KalshiEX LLC
New Contract Submission: Will Congress raise or suspend the debt ceiling?
Ticker: DCEIL
Kalshi Contract Category: Political Decision
Debt Ceiling

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 DCEIL~~The “Will Congress raise or suspend the debt ceiling?” Contract is a contract relating to whether the U.S. Congress will raise the federal debt ceiling. The debt ceiling was most recently raised in October 2021 after an extended period of “emergency measures” following the expiration of the Bipartisan Budget Act of 2019. The debt ceiling is next expected to be reached in December 2021. 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.

Failure to raise the debt ceiling could have dramatic effects on American businesses and workers. Borrowing costs would rise not just for the federal government but for all bonds that are benchmarked to the Treasury rate. Millions of workers who rely on the federal government for employment or contracts would see vital payments disrupted.

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.

<u>General Contract Terms and Conditions:</u> 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. 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 US debt ceiling has been raised ~~after~~<u>between</u> Issuance and ~~before~~ <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.

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

Official Product Name: Will Congress raise or suspend the debt ceiling?
Ticker and Rulebook: DCEIL

DCEIL

Scope: These rules shall apply to the DCEIL contract.

Underlying: The Underlying for this Contract is bills that became law ~~after~~between Issuance and ~~before~~ <date> as published on Congress.gov.

Instructions: Bills that have become law are available at: https://www.congress.gov/search?q=%7B%22congress%22%3A%5B%22117%22%5D%2C%22source%22%3A%22all%22%2C%22bill-status%22%3A%22law%22%7D . In particular, the Contract will be resolved depending on two conditions. The first is the bill's "Tracker," which reports whether the bill has "Passed House," "Passed Senate," "Became Law," and so on as well as the date of passage. Second is the bill's Text, which shall be used to determine whether the Bill raises the debt ceiling. The text is available by clicking on the link for a given bill and clicking on the Text tab (currently adjacent to the Summary Tab). Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Source Agency: The Source Agency is the Library of Congress.

Type: The type of Contract is a Binary 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.

<date>: <**date**> refers to a calendar <**date**> specified by Kalshi. Kalshi may list iterations of the Contract corresponding to different statistical periods of <**date**~~>, ranging from November 10, 2021 to January 1, 2025.~~>.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that contain documentation of a Bill that:

(1) Achieved the status "Became Law" ~~after the time of~~between Issuance and ~~before~~ <date>. Note that "Became Law" does not mean that the bill has taken effect.

(2) Raises or suspends the current federal debt ceiling as defined as the limit set by Section 3101(b) of Title 31 of the United States Code.

   (a) "Raises the current federal debt ceiling" is defined by the creation of any new debt limit greater than the amount set by law on the Issuance of the Contract. ~~For the first iteration of the contract on or after November 10, 2021, that amount is established by the Promoting Physical Activity for Americans Act, which increased the debt limit by $480 billion over the amount set by the Bipartisan~~

~~Budget Act of 2019[1]. The Bipartisan Budget Act of 2019 set the ceiling after August 1, 2021 as "the face amount of obligations issued under chapter 31 of such title and the face amount of obligations whose principal and interest are guaranteed by the United States Government (except guaranteed obligations held by the Secretary of the Treasury) outstanding on August 1, 2021". Future iterations of the contract may use a different benchmark of "current debt ceiling".~~Future iterations of the contract may use different benchmarks of "current debt ceiling". If so, the Exchange will indicate that new benchmark in the Rulebook and on the market page.

(b) Bills that authorize an increase in the debt ceiling subject to some determination by the President are encompassed in the Payout Criterion.

(c) Suspension of debt ceiling is defined as any action that suspends the application of Section 3101(b) of Title 31 of the United States Code for any positive length of time

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.~~<date>. The Last Trading Time will be ~~the same as the Expiration time~~11:59 PM.

Settlement Date: ~~Unless otherwise noted by the Exchange and indicated on the Exchange website, the~~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 shall be the sooner of ~~one day~~the first 10:00 AM ET following the occurrence of the event as reported at the Underlying, the first 10:00 AM ET following the release of the data for <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.

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[1] ~~https://www.congress.gov/bill/117th-congress/senate-bill/1301/text?q=%7B%22search%22%3A%5B%22Promoting+Physical+Activity+for+Americans+Act%22%2C%22Promoting%22%2C%22Physical%22%2C%22Activity%22%2C%22for%22%2C%22Americans%22%2C%22Act%22%5D%7D&r=1&s=1~~

Expiration Value: The Expiration Value is the value of the Underlying~~ for the statistical period after the date of Issuance and before <date~~> 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.