

From: [Lave, Jonathan](#)
To: "[Tarek Mansour](#)"; "[Sam Vergara](#)"; "[Jeffrey Bandman](#)"; "[Luana Lopes Lara](#)"
Cc: [Lee, Jasmine](#)
Subject: Kalshi DCM Application First Round of Questions 2-5-20
Date: Wednesday, February 5, 2020 8:58:00 AM
Attachments: [Kalshi DCM Application First Round of Questions 2-5-20.docx](#)

All

Please find our first round of questions. Questions regarding compliance with system safeguards will be sent at a later date.

To keep the review moving along, please provide responses by February 21. In addition, please let us know when you expect to be ready to demonstrate your CLOB and surveillance functionalities.

Thank you

Jonathan

Jonathan M. Lave

Associate Director, Market Review
Division of Market Oversight, U.S. Commodity Futures Trading Commission
1155 21st Street, NW | Washington, DC 20581 | jlave@cftc.gov
Tel: 202.418.5983

Kalshi DCM Application: First Round of Questions

- 1) In the compliance manual (b)(4)
(b)(4)

- 2) Please explain how Kalshi will ensure that the market making affiliate will not be able to access the DCM’s non-public information. Where will the affiliate be located in relation to the contract market (e.g. same building, same floor or same room)?

- 3) **Commission regulation 38.151:** Exhibit K (b)(4)
(b)(4)

- 4) **Commission regulation 38.151:** Please add a provision to the compliance manual or rulebook that (b)(4)
(b)(4)

- 5) **Commission regulation 38.152:** Please specify in the rulebook the specific prohibitions listed in Commission regulation 180.1: (1) Use or employ, or attempt to use or employ, any manipulative device, scheme, or artifice to defraud; (1) Use or employ, or attempt to use or employ, any manipulative device, scheme, or artifice to defraud; (2) Make, or attempt to make, any untrue or misleading statement of a material fact or to omit to state a material fact necessary in order to make the statements made not untrue or misleading; or (3) Engage, or attempt to engage, in any act, practice, or course of business, which operates or would operate as a fraud or deceit upon any person. Specify in the rulebook prohibitions against wash trading and front-running.

- 6) **Commission regulation 38.153:** Please add rules that members must keep complete and accurate books and records and that such books and records should be available for inspection by an authorized representative of the exchange, or upon request of the Commission. Members must keep records of all transactions for a total of five years and that such records be readily accessible for the first two years.

- 7) **Commission regulation 38.155:** Exhibit F, p.1 (Staffing resources) indicates (b)(4)
(b)(4)
(b)(4)

(b)(4)

(b)(4)

- 8) **Commission regulation 38.156:** Kalshi Rule 3.1(a)(5)(iii) specifies that a member must certify that “it will trade only for itself and will not serve as an intermediary for any other Person.” Please confirm that Kalshi does not allow intermediated trading.
- 9) **Commission regulation 38.156:** The regulation requires that a DCM have the capacity to detect, among other violations, pre-arranged trading and money passes. (b)(4)
(b)(4) We will also need to see a demonstration of this during our demo meeting.
- 10) **Commission regulation 38.157:** What process will Kalshi use to adjust price or cancel trades when necessary to mitigate market disrupting events caused by malfunctions in its platform? Commission regulation 38.157 requires that these standards must be clear, fair, and publicly available.
- 11) **Commission regulation 38.157:** Pursuant to commission regulation 38.157, where orders contain errors that cause disruption, DCMs must have the ability to adjust or cancel trades. Kalshi’s error trade authority, as set forth in Rule 5.10, is limited to instances in which all parties to a contract (more than 50%) notify Kalshi of a potential error. Where only a one party to a trade has made an error (or where only one party agrees that there was an error), Kalshi would not have the authority to adjust or cancel the trade, even if it causes disruption. Please explain. In addition, please explain how Kalshi will handle fat finger errors.
- 12) **Commission regulation 38.200:** Please add a provision to the compliance manual or other document which provides (b)(4)
(b)(4)

- 13) **Commission regulation 38.250:** Please explain how Kalshi will utilize audit trail data on individual traders' market activity on an ongoing basis in order to detect and prevent manipulation, price distortions, and disruptions to the cash settlement process.
- 14) **Commission regulation 38.254(a):** The regulation requires that Kalshi “have rules that require traders in its contracts to keep records of their trading, including records of their activity in the underlying commodity and related derivatives markets, and make such records available, upon request, to the DCM.” Please add such rules to the rulebook.
- 15) **Commission regulation 38.254(b):** Please clarify whether Kalshi will have participants trading through intermediaries and if so how the exchange will comply with regulation 38.254(b).
- 16) **Commission regulation 38.255:** Will Kalshi monitor for large trader positions? If so, please point to the relevant document that describes how Kalshi will do this.
- 17) **Commission regulation 38.256:** Please add to Exhibit S that (b)(4)
(b)(4)
- 18) **Commission regulation 38.330:** Please add a provision to rulebook or other document stating (b)(4)
- 19) **Commission regulation 38.350:** Please set forth in rule 2.8 (b)(4)
(b)(4)
- 20) **Commission regulation 38.552:** (b)(4)
(b)(4)
- 21) **Commission regulation 38.553:** The regulation requires that Kalshi must enforce its audit trail and recordkeeping requirements through at least annual reviews of all members and persons and firms subject to DCM recordkeeping rules to verify their compliance with the DCM's audit trail and recordkeeping requirements. Please add a provision to the rule book that requires all members and persons and firms subject to Kalshi’s recordkeeping rules to verify their compliance with Kalshi’s audit trail and recordkeeping requirements. Please explain how Kalshi will conduct verification. What sanctions will be imposed on members who do not satisfy the recordkeeping requirements?

