

9/23/2021

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 RECSZ 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 RECSZ 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: RECSZ
Size of Reconciliation Bill
9/23/2021

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 RECSZ Contract is a contract relating to the size of the next budget reconciliation bill. While the final details are still being debated, the upcoming reconciliation bill has the potential to transform the lives of tens of millions of Americans through mechanisms such as an expanded Child Tax Credit, more generous Medicare and more¹. As a result, there is much interest in the scope of the bill, with its budgetary impact totaling up to \$3.5 trillion. 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 reconciliation bill might touch on dozens of important issues, from the CTC to Medicare to education to anti-poverty spending to energy. Nearly every industry has a stake in the ultimate details of the bill. This contract allows individuals and firms the ability to hedge against the size of the 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.

¹ <https://www.washingtonpost.com/us-policy/2021/09/07/democrats-reconciliation-bill-budget/>

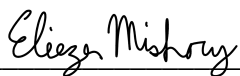
General Contract Terms and Conditions: The Contract operates similar to other binary contracts that the Exchange lists for trading. The minimum price fluctuation is \$0.01 (one cent). Price bands will apply so that Contracts may only be listed at values of at least \$0.01 and at most \$0.99. Further, 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. All instructions on how to access the Underlying are non-binding and 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. 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 size of a reconciliation bill that has become law after Issuance and before <date> is <greater than/less than> 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: 9/23/2021

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: RECSZ

Contract: RECSZ

Scope: These rules shall apply to the RECSZ contract.

Underlying: The Underlying is bills from Congress.gov that have become law. The first part of the Underlying for this Contract is the text of the bill from Congress.gov which is used to determine if a bill is a reconciliation bill. The second part of the Underlying is the bill's status from Congress.gov which is used to determine if a bill has become law after Issuance and before <date>. The third part of the Underlying is the most recent estimated ten-year spending outlays for the eligible bill from the Congressional Budget Office (CBO). Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value. Any 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.

Instructions:

To see if a bill is a reconciliation bill, one can navigate to Congress.gov and click on the bill's text (currently in the tab next to "summary"). If a bill is a reconciliation bill, then the bill's text will include "reconciliation instructions", such as beginning with "To provide for reconciliation pursuant to S. Con. Res 14".

To find the status of the bill, go to Congress.gov's legislation tracker (available at <https://www.congress.gov/search?q=%7B%22source%22%3A%22legislation%22%7D>). The bill's "Tracker" reports whether the bill has "Passed House," "Passed Senate," "Became Law," and so on as well as the date of passage.

To find budget estimates from the CBO, go to <https://www.cbo.gov/cost-estimates>. Navigate to the bill in question. Navigate to the Summary Data Table. Go to the row named "Estimated Outlays" under the header "Total Changes in Direct Spending." and the column named "2022-2031". If no column has that name, whichever column indicates spans a time period closest to ten years (endpoints are inclusive) and, if tied, has the latest possible end date. Please note that the values in the tables are generally in USD million. If no such named row is available and there are no equivalently named rows (such as "Direct Spending (Outlays)") to be used in its stead, then navigate to the row with the greater of the Total Contract Authority and Total Budget Authority. Do not use equivalently named rows if they are under headers that specify that the outlays are associated with only a subsection of the bill. If there are multiple CBO estimates available for the bill, the most recent estimate will be used (excluding CBO estimates specifically for only amendments to the bill). An example from a past reconciliation bill is included below. In that example, the value of the Underlying is 1,802,621,000,000.

Summary Table 1.
Estimated Budgetary Effects of H.R. 1319, American Rescue Plan Act of 2021
As passed by the Senate on March 6, 2021

	By Fiscal Year, Millions of Dollars											2021-	2021-
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2030	2031
Total Changes in Direct Spending													
Estimated Budget Authority	1,587,786	207,741	14,864	8,423	4,678	3,942	2,806	892	-8	-5,464	-2,924	1,825,660	1,822,736
Estimated Outlays	1,088,108	476,081	115,499	63,166	36,937	17,940	8,008	3,392	-305	-6,210	-4,703	1,802,621	1,797,918
Total Changes in Revenues													
Estimated On-Budget Revenues	-75,418	-52,443	1,188	4,125	4,832	24,020	18,923	7,320	7,380	7,091	6,788	-52,982	-46,194
Estimated Off-Budget Revenues	-75,517	-52,692	415	3,484	4,092	23,177	18,016	6,428	6,461	6,224	6,003	-59,912	-53,909
	99	249	773	641	740	843	907	892	919	867	785	6,930	7,715
Estimated Effects on the Deficit	1,163,526	528,524	114,311	59,041	32,105	-6,080	-10,915	-3,928	-7,685	-13,301	-11,491	1,855,603	1,844,112
On-Budget Deficit	1,163,625	528,773	115,084	59,682	32,845	-5,237	-10,008	-3,036	-6,766	-12,434	-10,706	1,862,533	1,851,827
Off-Budget Deficit	-99	-249	-773	-641	-740	-843	-907	-892	-919	-867	-785	-6,930	-7,715

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation (JCT).

Estimates are relative to CBO's February 2021 baseline. Components may not sum to totals because of rounding.

Unless otherwise noted, all effects in this table are on-budget. The transactions of U.S. Postal Service and the cash flows of the two Social Security trust funds (the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund) are off-budget.

Source Agency: The Source Agency is the Library of Congress and the Congressional Budget Office.

Type: The type of Contract is a Binary Contract.

Issuance: The Issuance of the initial Contract will be on or after September 25, 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.

<value>: Kalshi may list iterations of the Contract with <value> levels that fall within an inclusive range between a maximum value of <50,000,000,000,000> and a minimum value of <0> at consecutive increments of <1,000,000,000>. Due to the potential for variability in the Underlying, the Exchange may modify <value> levels in response to suggestions by Members.

<date>: <date> refers to a calendar <date> specified by Kalshi. Kalshi may list iterations of the Contract corresponding to different statistical periods of <date>, ranging from October 1, 2021 to December 31, 2023.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that are strictly <greater than/less than> <value>. If there is no CBO budget estimate for an eligible reconciliation bill, the Contract resolves to No.

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 initial Contract shall be November 16, 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.

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 third part of the Underlying (the most recent estimated ten-year spending outlays for the eligible bill from the Congressional Budget Office) for eligible reconciliation bills that became law during the statistical period after Issuance and before <date> (exclusive) as documented by the Source Agencies 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.