

August 11, 2023

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 a <hurricane_category> hurricane hit Myrtle Beach?” Contract

Dear Sir or Madam,

Pursuant to Section 5c(c) of the Commodity Exchange Act and Section 40.2(a) of the regulations of the Commodity Futures Trading Commission, KalshiEX LLC (Kalshi) hereby notifies the Commission that it is self-certifying the “Will a <hurricane_category> hurricane hit Myrtle Beach?” contract (Contract). The Exchange intends to list the contract in conjunction with the hurricane season. The contract will be initially listed after close-of-business on August 11; it is listed as August 12, 2023 because of limitations of the Commission's online submission portal. The Contract's terms and conditions (Appendix A) includes the following strike conditions:

- <date> (target date)
- <speed> (maximum wind speed, corresponding to hurricane_category)

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 a <hurricane_category> hurricane hit Myrtle Beach?

Rulebook: HURMYR

Kalshi Contract Category: Weather/Climate

Myrtle Beach hurricane

August 11, 2023

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 a <hurricane_category> hurricane hit Myrtle Beach?” Contract is a contract relating to maximum sustained wind speeds of storms hitting Myrtle Beach. After careful analysis, Kalshi (hereafter referred to as “Exchange”) has determined that the Contract complies with its vetting framework.

In the last five years, Atlantic hurricanes have inflicted over \$393 billion worth of damage in the United States.¹ Tropical storms and hurricanes can disrupt essential services and utilities like hospitals, water lines, and electricity, displace individuals, destroy homes, and lower property values of affected areas. Climate change may, scientists report, both increase the frequency of tropical cyclones and increase their severity. “Since 1975,” a 2013 study concludes, “there has been a substantial and observable regional and global increase in the proportion of Cat[egory] 4-5 hurricanes of 25-30 percent per °C of anthropogenic (human-caused) global warming.”² Naturally, the larger the size of the hurricane, the larger the economic impact. The Contract allows affected individuals, businesses, and other investors to hedge the risk that a hurricane or tropical storm poses to their livelihood.

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.

¹ <https://weather.com/safety/hurricane/news/2021-04-28-hurricanes-united-states-toll-last-five-years>

² Holland, G., Bruyère, C.L. Recent intense hurricane response to global climate change. *Clim Dyn* 42, 617–627 (2014). <https://doi.org/10.1007/s00382-013-1713-0>

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. The Exchange has further imposed position limits (defined as maximum loss exposure) of \$25,000 USD on the Contract. As outlined in Rule 5.12 of the Rulebook, trading shall be available at all times outside of any maintenance windows, which will be announced in advance by the Exchange. Members will be charged fees in accordance with Rule 3.6 of the Rulebook. Fees are charged in such amounts as may be revised from time to time to be reflected on the Exchange's Website. 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. After trading on the Contract has closed, the Expiration Value and Market Outcome are determined. The market is then settled by the Exchange, and the long position holders and short position holders are paid according to the Market Outcome. In this case, "long position holders" refers to Members who purchased the "Yes" side of the Contract and "short position holders" refers to Members who purchased the "No" side of the Contract. If the Market Outcome is "Yes," meaning that the maximum sustained wind speeds are at least <speed> in Myrtle Beach between Issuance and <date>, 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: August 11, 2023

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 a <hurricane_category> hurricane hit Myrtle Beach?
Rulebook: HURMYR**

HURMYR

Scope: These rules shall apply to this contract.

Underlying: The Underlying for this Contract is:

- The set of maximum sustained wind speeds recorded in North Myrtle Beach, South Carolina for each day from Issuance until <date> (inclusive) according to the Daily Climate Report for those respective locations of the National Weather Service.
- The set of maximum sustained wind speeds recorded in locations within the city of North Myrtle Beach, SC between Issuance and <date> (inclusive) included in the set of Post-Storm Hurricane Reports issued by the National Weather Service. (Any speed of 999 should be ignored, as it represents a missing value and not a wind speed of 999 knots or miles per hour).

Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Instructions: The Daily Climate Reports for North Myrtle Beach, South Carolina can be accessed [here](#).³ The Underlying is in the section labeled “Wind (MPH)” with the row labeled “HIGHEST WIND SPEED”. Please note that the Underlying is not the value in the row labeled “HIGHEST GUST SPEED”. 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 Source Agency is the National Oceanic and Atmospheric Administration’s National Weather Service.

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. The Contract will be listed in conjunction with the hurricane season.

<hurricane_category>: Kalshi may list contracts with <hurricane_category> levels of either <hurricane category number> from 1 through 5 or <tropical storm>. For example, <hurricane_category> could take the value “Hurricane Category Two”, or “tropical storm”.

<speed>: Kalshi may list iterations of the Contract with <speed> levels that fall within an inclusive range between 0 and 200 at consecutive increments of 1. Due to the potential for

³<https://forecast.weather.gov/product.php?site=ILM&product=CLI&issuedby=CRE>

variability in the Underlying, the Exchange may modify <speed> levels in response to suggestions by Members.

<date>: <date> refers to a calendar date specified by Kalshi. Kalshi may list iterations of the Contract corresponding to different statistical periods of <date>.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that contains a value that is greater than or equal to <speed>. The value of speed should correspond directly to the value of <hurricane_category> using the Saffir-Simpson scale, replicated below:

- The threshold for a tropical storm is sustained wind speeds of at least 39 miles per hour
- The threshold for a Hurricane Category 1 is sustained wind speeds of at least 74 miles per hour (64 knots)
- The threshold for a Hurricane Category 2 is sustained wind speeds of at least 96 miles per hour (83 knots)
- The threshold for a Hurricane Category 3 is sustained wind speeds of at least 111 miles per hour (96 knots)
- The threshold for a Hurricane Category 4 is sustained wind speeds of at least 130 miles per hour (113 knots)
- The threshold for a Hurricane Category 5 is sustained wind speeds of at least 157 miles per hour (137 knots)

Minimum Tick: The Minimum Tick size for the referred Contract shall be \$0.01.

Position Limit: The Position Limit for the \$1 referred Contract shall be \$25,000 per Member.

Last Trading Date: The Last Trading Date of the Contract will be the sooner of the date of the first 10:00 AM ET following the occurrence of an event that is encompassed in the Payout Criterion (whereupon the Last Trading Time will be 10:00 AM ET) or <date> (whereupon the Last Trading Time will be 11:59 PM 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 sooner of the date of the first 10:00 AM ET following the occurrence of an event that is encompassed in the Payout Criterion, the first 10:00 AM ET following the release of the data for all of <date>, or one week after <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.