- 22) **Commission regulation 38.701:** Please add to compliance manual or rulebook requirement that

(b)(4)

- 23) **Commission regulation 38.703:** Please amend the rules to clarify that if the compliance staff determines that a reasonable basis exists for finding a violation and that adjudication is warranted, it must direct that the person or entity alleged to have committed the violation be served with a notice of charges. The notice of charges will adequately state the acts, conduct, or practices in which the respondent is alleged to have engaged; state the rule, or rules, alleged to have been violated (or about to be violated); and prescribe the period within which a hearing on the charges may be requested. The notice will also advise that the charged respondent is entitled, upon request, to a hearing on the charges.

- 24) **Commission regulation 38.704:** Please clarify in rule 9.7 that

(b)(4)

- 25) **Commission regulation 38.707:** Please add rules providing: 1) at a hearing, the enforcement staff must present their case on those charges and sanctions that are the subject of the hearing; 2) the respondent is entitled to appear personally at the hearing, to cross-examine any persons appearing as witnesses at the hearing, and to call witnesses and to present such evidence as may be relevant to the charges; and 3) persons within Kalshi's jurisdiction who are called as witnesses must participate in the hearing and to produce evidence.
- 26) **Commission regulation 38.710:** Please point to a provision in the rulebook which sets forth the requirements in Commission regulation 38.710 or add such a provision.
- 27) **Commission regulation 38.750:** Please add more detail to the arbitration rules. Note that the NFA arbitration rules are an example of acceptable rules.
- 28) **Commission regulation 38.850:** Please revise rule 2.2 to comport with the definition of public director set forth in the guidance on, and acceptable practices in, compliance with core principles for core principle 16.
- 29) **Commission regulation 38.850:** If accurate, please specify that the rule 2.4(a) restrictions also include serving on a disciplinary panel.
- 30) **Commission regulation 38.850:** Please revise rule 2.6 to state that the ROC will

(1) Monitor the contract market's regulatory program for sufficiency, effectiveness, and independence;

(2) Oversee all facets of the program, including trade practice and market surveillance; audits, examinations, and other regulatory responsibilities with respect to member firms (including ensuring compliance with financial integrity, financial reporting, sales practice, recordkeeping, and other requirements); and the conduct of investigations;

(3) Review the size and allocation of the regulatory budget and resources; and the number, hiring and termination, and compensation of regulatory personnel;

(4) Supervise the contract market's chief regulatory officer, who will report directly to the ROC;

(5) Recommend changes that would ensure fair, vigorous, and effective regulation; and

(6) Review regulatory proposals and advise the board as to whether and how such changes may impact regulation.

31) **Commission regulation 38.1000:** Please add a provision to the compliance manual that (b)(4)

(b)(4)

32) **Commission regulation 38.1100:** Exhibit I states: (b)(4)

(b)(4)

To demonstrate compliance with Core Principle 21, Kalshi must submit financial information about the KalshiEX LLC, not the parent company. Kalshi must also submit KalshiEX LLC projected operating costs for the next 12 months and demonstrate that KalshiEX LLC has liquid assets that exceed 6 months of operating expenses. The liquid assets have to be backed up by a bank statement showing the existence of those assets.

From: [Tarek Mansour](#)
To: [Lave, Jonathan](#)
Cc: [Lee, Jasmine](#); [Sam Vergara](#); [Jeffrey Bandman](#); [Luana Lopes Lara](#)
Subject: [EXTERNAL] Re: Kalshi DCM Application First Round of Questions 2-5-20
Date: Friday, February 21, 2020 6:25:56 PM
Attachments: [Submission - Kalshi DCM Application First Round of Questions 2-21-20.zip](#)
[FOIA - Confidentiality Request.pdf](#)

Jonathan and Jasmine,

Thank you again for the questions and valuable feedback you have provided with respect to KalshiEX LLC's DCM application. Attached find answers to the questions provided and amendments we have made to the relevant exhibits as requested as "Submission - Kalshi DCM Application First Round of Questions and Answers 2-21-20". As always, we welcome any feedback and thoughts that you have with respect to this round of answers.

