Kalshi

US Gross Domestic Product Contract

Kalshi

June 29, 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 US GDP 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 terms and conditions for the US GDP contract (Contract) to be listed for trading on Kalshi and effective on Wednesday, June 30, 2021 for trading on that date.

Along with this letter, Kalshi submitted the following documents:

- A concise explanation and analysis of the Contract;
- The Contract's specifications;
- 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
Rule 40.2 New Contract Submission: “Will real GDP <increase/decrease> by more than <percent>?”
06/28/2021

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 real GDP <increase/decrease> by more than <percent>?” contract is a contract relating to the growth rate of real GDP as measured by the Bureau of Economic Analysis (“BEA”). The Contract is designed to enable market participants whose businesses or operations are affected by the rate of growth of real GDP to hedge risks associated with changes in the aforementioned rate. 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 rate of growth of U.S. real GDP is a key indicator for the health of the U.S. economy. GDP growth correlates with the growth rate of incomes, corporate profits, and tax revenue in the U.S. economy. Thus, the Contract can serve as a hedging instrument for the overall health of the American economy, making it useful to a large class of investors.

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.

<u>Relevant Contract Terms and Conditions:</u> 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. Once 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 Advance Estimate of the quarter-over-quarter GDP growth percentage for the statistical period of <quarter> is strictly <greater/less> 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 Advance Estimate of the percent change in quarterly US GDP last released by the Bureau of Economic Analysis. Revisions after Expiration will not be accounted for. 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 for contracts of the form “Will real GDP increase by more than <percent>?” encompasses the Expiration Values that are strictly greater than <percent>. The Payout Criterion for contracts of the form “Will real GDP decrease by more than <percent>?” encompasses the Expiration Values that are strictly less than negative <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	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. The Contract is based on the outcome of a recurrent data release which is

	issued on a quarterly basis. Thus, Expirations for the Contract will be listed on a quarterly basis. I. The issuance of the initial contract will be June 30, 2021. II. The issuance of each subsequent contract will correspond to the next quarter 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 contract to reflect the release schedule of the BEA's Advance Estimates of quarterly US GDP. III. The Exchange will list additional contract quarters on a recurring basis and will publish all available contract quarters on its website.
Tick Size	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.
Position Limit	The Exchange has imposed position limits (defined as maximum loss exposure) of $25,000 USD on the Contract.
Trading Hours	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.
Fees	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.
Contract Modifications	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.

CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE ACT, 7 U.S.C. § 7A-2 AND COMMODITY FUTURES TRADING COMMISSION REGULATION 40.2, 17 C.F.R. § 40.2

Based on the above analysis, the Exchange certifies that:

- ❑ the Contract is consistent with, and in accordance with the Core Principles of Section 5 of the Commodity Exchange Act, and the CFTC's rules and regulations; and 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.

Eliezer Mishory

By: Eliezer Mishory
Title: Chief Regulatory Officer
Date: 06/28/2021

Attachments:

Appendix A - Contract Terms and Conditions
Appendix B (Confidential) - Further Considerations
Appendix C (Confidential) - Price Reporting Agency
Appendix D (Confidential) - Compliance with Core Principles

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

Rule 100.2

Contract: “Will real GDP <increase/decrease> by more than <percent>?”

Scope: These rules shall apply to the contract referred to as “Will real GDP <increase/decrease> by more than <percent>?”.

Underlying: The Underlying for this Contract is the Advance Estimate of the percent change in quarterly US GDP last released by the Bureau of Economic Analysis (“BEA”), published by the BEA official website (https://www.bea.gov/data/gdp/gross-domestic-product). According to the BEA website (https://www.bea.gov/help/faq/1069), quarterly GDP estimates are “seasonally adjusted to remove fluctuations that normally occur at about the same time and the same magnitude each year.” The seasonally adjusted annualized percent change from the preceding quarter will be used as the Underlying for this contract. Any additional estimates or revisions of GDP data that are published after Expiration will not be taken into account when determining the Expiration Value.

Source Agency: The Source Agency is the Bureau of Economic Analysis.

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 quarterly basis. Thus, Contracts will be issued on a quarterly basis, and subsequent contracts will correspond to the next quarter. 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 prior iteration of the contract to reflect the schedule of the BEA’s release of Advance Estimates of quarterly US GDP growth. For example, the issuance of the second iteration of the contract will be on July 29, 2021.

Percent: Kalshi may list “Will real GDP <increase/decrease> by more than <percent>?” contracts with <percent> levels that fall within an inclusive range between a maximum value of 50% and a minimum value of 0% at consecutive increments of 0.1%. Due to the potential for variability in the Underlying, the Exchange may modify <percent> levels in response to suggestions by Members.

Quarter: <quarter> refers to a quarter specified by Kalshi. Kalshi may list "Will real GDP <increase/decrease> by more than <percent>?" contracts corresponding to different statistical periods of <quarter>, ranging from Quarter 1 to Quarter 4.

Payout Criterion: The Payout Criterion for contracts of the form "Will real GDP increase by more than <percent>?" encompasses the Expiration Values that are strictly greater than <percent>. The Payout Criterion for contracts of the form "Will real GDP decrease by more than <percent>?" encompasses the Expiration Values that are strictly less than negative <percent>.

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 Last Trading Date for the Contract will be the day prior to the release of the next BEA Advance Estimate of quarterly GDP growth for the specified quarter. 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. For example, the Last Trading Date of the initial contract is July 28, 2021 and the Last Trading Time is 7:00pm ET on July 28, 2021 because the next BEA advance estimate GDP report will be released on July 29, 2021. A schedule of future BEA Advance Estimate GDP report releases is available here: https://www.bea.gov/news/schedule.

Settlement Date: The Settlement Date of the Contract shall be the day after the Expiration Date, unless the Market Outcome is under review pursuant to Rule 7.1.

Expiration Date: The Expiration Date of the Contract shall be the date of the next release of the BEA Advance Estimate of quarterly GDP. For example, the Expiration Date of the initial contract is July 29, 2021 because the next BEA advance estimate GDP report for the specified quarter (Q2 2021) will be released on July 29, 2021.

Expiration time: The Expiration time of the Contract shall be 6:00pm 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 <quarter> 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.