

KalshiEX LLC

New Contract Submission: FTAPER

Federal Reserve Treasury and Mortgage-Backed Securities Purchases

8/26/2021

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 FTAPER Contract is a contract relating to the planned amount of Treasury and Mortgage-Backed securities purchases over a given period by the Federal Reserve. Such information is closely linked to the Federal Reserve's monetary policy stance, with greater purchases often implying a easier monetary policy than otherwise. 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.

This information is highly valuable to financial institutions, as the size of asset purchases directly affects the cost of purchase in the treasury and MBS market, which has over \$11 trillion in issuance¹. Asset purchases also directly affect the cost of borrowing in the multi-trillion-dollar federal funds market². As borrowing rates are near the zero lower-bound, these purchases represent one of the primary monetary policy tools available to the Federal Reserve.

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.

¹ <https://www.sifma.org/resources/research/us-treasury-securities-statistics/>

² <https://www.clevelandfed.org/en/newsroom-and-events/publications/economic-commentary/2017-economic-commentaries/ec-201707-the-federal-funds-market-since-the-financial-crisis.aspx#:~:text=It%20consists%20of%20%242.46%20trillion,trillion%20in%20mortgage%20backed%20securities.>

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 the Federal Reserve's planned purchases for <FOMC cycle> is <greater than/less than> <value>, 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: 8/26/2021

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: FTAPER

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Scope: These rules shall apply to the FTAPER contract.

Underlying: The Underlying for this Contract is the amount of announced monthly purchases for Treasury securities and mortgage-backed securities by the Federal Reserve Bank of New York’s Trading Desk (“Desk”) as directed by the Federal Open Market Committee (FOMC). The statement is available at: <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm> . Navigate to the row associated with the month of the Expiration Date. Click on the hyperlink called PDF under the header “**Statement:**”. In that document, navigate to the section that says that the FOMC is directing the Desk with a statement such as “Effective [date], the Federal Open Market Committee directs the Desk to:”. In that section, the Underlying is the sum that the FOMC directs the Desk to purchase to increase the System Open Market Account holdings (SOMA) of Treasury securities and agency mortgage-backed securities (MBS) per month.

An example of the Underlying from July is below. Here the value of the Underlying is \$120 billion.

“Effective July 29, 2021, the Federal Open Market Committee directs the Desk to:

- Undertake open market operations as necessary to maintain the federal funds rate in a target range of 0 to 1/4 percent.
- Increase the System Open Market Account holdings of Treasury securities by \$80 billion per month and of agency mortgage-backed securities (MBS) by \$40 billion per month.
- Increase holdings of Treasury securities and agency MBS by additional amounts and purchase agency commercial mortgage-backed securities (CMBS) as needed to sustain smooth functioning of markets for these securities.

If no explicit number is available, the Underlying shall become the sum of the Desk’s plans for purchases of Treasury securities and agency mortgage-backed securities for the most recent period available at Expiration and available for Treasuries at <https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details#monthly-details> and for agency mortgage-backed securities at https://www.newyorkfed.org/markets/ambs/ambs_schedule .

At the NYFRB link, to find the value, navigate to the table that is below the paragraph reading “Operation Announcements and Results”. The Underlying is the monthly dollar value following the word “approximately” in the column reading “Planned Purchase Amounts” in the row whose value under the column head “Period” corresponds to the appropriate period. Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value. Please note that the Underlying is not the actual results of the purchases but instead planned purchases. As a result, the Underlying uses the word “Approximately” because it is sometimes impossible for the Desk to purchase discrete quantities of Treasuries in exact dollar quantities-- they may be off by a few dollars or cents. Please note that the Underlying is the monthly period value, even if the period does not cover a full month. The Underlying is the most recent row at the Expiration Time on the Expiration Date. An example is below where the value of the Treasury part of the Underlying is \$80 billion.

PURCHASE PERIOD DETAILS		CURRENT SCHEDULE		
PERIOD	PLANNED PURCHASE AMOUNT	TENTATIVE SCHEDULE	RESULTS	NEXT SCHEDULE RELEASE
8/13/2021 - 9/14/2021	The Desk plans to purchase approximately \$80 billion over the monthly period from 8/13/21 to 9/14/21.	Schedule	To be released	9/14/2021, 3:00 p.m.

At the Agency MBS link, navigate to the table. The Underlying is in the most recent row in the table at the Expiration time on the Expiration Date. In the column named “Tentative Agency MBS Purchases” the Underlying for Agency MBS is the value after “approximately” and before “of purchases to increase SOMA holdings of agency MBS”. An example is below where the value of the MBS part of the Underlying is \$40 billion.

Date	Tentative Agency MBS Purchases**	Operational Results***
August 13, 2021 - September 14, 2021	The Desk will purchase approximately \$98.8 billion over the noted monthly period, including approximately \$40 billion of purchases to increase SOMA holdings of agency MBS, and \$58.8 billion in reinvestments of principal payments from agency MBS and agency debt. The next release of tentative purchase amounts in agency MBS will be at 3 p.m. on September 14, 2021.	Operational results for this period will be released at 3 p.m. on September 15, 2021.

Source Agency: The Source Agency is the Federal Reserve Board of Governors and the Federal Reserve Bank of New York.

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 FOMC cycle basis (corresponding to roughly eight weeks, though it can be shortened). Thus, Contract iterations will be issued on a recurring basis, and future Contract iterations will generally correspond to the next FOMC cycle. The Exchange will publish all available contract FOMC cycles on its website. The Issuance of the initial Contract will be on or after August 28, 2021. However, in emergency situations, the Federal Reserve may issue data releases in a shorter time period (and will announce the start of those periods in advance). Kalshi may issue contracts to mirror the Federal Reserve periods. The schedule of FOMC meetings (which represent the end of the FOMC cycle) is available here:

<https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>

<value>: Kalshi may list iterations of the Contract with <value> levels of US dollars that fall within an inclusive range between a maximum value of 1,000,000,000,000 and a minimum value

of 0 at consecutive increments of 1,000,000. Due to the potential for variability in the Underlying, the Exchange may modify <value> levels in response to suggestions by Members.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that are strictly <greater/less> than <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 will be the day corresponding to the end of the <FOMC cycle>. The Last Trading Time will be 10:00 PM.

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: The Expiration Date of the Contract shall be the day following the end of the <FOMC cycle>. For example, the Expiration Date of the initial Contract will be September 23, 2021 because the relevant FOMC meeting (i.e. the end of the relevant Federal Reserve cycle) ends September 22, 2021.

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.