

December 11, 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 40.6(a) Notification Regarding the Amendment of the “Will the target federal funds rate be above <percent>?” Contract

Dear Sir or Madam,

Pursuant to Section 5c(c) of the Commodity Exchange Act and Section 40.6(a) of the regulations of the Commodity Futures Trading Commission, KalshiEX LLC (Kalshi) hereby notifies the Commission that it is amending the “Will the target federal funds rate be above <percent>?” contract (Contract). The Contract is intended to be listed over the period of a year. At issuance, contracts will be issued for each Federal Reserve meeting of 2022. After the first meeting of 2022 has passed, the Exchange will list a Contract corresponding to the first meeting of 2023. The Exchange may list additional contracts with different <percent> levels for a given <meeting> according to changes in forecasts. The Contract’s terms and conditions (Appendix A) includes the following strike conditions:

- **<greater than/less than>**
- **<percent> (the federal funds rate in question)**
- **<meeting> (a given Federal Reserve Board meeting where its members discuss the Bank’s monetary policy stance)**

The amendments are as follows:

1. The Contract was modified to allow Kalshi to list contracts which turn on being above or below <percent> rather than merely above, to also accurately cover lowering, rather than merely raising, interest rates.
2. The Contract was modified to correspond to specific Federal Reserve meetings, i.e. will the federal funds rate be <above/below> <percent> for a given meeting rather than just a date that corresponds to a meeting. This will allow the Contract to cover multiple meetings as opposed to just one, increasing hedging opportunities for Members.
3. The Issuance was modified to reflect an entire year’s worth of meetings, as stated above, rather than only the next meeting, to increase hedging opportunities for Members.
4. The Underlying was separated from instructions on how to access the Underlying. This is to make sure that the Underlying is not tied to a particular website style, URL, or format.
5. The Last Trading Date is now the last day of a Federal Reserve meeting rather than the day before a Federal Reserve meeting begins to better reflect the timing of the data release (2:00 PM ET the last day of meetings).
6. The Last Trading Time is now 1:55 PM instead of 7:00 PM to better reflect the timing of the data release.
7. The Expiration Date is now the sooner of the date a statement is released for <meeting> or one

week after the last day of <meeting> rather than one day following the last date of a Federal Reserve meeting. This will prevent any short-term issue with the data being released in a timely way from affecting the Expiration Value.

8. The Expiration Time is now 2:05 PM instead of 6:00 PM to better reflect the timing of the data release.
9. The Settlement date has been reduced to no later than the day following Expiration rather than strictly the day following Expiration. This is to help return Members' funds sooner.
10. Additional form language regarding contingencies has been added to be consistent with other contracts.

Along with this letter, Kalshi submitted the following documents:

- A clean copy of the amended Contract; and
- A redline showing the changes to Appendix A, the product rules and terms and conditions of the contract.

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 the target federal funds rate be <above/below> <percent>?
December 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 “Will the target federal funds rate be <above/below> <percent>?” contract is a contract relating to the upper bound of the target federal funds range as set by the Federal Open Market Committee. The Contract is designed to enable market participants whose businesses or operations are affected by the level of the target federal funds range to mitigate the commercial risks associated with a higher or lower benchmark interest 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 target federal funds range set by the Federal Open Market Committee is a core indicator for the health of the US economy. The range is typically specified as 25 basis points wide, and so a change in the upper bound of the range, denoted as the target federal funds rate, is usually synonymous with a shift of the range itself. The level of the target federal funds range directly affects the cost of capital for major US financial corporations, and therefore the ability of non-financial corporations, small businesses, and individuals to raise or borrow money to fund investments in future production. The Contract can serve as an important 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.

Relevant Contract Terms and Conditions: 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 upper bound of the target federal funds range is strictly greater 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.

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

Official Product Name: Will the target federal funds rate be <above/below> <percent>?

Ticker and Rulebook: FED

FED

Scope: These rules shall apply to the FED contract.

Underlying: The Underlying for this Contract is the upper bound of the target federal funds range published by the official website of the Federal Reserve. Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Instructions: The Underlying can be accessed in the latest table entry under the Column titled “Level (%)”(<https://www.federalreserve.gov/monetarypolicy/openmarket.htm>). The linked website displays a continuously updated list of changes to the target federal funds range in table format. The most recent entry on the page determines the value of the Underlying. For example, on March 16, 2020, the FOMC voted to lower the target range to “0-0.25%”, where the upper bound is 0.25%, which is reflected in the table entry for March 16, 2020 and thus the Underlying value would be 0.25%. Statements from meetings can be accessed at <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>. Statements are released at 2:00 PM ET on the last day of meetings. 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 United States Federal Reserve System.

Type: The type of Contract is a Binary Contract.

Issuance: The Contract is intended to be issued one year in advance of Federal Reserve meetings. At issuance, contracts will be issued for each scheduled meeting for 2022 (currently, eight are scheduled). After the first meeting of 2022 has passed, the Exchange will list a Contract corresponding to the first meeting of 2023. The Exchange may list additional contracts with different <percent> levels for a given <meeting> according to changes in forecasts. The Exchange may also list additional contracts corresponding to emergency meetings, which are announced at the same source listed in <meeting>.

Percent: Kalshi may list “Will the target federal funds rate be <above/below> <percent>?” contracts with <percent> levels that fall within an inclusive range between a maximum value of 20.00% and a minimum value of 0.00% at consecutive increments of 0.05%. Due to the potential for variability in the Underlying, the Exchange may modify <percent> levels in response to suggestions by Members.

<meeting>: Kalshi may list “Will the target federal funds rate be above <percent>?” contracts with <meeting> values corresponding to Federal Reserve meetings over the next 12 months. The

list of meetings for the current year can be found at <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>. The 2022 calendar can be found at <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>.

Payout Criterion: The Payout Criterion encompasses Expiration Values that are strictly <greater than/less than> <percent> for <meeting>. If no data is available on the Expiration Date at the Expiration Time, the Contract 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 Contract will be the last day of <meeting>. If <meeting> spans two days, then the Last Trading Date will be the second day. The Last Trading Time will be 1:55 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 will be the sooner of the first of the first 2:05 PM ET following the release of a Federal Reserve statement for <meeting> and one week following the last day of <meeting>. The link to find these statements is found in the Instructions. These statements are typically titled with, “Decisions Regarding Monetary Policy Implementation.”

Expiration time: The Expiration time of the Contract shall be 2:05 PM 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. 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.