We are submitting simultaneously a petition for confidential treatment of the application materials to the Assistant Secretary of the Commission for Freedom of Information pursuant to **Section 145.9(d)** of the Commission's regulations promulgated under the Act, a copy of which is enclosed with this letter.

If you have any questions regarding this submission, please don't hesitate to contact me at tarek@kalshi.com or [617-909-1097](tel:617-909-1097).

Sincerely,

Tarek Mansour
Chief Executive Officer

Sent via [Superhuman](#)

On Wed, Feb 05, 2020 at 5:58 AM, Jonathan Lave <JLave@cftc.gov> wrote:

All

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Thank you

Jonathan

Jonathan M. Lave

Associate Director, Market Review

Division of Market Oversight, U.S. Commodity Futures Trading Commission

1155 21st Street, NW | Washington, DC 20581 | jlave@cftc.gov

Tel: 202.418.5983

From: [Lee, Jasmine](#)
To: tarek@kalshi.com; [Luana Lopes Lara](#); [Jeffrey Bandman](#); [Sam Vergara](#)
Cc: [Lave, Jonathan](#)
Subject: Kalshi DCM Application - 2nd Round questions 2.25.20
Date: Tuesday, February 25, 2020 2:31:21 PM
Attachments: [Kalshi Second Round of Questions 2.25.20.docx](#)
[image002.png](#)
[image004.png](#)
[image006.png](#)
[image008.png](#)
[image010.png](#)

Hello Tarek,

Please find attached the 2nd Round of questions related to the Kalshi DCM application review, compiled by staff.

In the interest of keeping things moving along with the review, please provide Kalshi's response by March 10.

Also, please let us know when you expect to be ready to demonstrate your CLOB and surveillance functionalities. For your reference, we sent the demo list via e-mail on January 9.

Kind Regards,



Jasmine Lee
Special Counsel, Division of Market Oversight
Commodity Futures Trading Commission
202-418-5226
JLee@cftc.gov



Kalshi Second Round of Questions

1. Rule 6.3(b)(1) in the Kalshi rulebook states that Kalshi will notify all Members which Contract is going to pay a Settlement Value and which Contract will not Pay a Settlement Value. Doesn't each Contract pay a Settlement Value, either to the long or the short? We note that Rule 6.3(a) states that when a Contract expires and has a Payout Criterion that encompasses the Expiration Value of the Underlying, the Contract will pay the Settlement Value to the holders of the long positions, while if a Contract expires and has a Payout Criterion that does not encompass the Expiration Value of the Underlying it will pay the Settlement Value to the holders of the short positions.
2. Rules 5.3 and 6.3 provide that Kalshi will settle trades. Settlement is generally done by the DCO. Have (b)(4) and Kalshi agreed to a different arrangement? If not, please explain how these rules comport with the role of the DCO at settlement or revise the rules.
3. Rule 6.3(b)(2) states that Kalshi will "immediately" settle the Contracts, while Rule 6.3(c) states that (b)(4)
(b)(4)
4. Rule 6.4(a) states that "(b)(4) will...distribute funds to the account..." Typically, Clearing Member funds would be held by the DCO's settlement bank rather than by the DCO itself. Should this language be broadened to provide for the possibility that (b)(4) (b)(4) will cause its settlement bank to distribute the funds?
5. In the Clearing Services Term Sheet, (b)(4)
(b)(4)
6. (This question is related to the two previous questions) (b)(4) of the Clearing Services Term Sheet states (b)(4)
(b)(4)
7. Rule 6.2 provides "Kalshi will maintain, on its system, a record of Member balances and Contracts. Kalshi will also maintain a Member Account, which will reflect funds used by Members to buy and sell Contracts. Kalshi may also maintain a 'proprietary account,' which will be credited with all fees debited from Member Accounts due to trades and expiration settlements." The term "Member Account" is defined in the rulebook to be "an account carried by Kalshi's Derivatives Clearing Organization partner, [REDACTED], on behalf of a Member." Is the "Member Account" referred to in 6.2 the same as the defined term? If so, please explain how an account can be carried by the DCO and maintained by Kalshi? If not, please revise as appropriate.
8. Various rules (e.g. Rules 3.6, 6.2 and 9.5) provide that Kalshi will be able to remove money from the Member Account, which as noted above is "carried at the DCO." Staff believes that this an unusual arrangement and it may lead to a Member Account being

underfunded. Has (b)(4) agreed to this arrangement? If so, what protections are in place to ensure that Member Accounts continue to have sufficient funds?

9. Various rules refer to a “Kalshi settlement account.” Where is the account held? What funds will be entered into the account? Who will have control over the account? What purpose does it serve?
10. Rule 8.1 refers to “member funds on deposit with Kalshi.” What member funds will be on deposit at Kalshi? What is the account in which they be held?
11. Please list all of the types of accounts that will be associated with Kalshi, and for each account, state the purpose of the account, where the account will be held, what funds will be in the account, and who will have access to the funds.
12. (b)(4)
13. Finally, please provide a very recent balance sheet for KalshiEX LLC (as recent as 1/31/20 if available).

