KalshiEX LLC
Rule 40.2 New Contract Submission: Will the target federal funds rate be <above/below> <percent>?
~~06/30/~~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.

~~**Contract Specifications:**~~

~~**Underlying**~~	~~The upper bound of the target federal funds range, published on the Federal Reserve official website (https://www.federalreserve.gov/monetarypolicy/openmarket.htm). 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 encompasses the Expiration Values that are strictly greater than <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 according to the FOMC official calendar (https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm). Thus, Expirations for the Contract will be listed according to the calendar above. Specifically, Expirations will be listed on the day following the last day of the next regularly scheduled FOMC meeting.~~ ~~I. The Issuance of the initial contract will be on July 2, 2021.~~ ~~II. The Issuance of each subsequent contract will reflect the meeting schedule of the Federal Open Market Committee, and will 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.~~ ~~III. The Exchange will list additional contract periods on a recurring basis and will publish all available contract periods 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.~~

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

~~Rule 100.5~~

~~Contract: “~~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 ~~referred to as "Will the target federal funds rate be above <percent>?".~~.

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 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 according to the FOMC official calendar (https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm). Thus, Contracts will be issued according to the calendar above, specifically, on the day following the last day of the next regularly scheduled FOMC meeting. The Issuance of the initial contract will be on July 2, 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 meeting schedule of the Federal Open Market Committee which determines the target federal funds range. For example, the issuance of the second iteration of the contract will be on July 29, 2021.~~

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 ~~<percent>.~~ /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:** 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 first day of the next regularly scheduled Federal Open Market Committee ("FOMC") meetings. There are eight regularly scheduled FOMC meetings throughout the year, and each meeting typically lasts two days. The statement relevant to the determination of the Expiration Value of the Contract is released on the afternoon of the second day; thus, trading of the Contract will end two days prior, i.e., on the day before the first day of the meeting. 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 26, 2021 and the Last Trading Time is 7:00pm ET on July 26, 2021 because the next FOMC meeting will take place on July 27-28. A calendar of future FOMC meeting dates is available here: https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm.~~

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 ~~shall~~will be the ~~day after the final day~~sooner of the ~~next regularly scheduled~~first of the first 2:05 PM ET following the release of a Federal ~~Open Market Committee~~ Reserve statement for <meeting~~. For example, the Expiration Date of the initial contract~~> and one week following the last day of <meeting>. The link to find these statements is ~~July 29, 2021 because~~found in the ~~next FOMC meeting will close on July 28, 2021.~~Instructions. These statements are typically titled with, “Decisions Regarding Monetary Policy Implementation.”

Expiration time: The Expiration time of the Contract shall be ~~6:00pm~~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.