November 19, 2024

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 "Will <person> be formally nominated to <cabinet>?" 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), a registered DCM, hereby notifies the Commission that it is self-certifying the "Will <person> be formally nominated to <cabinet>?" contract (Contract). The Contract will initially be listed on **November 20, 2024**. The Exchange intends to list the contract on a custom basis. The Contract's terms and conditions (Appendix A) includes the following strike conditions:

- **<date>** (the target date)
- **<person>** (the target nominee)

Along with this letter, Kalshi submits 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,

Xavier Sottile
Head of Markets
KalshiEX LLC
xsottile@kalshi.com

KalshiEX LLC
Official Product Name: “Will <person> be formally nominated to <cabinet>?”
Rulebook: FORMALNOM
Kalshi Contract Category: Political Decision
Senate nominations
November 19, 2024

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 (discussed in Appendix D), and the Commission's regulations thereunder.

I. Introduction

The “Will <person> be formally nominated to <cabinet>?” Contract is a contract relating to the nominations of persons to position of the federal government that require Senate confirmation.

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 event 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. 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, if they are charged, are charged in such amounts as may be revised from time to time to be reflected on the Exchange’s Website. A new Source Agency can be added via a Part 40 amendment. 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. The Expiration Value and Market Outcome are determined at or after Market Close. 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 an event occurs that is encompassed within the Payout Criterion, 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: Xavier Sottile
Title: Head of Markets
Date: November 19, 2024

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

Official Product Name: "Will <person> be formally nominated to <cabinet>?"
Rulebook: FORMALNOM

FORMALNOM

Scope: These rules shall apply to this contract.

Underlying: The Underlying for this Contract is nominations received by the United States Senate from the President of the United States. Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Source Agency: The Source Agency is the United States Senate and the Library of Congress.

Type: The type of Contract is an Event Contract.

Issuance: 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.

<person>: The Exchange may list iterations of the Contract with <person> values corresponding to potential cabinet members. These will be sourced from the political press, such as *The New York Times*.

<date>: <date> refers to a calendar date specified by the Exchange. The Exchange may list iterations of the Contract corresponding to variations of <date>.

<cabinet>: <cabinet> refers to a particular role that the person could be nominated for.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that <person> has been formally nominated to <cabinet> by the President of the United States by submitting a nomination message to the United States Senate.

An example of a release that would be encompassed by the Payout Criterion can be found here: https://www.congress.gov/nomination/117th-congress/78/3 ("Received in the Senate and referred to the Committee on Foreign Relations.") or here: https://www.senate.gov/legislative/nominations/Biden_cabinet.htm ("Received").

If the President-elect announces in advance of his inauguration that <person> will not be nominated having previously announced intent to nominate <person>, then the market will not resolve to Yes.

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 contracts per strike, per Member.

Last Trading Date: The Last Trading Date of the Contract will be the same as the Expiration Date. The Last Trading Time will be the same as the Expiration time.

Settlement Date: The Settlement Date of the Contract shall be no later than the day after the Expiration Date, unless the Market Outcome is under review pursuant to Rule 7.1.

Expiration Date: The latest Expiration Date of the Contract shall be the sooner of the first 10:00 AM ET following the occurrence of an event encompassed by the Payout Criterion (whereupon the Last Trading Time will be 10:00 AM ET) or <date>.

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.

APPENDIX B (CONFIDENTIAL) – FURTHER CONSIDERATIONS

Risk mitigation purpose of the Contract: The implications of a particular nominee for a Cabinet position having their nomination actually sent to the Senate, especially when the nominee is unpopular and unlikely to win confirmation, are complex and far-reaching. This scenario touches on economic, political, and institutional dynamics, with ripple effects on markets, industries, and public trust. The formal submission of the nomination, even if the individual is highly controversial or lacks clear confirmation prospects, carries weight as it signals commitment by the President to the nominee and places the decision squarely in the hands of the Senate.