From: [Lave, Jonathan](#)
To: tarek@kalshi.com; [Luana Lopes Lara](#); [Jeffrey Bandman](#); [Sam Vergara](#)
Cc: [Lee, Jasmine](#)
Subject: Kalshi DCM Application - 3rd Round questions 2.28.20
Date: Friday, February 28, 2020 8:43:00 AM
Attachments: [Kalshi Third Round of Questions 2.28.20.docx](#)
[image001.png](#)

Tarek:

Attached, please find the 3rd round of questions related to the Kalshi DCM application review. In the interest of keeping things moving along with the review, please provide Kalshi's response by March 10.

Best

Jonathan



Jonathan M. Lave
Associate Director, Market Review
Division of Market Oversight
Commodity Futures Trading Commission
202-418-5983
jlave@cftc.gov

Kalshi Third Round of Questions

- 1) Please clarify the extent to which (b)(4)
(b)(4)
- 2) Please provide a copy of your signed AWS Service Agreement.
- 3) Kalshi has indicated that (b)(4)
(b)(4). Please clarify the extent to which (b)(4)
(b)(4)
- 4) Please describe the capacity and performance testing you have completed on the trading engine and related infrastructure. Has Kalshi established benchmarks or internal SLAs for messages/sec or transactions/sec?
- 5) Please provide an update on the current state of Kalshi's overall governance organization, including plans for filling vacancies on the Board.
- 6) Please provide a copy of the system safeguards and cybersecurity awareness training.
- 7) Please provide results of most recent internal and external penetration test and related vulnerability scan results.
- 8) Has Kalshi considered retaining an independent firm to conduct IT control testing, either prior to or after launch? If so, please provide the contract (b)(4)
- 9) What measures have been taken to address separation of duties and the principle of least privilege, in light of Kalshi's small staff?
- 10) Has Kalshi determined (b)(4)
(b)(4)
- 11) Please provide a current copy of your Risk Log from each business unit. (b)(4)
(b)(4)
- 12) Please provide a copy of Security Incident Response Plan ("SIRP").
- 13) Please provide results of the most recent exercise of the SIRP.

From: [Lave, Jonathan](#)
To: "Tarek Mansour"; [Lee, Jasmine](#)
Cc: [Sam Vergara](#); [Jeffrey Bandman](#); [Luana Lopes Lara](#)
Subject: Fourth Round of Questions
Date: Monday, March 16, 2020 12:27:00 PM
Attachments: [image006.png](#)

Tarek

Please find our fourth round of questions. Please provide responses by the end of the month at the latest.

Best

Jonathan



Jonathan M. Lave
Associate Director, Market Review
Division of Market Oversight
Commodity Futures Trading Commission
202-418-5983
jlave@cftc.gov

Kalshi Fourth Round of Questions

- 1) Please identify all vendors that will be providing as well as prepared in conjunction with Kalshi's due diligence activities.
- 2) Has Kalshi based its information security program on a particular industry framework (e.g., ISO, NIST, COBIT, etc.)?
- 3) Please provide additional information concerning Kalshi's approach to maintaining an accurate inventory of physical assets, including the frequency at which informal or formal audits will be performed.
- 4) Please provide any policies and procedures concerning the issuance of physical assets to employees, including any joiner/leaver workflows, to the extent applicable.
- 5) Please provide a copy of the risk analysis performed to determine the frequency of penetration testing.
- 6) Please provide an update on when Kalshi expects to begin vulnerability scanning and penetration testing.
- 7) Please provide an update on when Kalshi expects to perform capacity and performance testing.
- 8) Please describe the physical security and environmental controls for Kalshi's physical office space.
- 9) Please provide a copy of your service agreement with
- 10) Please provide a copy of your service agreement with
- 11) Please describe the extent to which Kalshi will rely on 's telecommunications infrastructure and other utilities. Are there redundancies for these services, in the event of a disruption?
- 12) Please provide your pandemic plan.
- 13) Please provide the results of any BC-DR testing you have completed.

From: [Tarek Mansour](#)
To: [Lave, Jonathan](#)
Cc: [Luana Lopes Lara](#); [Jeffrey Bandman](#); [Sam Vergara](#); [Lee, Jasmine](#); [Gregory, Lois J.](#)
Subject: [EXTERNAL] RE: Re: Kalshi DCM Application - 2nd Round questions 2.25.20
Date: Monday, March 23, 2020 1:41:25 PM
Attachments: [image001.png](#)
[image002.png](#)
[image003.png](#)
[image004.png](#)
[image005.png](#)
[Exhibit I-2 - KalshiEX LLC Operating Costs v1.1.pdf](#)

Jonathan and Lois,

Great to chat last time and thanks for the feedback. Attached is an updated Exhibit I-2 showing (b)(4)

Thank you,

Tarek

Sent via [Superhuman](#)

On Wed, Mar 11, 2020 at 7:06 AM, Jonathan Lave <JLave@cftc.gov> wrote:

Tarek

Thank you for the responses.

