

9/15/2021

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 MONTERO 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 MONTERO 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: MONTERO
Lil Nas X Album
9/15/2021

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 MONTERO Contract is a contract relating to whether Lil Nas X's upcoming new album *Montero* will have strictly more than <value> consumption and be released prior to a given date. 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.

Lil Nas X's new album will arrive with much fanfare. Two singles released from the album, *Industry Baby*¹ and *Montero (Call Me By Your Name)*² both spent weeks in the top two on the billboard charts. His previous hit, *Old Town Road*, still holds the record for most weeks as the number one song on the charts at 19 weeks³. As a result, there is incredible interest in the artist's newest product.

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.

¹ <https://www.billboard.com/charts/hot-100/2021-08-07>

² <https://www.billboard.com/charts/hot-100/2021-04-10>

³ <https://www.billboard.com/articles/business/chart-beat/8527171/lil-nas-x-old-town-road-number-one-hot-100-19-weeks>

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 Album Units/Album Projects earned by Lil Nas X's *Montero* album for the relevant statistical period is strictly greater than <value> prior to <date> and the album has been released before <date>, 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: 9/15/2021

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 E (Confidential) - Agreement with Source Agency

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

Contract: MONTERO

Contract: MONTERO

Scope: These rules shall apply to the MONTERO contract.

Underlying: The Underlying for this Contract consists of two items. The first part is consumption of Lil Nas X's *Montero* album project reported to the Exchange pursuant to the Exchange's agreement with Alpha Data LLC (a division of Penske Media Corporation, or "PMC") ("Alpha Data"). "Consumption" is defined as the daily number of Album Units/Album Projects of the album project. Note that Alpha Data distinguishes between consumption of the project and consumption in terms of album sales; the Contract uses the former statistic. If the relevant data is not reported to the Exchange, including if there is no consumption of the album, the value of the first part of the Underlying is zero. The second part is the release date, which Alpha Data also lists upon release of the album. If the data is not reported to the Exchange including, for example, if the album has not been released, then the value of the second part of the Underlying is treated as if it is after <date>. Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Source Agency: The Source Agency is Alpha Data LLC (a division of Penske Media Corporation, or "PMC").

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 weekly basis. Thus, Contract iterations will be issued on a recurring basis, and future Contract iterations will generally correspond to the next week. The Exchange will publish all available contract weeks on its website. The Issuance of the initial Contract will be on or after September 15, 2021.

<value>: Kalshi may list MONTERO contracts with <value> levels that fall within an inclusive range between a maximum value of 5,000,000 and a minimum value of 0 at consecutive increments of 1,000. Due to the potential for variability in the Underlying, the Exchange may modify <value> levels of subsequent contracts in response to suggestions by Members.

Date: <date> refers to a date specified by Kalshi. Kalshi may list MONTERO contracts corresponding to different statistical periods of <date>, ranging from September 15, 2021 to January 1, 2023.

Payout Criterion: The Payout Criterion encompasses Expiration Values which contain a value for summed consumption that is strictly greater than <value> and a nonzero Release Date that is prior to <date>.

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 <date>. The Last Trading Time will be 11:59 PM.

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 4:00 PM ET.

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

Expiration Value: The Expiration Value is a set containing the summed value of the first part of the Underlying from on and after Issuance to before <date> (e.g. the total sum of daily consumption for each day within the statistical period on and after Issuance (inclusive) and before <date> (exclusive)) and the Release Date per the second part of the Underlying. The Expiration Value is as documented by the Source Agency on the Expiration Date at 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.