Economically, the formal nomination of an unpopular candidate creates uncertainty, particularly if the position is critical to regulatory oversight or economic policymaking. Cabinet roles such as Secretary of the Treasury, Secretary of Commerce, or Secretary of Energy hold significant sway over industry regulations, economic policy direction, and market confidence. A nominee widely perceived as unqualified, ideologically extreme, or controversial might provoke apprehension among businesses and investors. The formal submission of their nomination can amplify concerns about potential regulatory shifts, creating volatility in sectors under their purview. For example, industries reliant on stable policies—such as financial services, energy, or healthcare—may delay investments or adjust strategies while awaiting clarity on the nominee's fate and policy direction.

Markets often react to the symbolism of a nomination. The act of formally submitting a controversial nominee's name signals that the President is doubling down on their choice, possibly heightening fears of an extended political battle. Market participants might interpret this as a harbinger of prolonged uncertainty, with potential disruptions to governance or policy initiatives. Stock prices in affected sectors could fluctuate as investors attempt to assess the nominee’s likelihood of confirmation and the potential implications for corporate strategy and profitability. Bond markets, too, may react as uncertainty about fiscal policy, regulatory environments, or economic stability increases.

The formal nomination also intensifies political dynamics, which have direct economic consequences. If the nominee is particularly divisive, their submission to the Senate may trigger a contentious confirmation process, consuming significant political capital and time. This can delay the passage of critical legislation, such as budget resolutions, infrastructure funding, or debt ceiling adjustments. A prolonged confirmation battle might also distract from other pressing economic priorities, reducing the government’s capacity to respond to emerging challenges. For example, during periods of economic downturn or crisis, an unresolved Cabinet position could slow the implementation of recovery measures, compounding economic instability.

The Senate confirmation process itself becomes a focal point for lobbying, media scrutiny, and public debate, further amplifying economic implications. Stakeholders—including industries, advocacy groups, and think tanks—may intensify efforts to influence the outcome, redirecting resources and attention away from other initiatives. The uncertainty surrounding the confirmation process might also affect consumer and business confidence. If the public perceives the government as mired in dysfunction or partisan conflict, it could dampen spending and investment, further slowing economic growth.

The implications for public trust in government institutions are significant. A controversial nominee with little chance of confirmation might be seen as a strategic gambit by the administration to provoke opposition or rally political support, rather than a genuine effort to appoint a qualified leader. This perception can erode trust in the nomination process and broader governance structures, weakening the legitimacy of future appointees. Conversely, if the nominee's qualifications and policy goals are seen as aligning with a particular constituency or ideological base, their nomination could energize supporters and signal the administration's commitment to its agenda.

On an international level, the formal submission of a controversial nominee can signal instability or unpredictability in U.S. governance, potentially undermining confidence in its global leadership. For example, if the position involves trade, foreign policy, or economic diplomacy, uncertainty about the nominee's confirmation or future policy stance could complicate negotiations, delay agreements, or weaken the U.S.'s bargaining position.

Despite these risks, formally submitting an unpopular nominee's name could also serve as a strategic move by the President to demonstrate decisiveness or to shift blame for any ensuing stalemate onto the Senate. This tactic might appeal to key political constituencies or signal a willingness to challenge the status quo. However, the economic and political costs of such a strategy—prolonged uncertainty, reduced confidence, and delayed policymaking—must be carefully weighed.

In conclusion, the formal nomination of an unpopular candidate for a Cabinet position has significant economic implications, stemming from uncertainty, market reactions, and disruptions to governance. It also underscores the intricate interplay between politics and economics, with the Senate confirmation process serving as a crucible for broader debates about policy direction and institutional integrity. While the act of formally nominating a controversial candidate can signal resolve and commitment, it also heightens risks, requiring careful navigation to avoid exacerbating economic and political instability.

As described in detail above, the Contract has important risk mitigation and price basing/price discovery utility. The Contract does not relate to the enumerated categories of contracts listed in Section 5c(c)(i) of the Act. Additionally, the Exchange has not determined such contracts to be contrary to the public interest and there has been no determination by the Commission that such contracts would be contrary to the public interest. The Contract provides a means for managing and assuming price risks, discovering prices, and disseminating price information on the Exchange's fair and financially secure trading facility.

