

KalshiEX LLC

~~Rule 40.2 New Contract Submission~~ Official Product Name: “Will the 30-Yr FRM be above <interest rate>?”

~~07/20~~ 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~~ Contract, including an analysis of its risk mitigation and price basing utility, as well as additional considerations related to the ~~contract~~ Contract, is included -in Confidential Appendix 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, ~~including~~ and Commission regulations under the Act.

Relevant General Contract Terms and Conditions: The Contract operates similar to ~~the~~ other binary contracts that the Exchange ~~is self-certifying lists~~ for trading. ~~In particular~~ 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. ~~While~~ During the time that trading on the ~~contract~~ Contract is open, Members are able to adjust their positions and trade freely. ~~Once~~ After trading on the ~~contract~~ 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 ~~outcome of the market~~ Market Outcome. In this case, "long position ~~holder~~ holders" refers to a ~~Member~~ Members who purchased the "Yes" side of the ~~contract~~ Contract and "short position ~~holder~~ holders" refers to a ~~Member~~ Members 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~~ Contract. If the Market Outcome is "Yes", meaning that the 30-year Freddie Mac FRM for the statistical period of the week ending <date> fixed rate mortgage rate is strictly above <interest_rate> on <date>, then the long position ~~holder~~ holders are paid an absolute amount proportional to the size of their position and the short position ~~holder~~ holders receive no payment. ~~Otherwise, if~~ If the Market Outcome is "No", then the short position ~~holder~~ holders are paid an absolute amount proportional to the size of their position and the long position ~~holder~~ holders receive no payment. ~~Further specification~~ Specification of the

circumstances that would trigger a Market Outcome of “Yes” are included below in the section titled “Payout Criterion” in Appendix A.

Contract Specifications:

Underlying	The preliminary estimate of the weekly 30-Yr FRM by Freddie Mac (http://www.freddiemac.com/pmms).
Payout Criterion	The Payout Criterion encompasses the Expiration Values that are strictly above <interest rate>.
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	<p>For contracts whose Expiration Value is based on the outcome of recurrent data releases, Contract iterations 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, 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.</p> <p>The Contract is based on the outcome of a recurrent data release which is issued on a weekly basis. Thus, iterations of the Contract will be listed on a weekly basis:</p> <ul style="list-style-type: none"> I. — The issuance for the initial contract will be July 22, 2021. II. — The issuance for each subsequent contract will correspond to the next week and be announced and posted on the Exchange website. After the initial contract, subsequent contracts will be issued on Thursdays to reflect the weekly schedule of Freddie Mac Primary Mortgage Market Survey® releases. III. — The Exchange will list additional contract weeks on a recurring basis and will publish all available contract weeks on its website.
Tiek 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 tiek 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.

	<p>Fees are charged in such amounts as may be revised from time to time to be reflected on the Exchange's Website.</p>
<p>Contract Modifications</p>	<p>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.</p>

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

Rule 100.23

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

Ticker and Rulebook: FRM

FRM

Scope: These rules shall apply to ~~the~~this contract ~~referred to as “Will the 30-Yr FRM be above~~ <interest rate>?”.

Underlying: The Underlying for this Contract is the 30-Yr ~~FRM~~fixed-rate mortgage rate for the statistical period of the week ending <date> reported by the Freddie Mac Primary Mortgage Market Survey® (“PMMS”) ~~and is available at the following link:~~ <http://www.freddiemac.com/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 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 on a weekly basis. Thus, ~~Contracts~~Contract iterations will be issued on a weekly~~recurring~~ basis. ~~The Issuance of the initial contract, and future Contract iterations will generally correspond to the next week. The Exchange will be on Thursday, July 22, 2021. After the initial contract, subsequent~~also issue longer-dated contracts ~~will be issued on Thursdays to reflect the weekly~~out in order to facilitate longer-term hedging. This schedule of Freddie Mac Primary Mortgage Market Survey® releases is elucidated further in the introductory letter.

Interest-Rate rate: Kalshi may list ~~“Will~~iterations of the 30-Yr FRM be above~~Contract with~~ <interest rate>?” ~~contracts with~~ <interest _rate> levels that fall within an inclusive range between a maximum value of 20% and a minimum value of 0%.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 ~~"Will iterations of the 30-Yr FRM be above <interest rate>?"~~ contracts Contract corresponding to different statistical periods of <date>, ranging from July 22, 2021.

<expo date>: <expo date> refers to January 1, 2023, 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: ~~Unless otherwise noted by the Exchange and indicated on the Exchange website, the~~ The Last Trading Date ~~for of the initial iteration of~~ the Contract will be ~~the same as the Expiration Date of the Contract and the~~ <date>. The Last Trading ~~time~~ Time will be ~~the same as the Expiration time~~ 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 ~~date of the next release of the Primary Mortgage Market Survey®. For example, the Expiration Date of the initial contract is July 29, 2021 because that is the next release of the Primary Mortgage Market Survey® 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 ~~3:00pm~~ 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.

