Regulatory Officer
Date: 8/16/2021

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: LCASE

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Scope: These rules shall apply to the LCASE Contract.

Underlying: The Underlying for this Contract is the reported number of new cases of COVID-19 published by the Centers for Disease Control's (CDC) "Trends in Number of COVID-19 Cases and Deaths in the US Reported to CDC". This report is available at the following stable URL:

https://covid.cdc.gov/covid-data-tracker/#trends_dailytrendscases. Scroll down to the section titled "Data Table for Daily Case Trends"; the Underlying is the number of "New Cases". Revisions to the Underlying that are published after the Expiration time on the Expiration Date will not be accounted for in determining the Expiration Value.

Source Agency: The Source Agency is the Centers for Disease Control and Prevention ("CDC").

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 a daily basis. The Issuance of the initial Contract will be on or after August 18, 2021.

Count: Kalshi may list LCASE contracts with <count> levels that fall within an inclusive range between a maximum value of 10,000,000 and a minimum value of 0 at consecutive increments of 1. Due to the potential for variability in the Underlying, the Exchange may modify <count> levels in response to suggestions by Members.

Date: <date> refers to a date specified by Kalshi. Kalshi may list LCASE contracts corresponding to different statistical periods of <date>, ranging from August 18, 2021 to January 1, 2023.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that contain a value which is 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: Unless otherwise noted by the Exchange and indicated on the Exchange website, the Last Trading Date for the Contract will be <date> and the Last Trading time will be 8:00pm ET.

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 the day after <date>.

Expiration time: Unless otherwise noted by the Exchange and indicated on the Exchange website, the Expiration time of the Contract shall be 11:00am ET.

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

Expiration Value: The Expiration Value is a set containing the values of the Underlying for each day after the date of Issuance and before <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.