The Contract has bona fide risk mitigation and price basing utility for participants with underlying economic exposure, as described above. The Contract is not merely recreational, as the discussion of risk mitigation and price basing/price discovery utility demonstrates. The outcome of the Contract is not predominantly determined by chance and depends on a variety of political factors. Finally, it is possible for traders to use skill and effort to gain knowledge and information about the likelihood of the event. For example, traders can gain information about the likelihood of the event by following communications from Senators and the President.

APPENDIX C (CONFIDENTIAL) – SOURCE AGENCY

The Source Agencies are the United States Senate (the direct source of the Underlying information) and the Library of Congress, which records actions of the Congress.

APPENDIX D (CONFIDENTIAL) – COMPLIANCE WITH CORE PRINCIPLES

Compliance with Core Principles

The Exchange has conducted a comprehensive analysis of the designated contract market core principles ("Core Principles") as set forth in Part 38 of the Act. The Core Principles relevant to the Contract are outlined and discussed in further detail below:

Core Principle 2 - Compliance with Rules and Impartial Access: The Exchange has adopted the Rulebook, which provides the requirements for accessing and trading on the Exchange. Pursuant to Chapters 3 and 5 of the Rulebook, in utilizing the Exchange's services, all Members must comply with the rules of the Rulebook ("Rules"), cooperate with Exchange investigations, inquiries, audits, examinations and proceedings, and engage in conduct consistent with just and equitable principles of trade. Chapter 3 of the Rulebook also provides clear and transparent access criteria and requirements for Exchange Members. Trading the Contract will be subject to all the rules established in the Rulebook, which are aimed at enforcing market integrity and customer protection.

In particular, Chapter 5 of the Rulebook sets forth the Exchange's Prohibited Transactions and Activities and specifically prescribes the methods by which Members trade contracts, including the Contract. Pursuant to Rule 3.2, each Member is required to cooperate promptly and fully with an Exchange investigation by providing access to information on the activities of the Member in any referenced market, which includes books and records of trading. Pursuant to Rule 9.2, the Exchange may compel testimony, subpoena documents, and require statements under oath from any Member. As described in Rule 9.1, the Exchange conducts trade practice surveillance, market surveillance, and real-time market monitoring to ensure that Members adhere to the Rules of the Exchange. The Exchange, through the compliance department, initiates review and, where appropriate, investigates unusual trading activity. The compliance department also investigates any time it has other reason to believe that inappropriate activity of any sort is taking place on the Kalshi Platform or its website.

Core Principle 2 also stipulates that an exchange shall establish means to provide market participants with impartial access to the market. Chapter 3 of the Rulebook, and Rule 3.1 in particular, provides clear and transparent access criteria and requirements for Members. The Exchange will apply access criteria in an impartial manner, including through the application process described in Rule 3.1.

Core Principle 3 - Contract not Readily Subject to Manipulation:

Core Principle 3 and Rule 38.200 provide that a DCM shall not list for trading contracts that are readily susceptible to manipulation. The Exchange's marketplace and contracts, including this Contract, have been designed in accordance with this fundamental principle. The Exchange maintains various safeguards against outcome manipulation and other forms of manipulation, including, (i) real-time market monitoring, automated trade surveillance, and suspicious behavior detection, (ii) Rulebook prohibition, Member certification, and notification, (iii) Member monitoring and know-your-customer verification, and (iv) sanctions. These safeguards render the Contract not readily susceptible to manipulation.

(i) **Real-time market monitoring, automated trade surveillance, and suspicious behavior detection**: Kalshi conducts real-time market monitoring of all trading activity on the Exchange to identify disorderly trading and any market or system anomalies. As described in Rule 5.10, Kalshi has the authority to adjust trade prices or cancel trades when necessary to mitigate market disrupting events caused by malfunctions in its electronic trading platform or errors in orders submitted by members and market participants. Any trade price adjustments or trade cancellations must be transparent to the market and subject to standards that are clear, fair, and publicly available. Kalshi also maintains an automated trade surveillance system capable of detecting and investigating potential trade practice violations. The automated system loads and processes orders and trades as they occur on the Exchange (well within 24 hours after the completion of the trading day stated in Commission Regulation 38.156). The automated trade surveillance system has the ability to detect and flag specific trade execution patterns and trade anomalies; compute, retain, and compare trading statistics; compute trade gains, losses, and positions; reconstruct the sequence of market activity; perform market analyses; and support system users to perform in-depth analyses and ad hoc queries of trade-related data. As described in Rule 9.2(a), Kalshi's Compliance Department investigates unusual trading activity or other activity that the Compliance Department has reasonable cause to believe could constitute a violation of Kalshi's Rules, or upon the receipt of a request from Commission staff. The Exchange disciplinary process is conducted in accordance with Chapter 9 of the Exchange Rulebook, and penalties may be imposed in accordance with Rule 9.5.

