

12/11/2021

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 30-Yr FRM be above <interest rate>?” 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 30-Yr FRM be above <interest rate>?” contract (Contract). The Exchange intends to list the contract at two cadences: one week and a longer-term cadence not to exceed one year that is designed to allow market participants to hedge both short-term changes in interest rates and long-term changes. The Contract’s terms and conditions (Appendix A) includes the following strike conditions:

- **<date> (The target date)**
- **<expo_date> (The last possible expiration date)**
- **<interest_rate> (The target interest rate)**

The amendments to the FRM contract are as follows:

1. The Expiration Date shall be the earlier of the first 10:05 AM following the release of the data for each date in the statistical period or some later <expo_date>, which is a change from the previous format where the Expiration was the day of the data release, but much later in the day. The new approach has several advantages: this approach functionally eliminates the risk of Expiration occurring with any data missing and reduces the lag between when the data is released and the contract expires.
2. Settlement time is shortened to no later than the day after expiration, in order to reduce the amount of time that members have to wait before receiving the money.
3. The Expiration Time has been moved to 10:05 AM. This benefits members by standardizing expiration times across contracts and making it easier for members to understand when they will receive their money. While most contracts expire at 10:00 AM sharp, since the data arrives for the Underlying by 10:00 AM, the extra five minutes is to increase the probability that the contract can be determined at the earliest possible moment.
4. We have also increased instructions on how to access the Underlying.
5. The Exchange may add iterations of a contract for a given period with different values of <interest_rate> if forecasts change. For example, suppose the Exchange listed a contract asking if the gas price for the week ending March 1, 2022 will be above 4.00%. However, the Omicron variant is spreading rapidly and the Federal Reserve is forced to cut interest rates, so it becomes clear that the target is far too high. In such a scenario, the Exchange may add an additional

- iteration of the Contract for the same period with a lower value of $\langle \text{interest_rate} \rangle$, e.g. 2.00%.
6. We have also added form language to the Contingency section in order to be consistent with other contracts.

Along with this letter, Kalshi submitted the following documents:

- A clean copy of the amended parts of the originally filed Contract (Introduction and Contract Terms and Conditions, as well as Appendix A); and
- A redline showing the amendments.

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>.

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

Official Product Name: “Will the 30-Yr FRM be above <interest rate>?”

Ticker: FRM

Kalshi Contract Category: Econ/Demographic Measure (U.S. Government Data)

30-year Fixed Rate Mortgage Rates

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 “Will the 30-Yr FRM be above <interest rate>?” contract is a contract relating to the interest rate on 30-year fixed rate mortgages (“FRM”). The interest rate on 30-year fixed rate mortgages directly relates to the cost of a mortgage for consumers seeking to purchase a house. It also relates to interest rates and levels of activity in the broader economy. 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.

This contract is derivative of the interest rate on 30-year fixed rate mortgages. This is a fundamental economic indicator which contains information about the state of the mortgage market and the consumer demand for mortgages. This in turn reflects the availability of lending for mortgages, and therefore the health of parts of the financial system devoted to financing purchases of housing.

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.

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 30-year fixed rate mortgage rate is above <interest_rate> on <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 the 30-Yr FRM be above <interest rate>?”

Ticker and Rulebook: FRM

FRM

Scope: These rules shall apply to this contract.

Underlying: The Underlying for this Contract is the 30-Yr fixed-rate mortgage rate for the statistical period of the week ending <date> reported by the Freddie Mac Primary Mortgage Market Survey® (“PMMS”). The Expiration Value of the Contract will be determined using the preliminary estimate of the weekly 30-Yr FRM. Further revisions that are published after the Expiration Date and Expiration time will not be taken into account when determining the Expiration Value of the Contract.

Instructions: The Underlying is available at the following link: <http://www.freddiemac.com/pmms>. 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 Freddie Mac.

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 weekly basis. Thus, Contract iterations will be issued on a recurring basis, and future Contract iterations will generally correspond to the next week. The Exchange will also issue longer-dated contracts out in order to facilitate longer-term hedging. This schedule is elucidated further in the introductory letter.

Interest_rate: Kalshi may list iterations of the Contract with <interest_rate> levels that fall within an inclusive range between a maximum value of 20% and a minimum value of .01% at consecutive increments of 0.01%. Due to the potential for variability in the Underlying, the Exchange may modify <interest_rate> 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>.

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

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that are strictly above <interest_rate>.

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 <date>. The Last Trading Time will be 9:55 AM.

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 Contract shall be the earlier of the first 10:05 AM ET following the release of the data for <date>, or <expo_date>.

Expiration time: The Expiration time of the initial Contract iteration shall be 10:05 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. 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.