Lois Gregory, who is ccd on this email, is reviewing your financial documents. She would like to discuss whether Kalshi meet the net asset test. Please let us know when you might be free to have this conversation.

Jonathan

From: Tarek Mansour [mailto:tarek@kalshi.com]
Sent: Tuesday, March 10, 2020 6:27 PM
To: Lee, Jasmine
Cc: Lave, Jonathan; Luana Lopes Lara; Jeffrey Bandman; Sam Vergara
Subject: [EXTERNAL] Re: Kalshi DCM Application - 2nd Round questions 2.25.20

Jonathan and Jasmine,

Thank you again for the questions provided with respect to KalshiEX LLC's DCM application. Attached find answers to the questions provided and amendments we have made to the relevant exhibits as requested as "Submission - Kalshi DCM Application Second Round of Questions and Answers 3-10-20". As always, we welcome any feedback and thoughts that you have with respect to this round of answers.

We are submitting simultaneously a petition for confidential treatment of the application materials to the Assistant Secretary of the Commission for Freedom of Information pursuant to **Section 145.9(d)** of the Commission's regulations promulgated under the Act, a copy of which is enclosed with this letter.

If you have any questions regarding this submission, please don't hesitate to contact me at tarek@kalshi.com or [617-909-1097](tel:617-909-1097).

Sincerely,

Tarek Mansour

Chief Executive Officer

Sent via [Superhuman](#)

On Tue, Feb 25, 2020 at 11:31 AM, Jasmine Lee <JLee@cftc.gov> wrote:

Hello Tarek,

Please find attached the 2nd Round of questions related to the Kalshi DCM application review, compiled by staff.

In the interest of keeping things moving along with the review, please provide Kalshi's response by March 10.

Also, please let us know when you expect to be ready to demonstrate your CLOB and surveillance functionalities. For your reference, we sent the demo list via e-mail on January 9.

Kind Regards,



Jasmine Lee

Special Counsel, Division of Market Oversight

Commodity Futures Trading Commission

202-418-5226

JLee@cftc.gov



From: [Tarek Mansour](#)
To: [Gregory, Lois J.](#)
Cc: [Lave, Jonathan](#); [Lee, Jasmine](#)
Subject: [EXTERNAL] RE: RE: RE: Re: Kalshi DCM Application - 2nd Round questions 2.25.20
Date: Tuesday, March 24, 2020 12:09:09 PM
Attachments: [image002.png](#)
[image001.png](#)
[image005.png](#)
[image003.png](#)
[image004.png](#)
[LLC Bank Funds Screenshot.png](#)

Apologies, sent the wrong attachment. The screenshot is (correctly) attached here.

Sent via [Superhuman](#)

On Tue, Mar 24, 2020 at 9:03 AM, Tarek Mansour <tarek@kalshi.com> wrote:

Lois,

I have attached a screenshot of our bank account showing the balance. Is this what is expected? I can ask our banking provider if this is not what is intended.

Thank you!

Tarek

Sent via [Superhuman](#)

On Tue, Mar 24, 2020 at 8:52 AM, Lois J. Gregory <lgregory@cftc.gov> wrote:

Hi Tarek. Thanks for sending the letter but we always get a an actual screenshot of a computer database of the bank that shows the actual funds on deposit. Is that possible here? Thank you,
Lois Gregory

From: Tarek Mansour [mailto:tarek@kalshi.com]
Sent: Monday, March 23, 2020 4:29 PM
To: Gregory, Lois J.
Cc: Lave, Jonathan; Sam Vergara; Jeffrey Bandman; Luana Lopes Lara
Subject: [EXTERNAL] RE: RE: RE: Re: Kalshi DCM Application - 2nd Round questions 2.25.20

Lois,

Definitely! Please find attached a Statement of Funds and a Bank Letter reflecting the

amount in the savings account.

Thank you,

Tarek

Sent via [Superhuman](#)

On Mon, Mar 23, 2020 at 10:59 AM, Lois J. Gregory <lgregory@cftc.gov> wrote:

Tarek – We need a bank screen shot supporting the amount in the savings account. We ask this of all applicants. Thank you. Lois Gregory

From: Tarek Mansour [mailto:tarek@kalshi.com]

Sent: Monday, March 23, 2020 1:40 PM

To: Lave, Jonathan

Cc: Luana Lopes Lara; Jeffrey Bandman; Sam Vergara; Lee, Jasmine; Gregory, Lois J.

Subject: [EXTERNAL] RE: Re: Kalshi DCM Application - 2nd Round questions 2.25.20

Jonathan and Lois,

Great to chat last time and thanks for the feedback. Attached is an updated Exhibit I-2 showing (b)(4)

Thank you,

Tarek

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On Wed, Mar 11, 2020 at 7:06 AM, Jonathan Lave <JLave@cftc.gov> wrote:

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Thank you for the responses.

Lois Gregory, who is ccd on this email, is reviewing your financial documents. She would like to discuss whether Kalshi meet the net asset test. Please let us know when you might be free to have this conversation.