(ii) **Rulebook prohibition, member certification and notification:** The Exchange's Rulebook includes various provisions that prohibit manipulative behaviors. As noted above in the discussion of Core Principle 2, the Exchange's Rulebook gives the Exchange the authority to investigate potential violations of its rules. Pursuant to Rule 3.2, each Member is required to cooperate promptly and fully with an Exchange investigation by providing access to information on the activities of the Member in any referenced market, which includes books and records of trading. Pursuant to Rule 9.2, the Exchange may compel testimony, subpoena documents, and require statements under oath from any Member. The Exchange's Surveillance Officers, which operate within the Compliance Department, perform trade practice surveillance and real-time market monitoring to ensure that Members adhere to the Exchange's rules. The Rulebook also imposes sanctions on Members who break rules. Potential penalties include fines, disgorgement, and revocation of membership in Kalshi. Only Members are allowed to trade on the Exchange, and the Exchange requires its Members to strictly comply with the Rulebook. Members cannot complete the account creation process and trade on the Exchange until they certify that they have read the Exchange's rules and agree to be bound by them.

In addition, prior to trading, the Exchange requires Members to represent and covenant that the Member will not trade on any contract where they have access to material non-public information, may exert influence on the market outcome, or are an employee or affiliate of the Source Agency. In order to further reduce the potential for manipulation, the Exchange maintains a dedicated page on the trading portal that lists all the source agencies and their associated contracts, together with a warning that employees of those companies, persons with access to material non-public information, and persons with an ability to exert influence on the underlying of a contract are prohibited from trading on those contracts. This page is intended to serve as an effective means of raising Members' awareness of these rules and prohibitions, further reducing the potential for manipulation. Similarly, the Exchange places a prominent notice on each contract page that notifies Members of the prohibition on trading the Contract while employed by its Source Agency, trading the Contract on the basis of non-public information, and trading the Contract while having the ability to exert influence on the Contract's Market Outcome.

(iii) **Member monitoring and know-your-customer verification ("KYC")**: The Exchange has a robust KYC process. The KYC process is an important tool that helps flag and uncover higher risk traders before they become Members of the platform. The Exchange's KYC process ensures that the Exchange has access to all of its members' personal identifying information, and the Exchange can leverage this information as part of its surveillance and to ensure the overall fairness and integrity of its markets. During the application process, individual applicants are required to share personally identifiable information, such as their full legal name, social security number, date of birth, and address with the Exchange. Applicant information is run through a comprehensive set of databases that are actively compiled and maintained by an independent third party. The databases are utilized by the Exchange to identify applicants that are employees or affiliates of various governments and other agencies.

Additionally, as part of the KYC process for its individual members, the Exchange runs applicants through adverse media databases. The adverse media dataset is a real-time structured data feed of companies and individuals subject to adverse media. Monitoring thousands of news sources, business and trade journals, in addition to local, regional and national newspapers, the adverse media feed isolates and highlights any entities or individuals subject to a range of adverse media. The Exchange utilizes the database to trigger enhanced due diligence, because applicants with adverse media may be more likely to engage in certain types of unlawful activity including market manipulation.

(iv) **Sanctions**: Exchange Members must agree to the terms and conditions of the Exchange's Rulebook before being allowed to trade. As a result, Members are subject to disciplinary actions and fines for engaging in improper market conduct that is prohibited by the Exchange's Rulebook. In the event that suspicious trading activity is detected and results in an investigation initiated by the Exchange, market participants are required to provide the Exchange with information relevant to the scope of the investigation under Rule 3.2. Chapter 9 of the Exchange's Rulebook details the process for discipline and rule enforcement. Disciplinary action can range from a letter of warning to fines to referral to governmental authorities that can result in criminal prosecution.

