**KalshiEX LLC**
**Rule 40.2 New Contract Submission: "Will there be a recession?"**
**Ticker: RECSS**
**~~August 3~~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 ~~RECSS~~"Will there be a recession?" Contract is a contract relating to whether or not there will be a quarter of negative real GDP growth in the next four quarters as measured by the Bureau of Economic Analysis ("BEA"). The Contract is designed to enable market participants whose businesses or operations are affected by the rate of growth of real GDP to hedge risks associated with changes in the aforementioned 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 rate of growth of U.S. real GDP is a key indicator for the health of the U.S. economy. GDP growth correlates with the growth rate of incomes, corporate profits, and tax revenue in the U.S. economy. Thus, the Contract can serve as a 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 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. 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 there was at least one quarter of negative real GDP growth in the next four quarters, 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 there be a recession?**
**Ticker and Rulebook: RECSS**

# RECSS

**Scope:** These rules shall apply to the RECSS contract.

**Underlying:** The Underlying for this Contract is the most recent estimates of seasonally adjusted annualized percent changes in quarterly US real GDP from previous quarters as released by the Bureau of Economic Analysis (BEA). Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

**Instructions:** To find the Underlying, click the following link: https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey and then click "Section 1-Domestic Product and Income" and then navigate to "Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product". Check the row for "Gross Domestic Product" (in line 1) to find the Underlying. In the event that not all of the data for the relevant four quarters specified by the Exchange is reported in ~~the Underlying~~that link, the value for each missing quarter will be ascertained by examining the most recent estimate of the seasonally adjusted annualized percent change in US GDP from the previous quarter for the relevant quarter from the following link: ~~https://www.bea.gov/data/gdp/gross-domestic-product. Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.~~https://www.bea.gov/data/gdp/gross-domestic-product. 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 Bureau of Economic Analysis.

**Type:** The type of Contract is a Binary Contract.

**Issuance:** ~~The Issuance of the initial Contract will be on or after August 5, 2021. 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.~~This contract is intended to be listed on an annual basis.

**Payout Criterion:** The Payout Criterion for the Contract encompasses the Expiration Values where at least one of the four values (representing the values of the Underlying for the specified four quarters) is strictly less than zero.

**Quarter:** <quarter> refers to a quarter specified by Kalshi. Kalshi may list contracts corresponding to different statistical periods of <quarter>, ranging from Quarter 1 to Quarter 4 of <year>.

**Year:** <year> refers to a year specified by Kalshi. Kalshi may list contracts corresponding to different statistical periods of <year~~>, ranging from 2021 to 2025.~~>.

**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 July 27, 2022.~~ The Last Trading ~~Time is 11:00 PM.~~Date will be the same as the Expiration Date.

**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:** Unless otherwise noted by the Exchange and indicated on the Exchange website, the Expiration Date of the Contract shall be August 2, 2022.~~

**Expiration Date:** The Expiration Date of the Contract will be the the sooner of the first 10:00 AM ET following an event encompassed by the Payout Criterion (one of the relevant four quarters has less than 0% change according to the BEA), the first 10:00 AM ET following the release of the data for the final relevant quarter, and the first 10:00 AM ET one week following the scheduled release date of the final relevant quarter's data. The release schedule can be found at https://www.bea.gov/news/schedule.

**Expiration time:** Unless otherwise noted by the Exchange and indicated on the Exchange website, the Expiration time of the Contract shall be ~~11~~10:00 AM ET.

**Settlement Value:** The Settlement Value for this Contract is $1.00.

**Expiration Value:** The Expiration Value is the four values which are given by the value of the Underlying for the statistical period of <quarter> in <year> and the value of the Underlying for the immediately ~~following~~preceding 3 quarters 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.