

9/14/2021

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 PREK 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 PREK 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: PREK
Universal Pre-Kindergarten
9/14/2021

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 PREK Contract is a contract relating to whether pre-kindergarten will be made universal. Universal pre-K was a major proposal by President Joseph Biden on the campaign trail and is a major priority for him as president. 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.

Universal pre-K has entered the news cycle because it may be included in the new multi-trillion dollar reconciliation bill that Congressional Democrats plan to pursue in September. It would likely cost billions of dollars per year, but would expand early childhood education to millions of children.

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

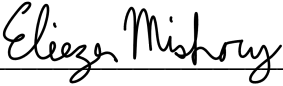
contracts purchased to their economic risks. The Exchange has further imposed position limits (defined as maximum loss exposure) of \$25,000 USD on the Contract. As outlined in Rule 5.12 of the Rulebook, trading shall be available at all times outside of any maintenance windows, which will be announced 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 a bill has become law after Issuance and before <date> that includes text that provides funding or grants to permit any 3 or 4-year old US citizen to attend a public pre-Kindergarten program, 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: 9/14/2021

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: PREK

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Scope: These rules shall apply to the PREK contract.

Underlying: The Underlying for this Contract is Bills that have become law, 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 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 provides funding to permit any 3 or 4-year-old US citizen to attend a public pre-Kindergarten program. The text is available by clicking on the link for a given bill and clicking on the Text tab (currently adjacent to the Summary Tab).

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 [date]. 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 day specified by Kalshi. Kalshi may list iterations of the Contract corresponding to different statistical periods of day, ranging from September 14, 2021 to December 31, 2023.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that include text that provides funding or grants to permit any 3 or 4-year old US citizen to attend a public pre-Kindergarten program.

Some additional clarifications on the Payout Criterion:

- (1) Laws that allow states to submit proposals for grants to the Secretary of Education to establish public pre-Kindergarten programs for all 3 or 4-year old US citizens in their state are encompassed in the Payout Criterion. An example of such a bill text is that of H.R. 4213 from the 116th Congress and is shown in the image below. If a federal funding share is listed, such a program is encompassed in the Payout Criterion so long as the federal funding share is at least 50%.
- (2) The pre-Kindergarten programs enabled by the bill need not be full-day to be encompassed in the Payout Criterion

SEC. 2. UNIVERSAL PREKINDERGARTEN AND EARLY CHILDHOOD EDUCATION GRANT PROGRAM.

(a) **PROGRAM AUTHORIZATION.**—From amounts appropriated under section 3, the Secretary of Education is authorized to award grants, on a competitive basis, to States to pay the Federal share of establishing or expanding full-day prekindergarten programs.

(b) **STATE APPLICATION.**—To receive a grant under this Act, a State shall submit to the Secretary an application at such time, in such manner, and containing such information as the Secretary may require.

(c) **USE OF FUNDS.**—A State that receives a grant under this Act shall use such grant funds to establish or expand a prekindergarten program that, at a minimum—

(1) is located at a public school in the State;

(2) permits each 3- or 4-year-old child in the State to be voluntarily enrolled by the child's parent, regardless of income, in the program at a school in which the child may be enrolled for kindergarten;

(3) is a full-day program that runs the length of the regular school year;

(4) is taught by teachers who possess equivalent or similar qualifications to the qualifications of teachers of other grades in the school involved; and

(5) meets any other criteria that the Secretary may require.

(d) **FEDERAL SHARE.**—The Federal share of a grant under this Act shall be not more than 80 percent of the costs of carrying out the activities described in subsection (c).

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 of the initial iteration of the Contract will be the same day as the Expiration Date. The Last Trading Time will be the same as the Expiration time.

Settlement Date: The Settlement Date of the initial iteration 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 two days after <date>.

Expiration time: The Expiration time of the initial Contract iteration 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 (i.e., all bills listed on Congress.gov with the status of “Became Law”) as documented by the Source Agency, that became law 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.