Jonathan

From: Tarek Mansour [mailto:tarek@kalshi.com]
Sent: Tuesday, March 10, 2020 6:27 PM
To: Lee, Jasmine
Cc: Lave, Jonathan; Luana Lopes Lara; Jeffrey Bandman; Sam Vergara
Subject: [EXTERNAL] Re: Kalshi DCM Application - 2nd Round questions 2.25.20

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Sincerely,

Tarek Mansour

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To: [Gregory, Lois J.](#)
Cc: [Lave, Jonathan](#); [Sam Vergara](#); [Jeffrey Bandman](#); [Luana Lopes Lara](#)
Subject: [EXTERNAL] RE: RE: Re: Kalshi DCM Application - 2nd Round questions 2.25.20
Date: Monday, March 23, 2020 4:32:25 PM
Attachments: [image001.png](#)
[image002.png](#)
[image003.png](#)
[image004.png](#)
[image005.png](#)
[Statement of Funds - KalshiEx.pdf](#)
[Bank Letter - KalshiEx.pdf](#)

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Sent: Monday, March 23, 2020 1:40 PM
To: Lave, Jonathan
Cc: Luana Lopes Lara; Jeffrey Bandman; Sam Vergara; Lee, Jasmine; Gregory, Lois J.
Subject: [EXTERNAL] RE: Re: Kalshi DCM Application - 2nd Round questions 2.25.20

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We are submitting simultaneously a petition for confidential treatment of the application

materials to the Assistant Secretary of the Commission for Freedom of Information pursuant to **Section 145.9(d)** of the Commission's regulations promulgated under the Act, a copy of which is enclosed with this letter.

If you have any questions regarding this submission, please don't hesitate to contact me at tarek@kalshi.com or [617-909-1097](tel:617-909-1097).

Sincerely,

Tarek Mansour

Chief Executive Officer

Sent via [Superhuman](#)

On Tue, Feb 25, 2020 at 11:31 AM, Jasmine Lee <JLee@cftc.gov> wrote:

Hello Tarek,

Please find attached the 2nd Round of questions related to the Kalshi DCM application review, compiled by staff.

In the interest of keeping things moving along with the review, please provide Kalshi's response by March 10.

Also, please let us know when you expect to be ready to demonstrate your CLOB and surveillance functionalities. For your reference, we sent the demo list via e-mail on January 9.

Kind Regards,

Jasmine Lee

Special Counsel, Division of Market Oversight

Commodity Futures Trading Commission

202-418-5226

JLee@cftc.gov



From: [Lave, Jonathan](#)
To: "Tarek Mansour"
Cc: "Sam Vergara"; "Jeffrey Bandman"; "Luana Lopes Lara"; Lee, Jasmine
Subject: RE: Kalshi DCM Application - 5th Round of Questions
Date: Monday, March 30, 2020 9:09:00 AM
Attachments: [Kalshi Fifth Round of Questions.docx](#)
[image001.png](#)

Please respond to the attached document. I inadvertently sent you an earlier draft.

From: Lave, Jonathan
Sent: Monday, March 30, 2020 9:04 AM
To: 'Tarek Mansour'
Cc: Sam Vergara; Jeffrey Bandman; Luana Lopes Lara; Lee, Jasmine
Subject: Re: Kalshi DCM Application - 5th Round of Questions

All:

Please find the fifth round of questions. Please contact Jasmine or me if you have any questions / concerns.

Jonathan



Jonathan M. Lave
Associate Director, Market Review
Division of Market Oversight
Commodity Futures Trading Commission
202-418-5983
jlave@cftc.gov

Kalshi Fifth Round of Questions

- 1) Please review the Covid-19 no-action letters recently issued by CFTC staff and determine if any would be applicable to Kalshi. If so, please revise the appropriate documents and cite to the letters in the revised provisions.
- 2) **Commission Regulation 38.157:** (b)(4)
(b)(4)
- 3) **Commission Regulation 38.157:** Rule 5.10 provides that prices may be adjusted. Please explain the mechanics of a price adjustment. In addition, the rule should provide greater detail as to how Kalshi would determine the correct price. Finally, please determine whether CFTC Letter No. 20-01 is applicable and if so, revise the rules accordingly and cite to the letter.
- 4) **Commission Regulation 38.710:** Rules 9.5 and 9.6 do not satisfy all of the requirements of Commission regulation 38.710. Please revise.

From: [Tarek Mansour](#)
To: [Lave, Jonathan](#)
Cc: [Sam Vergara](#); [Jeffrey Bandman](#); [Luana Lopes Lara](#); [Lee, Jasmine](#)
Subject: [EXTERNAL] Re: Fourth Round of Questions
Date: Tuesday, March 31, 2020 7:47:51 PM
Attachments: [image001.png](#)
[FOIA - Confidentiality Request.com.pdf](#)
[Submission - Kalshi DCM Application Fourth Round of Questions 3-31-20.zip](#)

Jonathan,

Hope all is well. Attached please find answers to the questions provided and relevant exhibits as "Submission - Kalshi DCM Application Fourth Round of Questions and Answers 3-31-20". As always, we welcome any feedback and thoughts that you have with respect to this round of answers.

