KalshiEX LLC
New Contract Submission: How many ships will be docked at the Port of Los Angeles?
Ticker: ANCHOR
Anchored Ships at Los Angeles
~~October 5,~~ 12/11/2021

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 ANCHOR~~The "How many ships will be docked at the Port of Los Angeles?" Contract is a contract relating to the weekly average number of container vessels currently anchored at the Port of Los Angeles. 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 Port of Los Angeles (POLA) is the United States' busiest port and receives 17% of all cargo that enters the country[1]. A labor shortage and extremely high demand for imports have created chaos at "America's Port". As of September 2021, the Port of Los Angeles is only operating at 60-70% of its capacity[2] despite incredibly high demand for goods. There are 29 ships at anchor--idling and waiting to be berthed--as of September 28th, 2021. In normal times, that number is two, or one.

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.

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[1] https://www.portoflosangeles.org/business/statistics/facts-and-figures
[2] https://www.wsj.com/articles/cargo-delays-are-getting-worse-but-california-ports-still-rest-on-weekends-11632648602?mod=searchresults_pos2&page=1

General Contract Terms and Conditions: The Contract operates similar to other binary 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. Additionally, 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. 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 average number of container vessels anchored at the Port of Los Angeles for <week> is strictly greater than <count>, 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.

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

<u>Official Product Name: How many ships will be docked at the Port of Los Angeles?</u>

Contract: ANCHOR

ANCHOR

Scope: These rules shall apply to the ANCHOR contract.

Underlying: The Underlying for this Contract is the average number of container vessels currently anchored at the Port of Los Angeles for a given <week>. This weekly average will exclude the weekend (Saturdays and Sundays). If data is only partially available for that workweek, then the average for the days which are available will be used. Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Instructions: This data can be found at https://kentico.portoflosangeles.org/getmedia/3bc2c710-5783-4f92-a39f-ae9b167d5f1f/container-vessels-in-port. 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 Port of Los Angeles.

Type: The type of Contract is a Binary Contract.

Issuance: The Contract is based on the outcome of a recurrent data release, which is issued on a daily basis and computed into a Weekly Average by the Exchange. Thus, Contract iterations will be issued on a recurring basis, and future Contract iterations will generally correspond to the next week. ~~The Exchange will publish all available contract weeks on its website. The Issuance of the initial Contract will be on or after October 6th, 2021.~~

<count>: Kalshi may list iterations of the Contract with <count> levels that fall within an inclusive range between a maximum value of <100> 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 <count> levels in response to suggestions by Members.

<week>: <week> refers to a workweek specified by Kalshi. The workweek lasts from Monday to Friday, inclusive. Kalshi may list iterations of the Contract corresponding to different statistical periods of <week~~>, ranging from X to Y.~~>.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that are strictly greater than <count>. If no data is available for any of the days that <week>, then 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: The Last Trading Date ~~of the initial iteration of the Contract~~ will be the ~~same day as the Expiration Date.~~Friday of <week>. . The Last Trading Time will be ~~the same as the Expiration time~~11:59 PM.

Settlement Date: The Settlement Date of the initial iteration 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 ~~initial~~ Contract ~~will~~shall be ~~two days~~the sooner of the first 10:00 AM ET following the ~~start of the week following <week> (Tuesday). For example, the Expiration~~release of the ~~initial contract will be on October 12, 2021.~~data for the Friday of <week>, or one week after the Friday of <week>.

Expiration time: The Expiration time of the initial Contract iteration shall be ~~6~~10:00 ~~PM~~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 <week>~~ 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. Additionally, 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.