

KalshiEX LLC

~~Rule 40.2 New Contract Submission: “Will weekly~~ Official Product Name: What will the average number of passengers screened by the TSA airport screenings be above <count>?” this week?

~~07~~ Ticker: TSAW

Kalshi Contract Category: Transportation

Weekly TSA

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 weekly~~ What will the average number of passengers screened by the TSA airport screenings be above <count>?” this week?” contract is a contract relating to the number of security checkpoint screenings for individual customers conducted by the Transportation Security Administration (“TSA”) at US airports. The Contract is designed to enable market participants whose businesses or operations are affected by changes in the volume of American passenger air travel to mitigate the commercial risks associated with decreases in the volume of American passenger air travel. 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 number of TSA airport screenings is widely used as a proxy for the overall amount of passenger air travel in the United States, which in turn is a core indicator for the health of the US economy. Passenger air travel is used to fuel tourism and commerce across the country, and the US aviation industry drives over \$1.7 trillion in economic activity and employs over 10 million workers.¹

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.

¹ <https://www.airlines.org/industry/>

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 is open, Members are able to adjust their positions and trade freely. ~~Once~~ 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 ~~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 ~~Weekly Average of average number of passengers screened by the TSA airport screenings for the statistical period of for~~ the week ending <date> is strictly ~~above~~greater than <count>, then the long position ~~holder is~~holders are paid an absolute amount proportional to the size of their position and the short position ~~holder receives~~holders receive 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 Market Outcome of “Yes” direction are included below in the section titled “Payout Criterion” in Appendix A.

Contract Specifications:

Underlying	Transportation Security Administration (TSA)’s daily travel checkpoint numbers data. The data for the previous day is made available by 9 AM ET the following day at the following easily accessible website: https://www.tsa.gov/coronavirus/passenger-throughput .
Payout Criterion	The Payout Criterion encompasses the Expiration Values that are strictly above <count>.
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 daily basis (the TSA Checkpoint Travel Numbers report), and computed into a Weekly Average by the Exchange. Thus, iterations for the Contract will be listed on a weekly basis.</p> <p>I. The Issuance for the initial contract will be July 13, 2021.</p> <p>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 the Expiration Date of the previous contract.</p> <p>The Exchange will list additional contract weeks on a recurring basis and will publish all available contract weeks on its website.</p>
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.

<p>Trading Hours</p>	<p>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.</p>
<p>Fees</p>	<p>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.</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 100.15

Contract: “Will weekly Official Product Name: What will the average number of passengers screened by TSA airport screenings be above <count>?” this week?
Ticker and Rulebook: TSAW

TSAW

Scope: These rules shall apply to the TSAW contract referred to as “Will weekly average TSA airport screenings be above <count>?”.₂

Underlying: The Underlying for this Contract is the Transportation Security Administration’s (“TSA”) checkpoint travel numbers data. ~~This data is collected daily by the TSA, and data for a certain day is published by 9am ET the following day at the following website: <https://www.tsa.gov/coronavirus/passenger-throughput> for the week ending <date>, as reported by the TSA.~~ Specifically, the checkpoint travel numbers published by the TSA will be used to compute a “Weekly Average” of traveler throughput. For the purposes of determining the Expiration Value of the Contract, “Weekly Average” is defined as the sum of the published TSA checkpoint travel numbers that are included in the 7-day period defined by Monday through Sunday, divided by the number of days in the week for which data was published. The “Weekly Average” is the value that will be used to determine the Expiration Value of the Contract each week. If the calculated Weekly Average is not a whole number and is instead a decimal, then the final value of Weekly Average will be calculated by rounding to the nearest integer. For example, a non-whole number value of Weekly Average such as 1500000.32 would become 1500000 and a value such as 1500000.67 would become 1500001. The TSA may make adjustments to data after it has been initially published. If there is a revision of daily screening data for a certain day included in the statistical period published prior to the Expiration Date before the Expiration time, then this revised data will be accounted for in computing the Weekly Average. In all other cases, such as if revisions to data are published after the Expiration Date and Expiration time, revised data will not be used to compute the Weekly Average used to calculate Expiration Value.

Kalshi will rely only on data made available before Expiration Date to compute the Weekly Average. For example, if only five out of seven days of data are available by the Expiration Date, Kalshi will average across those five days to compute Weekly Average. As noted above, any revisions or data published after the Expiration Time on the Expiration Date will not be used to compute the Weekly Average.

~~For the first iteration of this Contract, any data for the day of Monday, July 12, 2021 will be taken into account to compute the Weekly Average.~~ **Instructions:** This data is collected daily by the TSA, and data for a certain day is published by 9am ET the following day at the following website: <https://www.tsa.gov/coronavirus/passenger-throughput>. These instructions are provided for convenience only and may be modified or clarified at any time.

Source Agency: The Source Agency is the Transportation Security Administration (“TSA”).

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.~~**Issuance:** The Contract is based on the outcome of a recurrent data release which is issued on a daily basis (the TSA Checkpoint Travel Numbers report), and computed into a Weekly Average by the Exchange. Thus, Contracts will be issued on a weekly basis, and subsequent contracts will correspond to the next week. ~~The Issuance of the initial contract will be on July 13, 2021 at 10:00am ET. After the initial contract, subsequent contracts will be issued on the Expiration Date of the previous contract.~~

Count: Kalshi may list ~~“Will iterations of the number of TSA airport screenings be above <count>?”~~ contracts with <count> levels that fall within an inclusive range between a maximum value of 10,000,000 and a minimum value of 0 at consecutive increments of 1,000. Due to the potential for variability in the Underlying, the Exchange may modify <count> levels in response to suggestions by Members.

Date: <date> refers to a date specified by Kalshi. Kalshi may list ~~“Will weekly average TSA airport screenings be above <count>?”~~ TSAW contracts corresponding to different statistical periods of <date>, ~~ranging from July 13, 2021 to January 1, 2023.~~ .

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

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 the Contract will be ~~the day six days after the <date of issuance, and 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. The initial Contract iteration follows a different pattern.>.~~ The Last Trading Date of the initial Contract iteration is July 18, 2021 and the Last Trading Time is 7:00pm ET on July 18, 2021. Time shall be 11:59 PM.

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 be ~~seven days after the date of issuance. The initial Contract iteration follows a different pattern. The Expiration Date of the~~

initial Contract iteration will be July 19, 2021, the sooner of the first 10:00 AM ET following the release of the data for <date>, or one week after <date>.

Expiration time: The Expiration time of the Contract shall be ~~6:00pm~~ 10:00 AM ET.

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

Expiration Value: The Expiration Value is the value of the ~~“Weekly Average” for the statistical period of the week ending <date> as defined above in Underlying~~ Underlying as documented by the Exchange 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.