We are submitting simultaneously a petition for confidential treatment of the application materials to the Assistant Secretary of the Commission for Freedom of Information pursuant to **Section 145.9(d)** of the Commission's regulations promulgated under the Act, a copy of which is enclosed with this letter.

If you have any questions regarding this submission, please don't hesitate to contact me at tarek@kalshi.com or [617-909-1097](tel:617-909-1097).

Sincerely,

Tarek Mansour
Chief Executive Officer

Sent via [Superhuman](#)

On Mon, Mar 16, 2020 at 9:30 AM, Jonathan Lave <JLave@cftc.gov> wrote:

Tarek

Please find our fourth round of questions. Please provide responses by the end of the month at the latest.

Best

Jonathan



Jonathan M. Lave

Associate Director, Market Review

Division of Market Oversight

Commodity Futures Trading Commission

202-418-5983

jlave@cftc.gov

From: [Sam Vergara](#)
To: [Lave, Jonathan](#)
Cc: [Tarek Mansour](#); [Jeffrey Bandman](#); [Luana Lopes Lara](#); [Lee, Jasmine](#)
Subject: [EXTERNAL] Re: Kalshi DCM Application - 5th Round of Questions
Date: Thursday, April 9, 2020 7:52:21 PM
Attachments: [image001.png](#)
[Submission - Kalshi DCM Application Fifth Round of Questions 4-9-20.zip](#)

Hi Jonathan and Jasmine,

Please find attached Kalshi's responses to the fifth round of questions along with an updated copy of the Rulebook. Please also find an updated copy of our Compliance Manual which (b)(4)

(b)(4)

Thanks again for all of your assistance and please do not hesitate to let us know if you require further information.

Kind regards,

Samuel Vergara
Chief Compliance Officer
KalshiEx LLC

On Mon, Mar 30, 2020 at 8:10 AM Lave, Jonathan <JLave@cftc.gov> wrote:

Please respond to the attached document. I inadvertently sent you an earlier draft.

From: Lave, Jonathan
Sent: Monday, March 30, 2020 9:04 AM
To: 'Tarek Mansour'
Cc: Sam Vergara; Jeffrey Bandman; Luana Lopes Lara; Lee, Jasmine
Subject: Re: Kalshi DCM Application - 5th Round of Questions

All:

Please find the fifth round of questions. Please contact Jasmine or me if you have any questions / concerns.

Jonathan



Jonathan M. Lave

Associate Director, Market Review

Division of Market Oversight

Commodity Futures Trading Commission

202-418-5983

jlave@cftc.gov

From: [Lave, Jonathan](#)
To: ["Tarek Mansour"](#)
Cc: [Sam Vergara](#); [Jeffrey Bandman](#); [Luana Lopes Lara](#); [Lee, Jasmine](#)
Subject: Sixth Round of Questions
Date: Tuesday, June 16, 2020 9:06:00 AM
Attachments: [Kalshi 6th Round of Questions.docx](#)
[image001.png](#)

All,

Staff is reviewing our notes and have identified some outstanding issues. Please try to respond by the end of the month.

Thank you

Jonathan



Jonathan M. Lave
Associate Director, Market Review
Division of Market Oversight
Commodity Futures Trading Commission
202-418-5983
jlave@cftc.gov

Sixth Round of Questions

1. § 38.553:

- Section 13.1 of the compliance manual requires (b)(4)
(b)(4)
(b)(4) § 38.553(a) states that a DCM must conduct at least annual reviews of all members and persons and firms subject to the DCM's recordkeeping rules, so (b)(4)
(b)(4)
- § 38.553(b) requires a DCM to have an audit trail enforcement program to identify members and persons and firms subject to DCM recordkeeping rules that have failed to maintain high levels of compliance with such requirements. Kalshi should have a monthly program to review usage patterns or missing/inaccurate critical audit trail fields on a regular basis.

2. § 38.600: Please add provision in the rulebook that Members must also be members of the DCO that clears trades executed on Kalshi or pursuant to Kalshi rules.

3. § 38.702: Please add to rule 2.7 that a disciplinary panel “must not include any members of the DCM's compliance staff or any person involved in adjudicating any other stage of the same proceeding.”

4. § 38.707:

- Please add to rule 9.2(g)(3) that Kalshi shall make reasonable efforts to secure the presence of all other persons called as witnesses whose testimony would be relevant

- Please add to rule (b)(4)

(b)(4)

5. § 38.951: Please add to the rulebook that Kalshi will keep maintain records, including trade records and investigatory and disciplinary files, in accordance with the requirements of § 1.31

6. § 38.1100: Please note that Kalshi will need to submit documents that demonstrate its ability to comply with financial resource requirements once the stay is lifted.

