

KalshiEX LLC

Rule 40.2 New Contract Submission: ~~“Will the Consumer Price Index (How much will CPI) increase more than <percent>?”~~?

06/28/December 11, 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 ~~“Will the Consumer Price Index (How much will CPI) increase more than <percent>?”~~ contract is a contract relating to percentage increases in the value of the Consumer Price Index (“CPI”) several months in the future. The Contract will allow market participants to hedge the risk of an increase of inflation over the medium to long-term. 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.

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 Appendix B.

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, including regulations under the Act.

Relevant Contract Terms and Conditions: The Contract operates similar to the other binary contracts that the Exchange is self-certifying for trading. In particular, 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. While trading on the contract is open, Members are able to adjust their positions and trade freely. After trading on the contract has closed, the market is settled by the Exchange and the long position holders and short position holders are paid according to the outcome of the market. In this case, “long position holder” refers to a Member who purchased the “Yes” side of the

contract and “short position holder” refers to a Member who purchased the “No” side of the contract. Depending on the outcome of the market, as determined by the Exchange, one of two payout processes is triggered. If the Market Outcome is “Yes”, meaning that the value of the seasonally adjusted Consumer Price Index for All Urban Consumers (CPI-U) for the statistical period of <month> increases by more than <percent>, then the long position holder is paid an absolute amount proportional to the size of their position and the short position holder receives no payment. Otherwise, if the Market Outcome is “No”, then the short position holder is paid an absolute amount proportional to the size of their position and the long position holder receives no payment. Further specification of the circumstances that would trigger a settlement in the “Yes” direction are included below in the section titled “Payout Criterion” in Appendix A.

Contract Specifications:

Underlying	The signed one-month percent change in the seasonally adjusted Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics (“BLS”) (https://www.bls.gov/cpi/). Further analysis regarding the Underlying, including a discussion of data collection methodology and considerations related to Core Principle 3, are covered in Confidential Appendix C and Confidential Appendix D.
Payout Criterion	The Payout Criterion encompasses Expiration Values that are strictly greater than <percent>.
Contract Size	The Exchange takes the view that maximizing the commercial usefulness of any product dictates that the contract size should conform to commercial norms. Therefore, as with other similar contracts offered by the Exchange, the Contract is sized with a one-dollar notional value to enable Members to match the size of the contracts purchased to their economic risks.
Listing Cycle	<p>For contracts whose Expiration Value is based on the outcome of recurrent data releases, Expirations will be listed consistently by a time period corresponding to the cadence of Underlying data releases. For contracts whose Expiration Value is not based upon the outcome of recurrent data releases, Expirations will be listed on an as-needed basis at the discretion of the Exchange and corresponding to the risk management needs of Members.</p> <p>The Contract is based on the outcome of a recurrent data release which is issued on a monthly basis (the Consumer Price Index). Thus, Expirations for the Contract will be listed on a monthly basis.</p> <ul style="list-style-type: none"> I.—The issuance of the initial contract will be on June 30, 2021. II.—The issuance of each subsequent contract will correspond to the next month and be announced and posted on the Exchange website. After the initial contract, subsequent contracts will be issued on the Expiration Date of the previous iteration of the contract to reflect the monthly schedule of the Bureau of Labor Statistics’s Consumer Price

	<p>Index (“CPI”) report releases.</p> <p>III. — The Exchange will list additional contract months on a recurring basis and will publish all available contract months on its website.</p>
Tick Size	<p>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. A minimum price fluctuation of \$0.01 is the standard tick size on the Exchange.</p>
Position Limit	<p>The Exchange has imposed position limits (defined as maximum loss exposure) of \$25,000 USD on the Contract.</p>
Trading Hours	<p>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.</p>
Fees	<p>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.</p>
Contract Modifications	<p>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.</p>

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

Rule 100.4

Contract: ~~“Will the Consumer Price Index (Official Product Name: How much will CPI) increase more than <percent>?”?~~
Ticker and Rulebook: CPI

Scope: These rules shall apply to the contract referred to as ~~“Will the Consumer Price Index (CPI) increase more than <percent>?”.~~CPI.

