

9/10/2021

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 SALTX 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 SALTX contract (Contract).

Along with this letter, Kalshi submitted 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
New Contract Submission: SALT
State and Local Tax Deduction
9/10/2021

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 SALT Contract is a contract relating to whether Congress will increase the State and Local Tax (SALT) deduction cap. The SALT deduction allows tax filers to deduct the amount of income they owe in state and local taxes from the amount of income they pay federal income tax on. 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.

The SALT deduction has been around for as long as the federal income tax has been¹. In 2017, Congress limited the deduction such that no filer could deduct more than \$10,000 in SALT taxes from their federal taxable income; previously the deduction was unlimited. Since then, Representatives and Senators from high-tax jurisdictions have been pushing for the cap to be lifted or eliminated in the latest budget reconciliation bill.

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

¹ <https://www.gfoa.org/salt>

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 a Bill has become law after the time of Issuance and before <date> that increases the amount of state and local taxes that a tax filer can deduct from their taxable income, 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: 9/10/21

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: SALTX

Contract: SALTX

Scope: These rules shall apply to the SALTX contract.

Underlying: The Underlying for this Contract is Bills that have become law, as captured by Congress.gov’s legislation tracker. In particular, the Contract will be resolved depending on two conditions. 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. Second is the bill’s Text, which shall be used to determine whether the Bill increases the amount of state and local taxes which can be deducted from a taxpayer’s taxable income.

Instructions: Congress.gov’s legislation tracker is available at <https://www.congress.gov/search?q=%7B%22source%22%3A%22legislation%22%7D>). The text of a Bill is available by clicking on the link for a given Bill and clicking on the Text tab (currently adjacent to the Summary Tab). These instructions on how to access the Underlying 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.

Revisions to the Underlying made 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 September 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 “Become Law” before <date> and after the date of Issuance; second, that the Bill increases the current limitation in Internal Revenue Code section 164(b) on the amount allowed as a deduction for state and local taxes in Internal Revenue Code in section 164(a) for at least some class of taxpayer. The current limitation for individuals is \$10,000 (\$5,000 in the case of a married individual filing a separate return). This could take a variety of forms, including striking paragraph 6 of Section 164(b) of the Internal Revenue Code of 1986 (which includes the limit) for taxable year 2022; or amending paragraph 6 to increase the limit for taxable year 2022. A Bill that does not increase the current cap for at least a class of individual taxpayers--for example, a Bill that allows taxpayers to claim certain amounts paid to a

state or local jurisdiction as a charitable deduction--does not meet the second condition even though it has the effect of allowing a deduction for amounts paid to a state or local jurisdiction. For context and convenience, the complete tax code can be found at <https://uscode.house.gov/browse/prelim@title26&edition=prelim>, and the specific provision including the SALT tax deduction is Title 26, Subtitle A, Chapter 1, Subchapter B, Part VI, section 164 (available here: <https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title26-section164&num=0&edition=prelim>). The cap is in subparagraph 6 of paragraph (b).

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: 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 two days following <date>.

Expiration time: Unless otherwise noted by the Exchange and indicated on the Exchange website, 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 "Became Law") as documented by the Source Agency after the time of Issuance and before <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. 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.