7. § 38.1200: Please add a provision in the compliance manual that (b)(4)

(b)(4)

From: [Lave, Jonathan](#)
To: "Sam Vergara"; Tarek Mansour; Luana Lopes Lara; Jeffrey Bandman
Cc: [Lee, Jasmine](#)
Subject: Follow up on 38.553(b) compliance
Date: Monday, June 29, 2020 10:03:00 AM
Attachments: [image001.png](#)

All

I hope you had a nice weekend.

Staff has reviewed your response to 38.553. In your compliance manual, (b)(4)

(b)(4)

Thanks much

Jonathan

From: Sam Vergara [mailto:svergara@kalshi.com]
Sent: Thursday, June 18, 2020 7:23 PM
To: Lee, Jasmine
Cc: Tarek Mansour; Luana Lopes Lara; Jeffrey Bandman; Lave, Jonathan
Subject: [EXTERNAL] Re: Re: Sixth Round of Questions

Jonathan and Jasmine,

Thank you again for the initial and follow-up inquiries. Please find attached Kalshi's formal response for your review as well as all amended exhibits. For simplicity, any follow-up requests have been included as additional items on the response list. You will also find that references to (b)(4) have been amended to now reflect (b)(4).

Please note that Kalshi requests continued dialogue with Commission staff over the reasonable application of § 38.553 and looks forward to scheduling those discussions at the Commission's convenience. Likewise, if I can be of further assistance in resolving any remaining questions or comments, please don't hesitate to let me know.

Kind regards,

Sam Vergara
Chief Compliance Officer
KalshiEX LLC

On Wed, Jun 17, 2020 at 4:52 PM Lee, Jasmine <JLee@cftc.gov> wrote:

Hi Sam,

Thank you for the quick e-mail response and for your note as well. We will use your Kalshi e-mail address going forward.

As you are updating the rulebook in response to staff's requests, as attached to Jonathan's e-mail below, this is just a gentle reminder to update all rulebook sections and subsections that had referred to (b)(4)

Also, in this next round of rulebook edits, would you please add a provision similar to the below? Staff has noted to us that this is a fairly common provision in DCM rulebooks.

The DCO Rules shall prevail in the event of any conflict or inconsistency between the Exchange Rules and the DCO Rules with respect to any Clearing Member's responsibilities or obligations under the DCO Rules. All Clearing Members are bound by the DCO Rules.

Thank you.

Kind Regards,
Jasmine



Jasmine Lee
Special Counsel, Market Review
Division of Market Oversight
Commodity Futures Trading Commission
202-418-5226
jlee@cftc.gov

From: Sam Vergara [mailto:svergara@kalshi.com]
Sent: Wednesday, June 17, 2020 11:05 AM
To: Lee, Jasmine
Cc: Tarek Mansour; Luana Lopes Lara; Jeffrey Bandman; Lave, Jonathan
Subject: [EXTERNAL] Re: Sixth Round of Questions

Hi Jasmine,

Thank you for the email. As a quick response, I can indeed confirm (b)(4) (b)(4). We will accordingly include the amendment with the remaining responses and provide it to you for review shortly.

On a related note - I apologize for any confusion, but please feel free to use my Kalshi email address for future correspondence as I have transitioned to Kalshi full-time and am no longer employed with Bovill.

Kind regards,

Samuel Vergara
Chief Compliance Officer
KalshiEx LLC

From: Lee, Jasmine <JLee@cftc.gov>
Date: Wed, Jun 17, 2020 at 3:47 AM
Subject: RE: Sixth Round of Questions
To: Lave, Jonathan <JLave@cftc.gov>, Tarek Mansour <tarek@kalshi.com>
Cc: Sam Vergara <svergara@bovill.com>, Jeffrey Bandman <jeff@bandmanadvisors.com>, Luana Lopes Lara <luana@kalshi.com>

All,

Quick follow-up question from staff, in addition to the below e-mail. Please respond as soon as possible.

Rule 5.5 Handling of Customer Orders, strongly implies that customer orders are confidential (i.e. (b)(4)) but does not state this outright. Please confirm (b)(4) if that is the case. If this is the case, please update the rulebook to reflect this.

Thank you and Kind Regards,

Error! Filename not specified.

Jasmine Lee
Special Counsel, Market Review
Division of Market Oversight
Commodity Futures Trading Commission
202-418-5226
jlee@cftc.gov

From: Lave, Jonathan
Sent: Tuesday, June 16, 2020 9:07 AM
To: Tarek Mansour
Cc: Sam Vergara; Jeffrey Bandman; Luana Lopes Lara; Lee, Jasmine
Subject: Sixth Round of Questions

All,

Staff is reviewing our notes and have identified some outstanding issues. Please try to respond

by the end of the month.

Thank you

Jonathan

Error! Filename not specified.

Jonathan M. Lave
Associate Director, Market Review
Division of Market Oversight
Commodity Futures Trading Commission
202-418-5983
jlave@cftc.gov