Underlying: The Underlying for this Contract is the signed one-month percent change in the seasonally adjusted Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics (“BLS”~~(?)~~). Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Instructions: The Underlying can be accessed at <https://www.bls.gov/cpi/>. A schedule of release dates is available on the BLS website (https://www.bls.gov/schedule/news_release/cpi.htm), and the data is ~~typically~~ released at 8:30am ET. Each month’s report is available at the following stable URL, which automatically displays the latest available report: <https://www.bls.gov/news.release/pdf/cpi.pdf>. The Underlying is typically listed in the first sentence of the first page of the monthly report under the heading “CONSUMER PRICE INDEX-[Month/Year]”. For example, in the CPI report for ~~April~~June 2021, the first sentence is “the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.~~89~~89 percent in ~~April~~June on a seasonally adjusted basis...” so 0.~~89~~89 percent would be the Expiration Value for the month of ~~April~~June 2021. ~~Future revisions to the CPI released after Expiration will not be taken into account.~~ Historical reports from prior months are available on the Bureau of Labor Statistics website at the following link: <https://www.bls.gov/bls/news-release/cpi.htm>. If you select the year in question, links to CPI reports from months in that year will be displayed. 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.

Source Agency: The Source Agency is the Bureau of Labor Statistics.

Type: The type of Contract is a Binary Contract.

Issuance: ~~The Issuance of this contract will be in accordance with the information outlined in the “Listing Cycle” section of the Contract Specifications table. The Contract is based on the outcome of a recurrent data release which is issued on a monthly basis (the Consumer Price Index report). Thus, Contracts will be issued on a monthly basis, and subsequent contracts will correspond to the next month. The Issuance of the initial contract will be on June 30, 2021 at 10:00am ET. After the initial contract, subsequent contracts will be issued on the Expiration Date of the previous iteration of the contract to reflect the monthly schedule of the Bureau of Labor Statistics’s Consumer Price Index report releases.~~

Issuance: The Contract is intended to be issued twelve months in advance of <month> ending. At issuance, contracts will be issued for each month of 2022. After January 2022 has passed, the Exchange will list a Contract corresponding to January 2023. The Exchange may list additional contracts with different <percent> levels for a given <month> according to changes in forecasts.

Percent: Kalshi may list ~~“Will the Consumer Price Index (CPI) increase more than <percent>?”~~ LT CPI contracts with <percent> levels that fall within an inclusive range between a maximum value of 10% and a minimum value of 0% at consecutive increments of .01%. Due to the potential for variability in the Underlying, the Exchange may modify <percent> levels in response to suggestions by Members.

Month: <month> refers to a calendar month specified by Kalshi. Kalshi may list ~~“Will the Consumer Price Index (CPI) increase more than <percent>?”~~ LT CPI contracts corresponding to different statistical periods of <month>, ranging from January to December.

Payout Criterion: The Payout Criterion for this Contract encompasses the Expiration Values that are strictly greater than <percent>. If no data is available on the Expiration Date at the Expiration time, the market 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: ~~Unless otherwise noted by the Exchange and indicated on the Exchange website, the~~ The Last Trading Date for the Contract will be the day prior to of the scheduled data release date of the next Consumer Price Index Report for <month>. The Last Trading Time for the Contract is 7:00pm ET on the Last Trading Date. No trading in the Contract shall occur after its Last Trading Date and Time. A calendar of future Consumer Price Index report release dates is available at the following page: https://www.bls.gov/schedule/news_release/cpi.htm.

~~For example, the Last Trading Date of the initial contract will be July 12, 2021 and the Last Trading Time will be 7:00 PM ET on July 12, 2021 because the next Consumer Price Index report will be issued on July 13, 2021 8:25 AM ET.~~

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 Expiration Date of the Contract shall be the ~~release date~~sooner of the ~~next Consumer Price Index report. For example, first~~ 10:00 AM ET following data being released for <month>, or one week following the ~~Expiration Date of the initial contract will~~date data is scheduled to be ~~July 13, 2021 because the next Consumer Price Index report will be issued on July 13, 2021.~~released for <month>.

Expiration time: The Expiration time of the Contract shall be ~~6:00pm~~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 for the statistical period of <month> 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.

|