In addition to these global policies and safeguards, there are a number of contract specific attributes and considerations that render the Contract not readily susceptible to manipulation.

Considering the vast stakes of the announcement, the decision on who to nominate for the Cabinet would likely be highly centralized among a small set of top advisors and the President himself. Those officials would be highly unlikely to manipulate the market for several reasons: first, they are unable to trade on the platform due to our KYC/market-surveillance program. Second, trading on highly classified information (such as the next head of Justice Department) would not only violate law, but violate their security clearance agreements and risk not only termination but imprisonment as well. Being able to trace that individual would be quite easy, both thanks to market surveillance and because the set of possible individuals is so small. Third, that small set of individuals is self-selected based in part on their strong track record of confidentiality and ethics: they pass highly detailed background checks and all have long histories in dealing with secure information. The probability that they would violate those agreements to trade on a monitored contract or manipulate the outcome to help others on the Contract, which is subject to maximum exposure limits, is highly remote.

Further, as part of the Exchange's KYC verification and monitoring system, the Exchange also cross-checks applicants against comprehensive databases. In particular, the Exchange will check whether any Members trading on this Contract are on databases of Politically Engaged Persons. The Exchange further cross checks applicants against databases of family members and close associates of Politically Engaged Persons. These checks help to further reduce the potential for trading violations and further increase the integrity of this Contract.

Core Principle 4 - Prevention of Market Disruption: Trading in the Contracts will be subject to the Rules of the Exchange, which include prohibitions on manipulation. Trading activity in the Contract will be subject to monitoring and surveillance by the Exchange's Market Surveillance Department. In particular, the Exchange's trade surveillance system monitors the trading on the Exchange to detect and prevent activities that threaten market integrity and market fairness including manipulation, price distortion, and disruptions of the settlement process. The Exchange also performs real-time market surveillance. The Exchange sets position limits, maintains both a trade practice and market surveillance program to monitor for market abuses, including manipulation, and has disciplinary procedures for violations of the Rulebook.

Core Principles 7 and 8 - Availability of General Information and Daily Publication of Trading Information: Core Principles 7 and 8, implemented by Regulations Sections Subsections 38.400, 38.401, 38.450, and 38.451, require a DCM to make available to the public accurate information regarding the contract terms and conditions, daily information on contracts such as settlement price, volume, open interest, and opening and closing ranges, the rules, regulations, and mechanisms for executing transactions on or through the facilities of the contract market, and the rules and specifications describing the operation of the contract market's electronic matching platform.

Rule 2.17 of the Rulebook sets forth the rules for publicizing information. The Rulebook and the specifications of each contract are made public on the Exchange website and remain accessible via the platform. The Exchange will post non-confidential materials associated with regulatory filings, including the Rulebook, at the time the Exchange submits such filings to the Commission. Consistent with Rule 2.17 of the Rulebook, the Exchange website will publish contract specifications, terms, and conditions, as well as daily trading volume and open interest for the Contract. Each contract has a dedicated "Market Page" on the Kalshi Exchange platform, which will contain the information described above as well as a link to the Underlying used to determine the Expiration Value of the Contract. Chapter 5 sets forth the rules, regulations and mechanisms for executing transactions, and the rules and specifications for Kalshi's trading systems.

Core Principle 11 - Financial Integrity of Transactions: Each Member must be in good standing and in compliance with the Member eligibility standards set forth in Chapter 3 of the Rulebook. All contracts offered by the Exchange, including the Contract, are cleared through the Clearinghouse, a Derivatives Clearing Organization ("DCO") registered with the CFTC and subject to all CFTC Regulations related thereto. The Exchange requires that all trading be fully cash collateralized. As a result, no margin or leverage is permitted, and accounts must be pre-funded. The protection of customer funds is monitored by the Exchange and ensured by the Clearinghouse as "Member Property."

All Remaining Requirements: All remaining Core Principles are satisfied through operation of the Exchange's Rules, processes, and policies applicable to the other contracts traded thereon. Nothing in this contract requires any change from current rules, policies, or operational processes.