KalshiEX LLC
Rule 40.2 New Contract Submission: Will the CDC identify a variant of high consequence?
Ticker: VOHC
Variant of High Consequence
~~9/2/21~~
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 VOHC~~The "Will the CDC identify a variant of high consequence?" Contract is a contract relating to whether the CDC will identify a variant of high consequence (VOHC) in the United States. The CDC classifies SARS-CoV-2 variants, provided they meet certain minimum requirements, into three categories of increasing severity: variants of interest, variants of concern, and variants of high consequence. A variant of high consequence is the most concerning of the group, and is characterized by the failure of medical countermeasures ("MCMs"), including the possibility of significantly reduced vaccine and therapeutic efficacy. The CDC has yet to identify a variant that rises to that level; the much-discussed Delta variant is only classified as a variant of concern. The Contract concerns whether such a variant will emerge. 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 COVID-19 pandemic has wreaked havoc on the United States. The virus has claimed the lives of hundreds of thousands of Americans and sickened many more. According to the Brookings Institute, "the COVID-19 global recession is the deepest since the end of World War II."[1] The emergence of new variants, such as the Delta variant, have spooked financial markets, pushed cities to reimpose mask mandates, and raised concerns around the pace of reopening.[2] The emergence of a variant of high concern could ignite another wave of the pandemic, not only among the unvaccinated but the vaccinated as well. Such

[1] https://www.brookings.edu/research/social-and-economic-impact-of-covid-19/
[2] https://www.reuters.com/business/global-markets-wrapup-3-pix-2021-08-02/

a wave could precipitate lockdowns, overwhelmed hospitals, and economic distress. The Contract allows retail and institutional investors to hedge such risks.

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 CDC has identified a variant of high consequence, 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

~~Contract~~
Official Product Name: Will the CDC identify a variant of high consequence?
Ticker and Rulebook: VOHC

~~**Contract:**~~

VOHC

Scope: These rules shall apply to the contract referred to as VOHC.

Underlying: The Underlying for this Contract is the number of Variants of High Consequence (VOHC) identified by the CDC.

Revisions after Expiration will not be accounted for in determining the Expiration Value.

Instructions: The CDC's SARS-CoV-2 Variant Classifications and Definitions webpage is available at: https://www.cdc.gov/coronavirus/2019-ncov/variants/variant-info.html#Consequence. On the page, scroll down to the header "Variant of High Consequence." Any variants that are classified as Variants of High Consequence will be listed in a table under the header. At the time of filing, no such variants have been identified, and the table reads: "Currently, there are no SARS-CoV-2 variants that rise to the level of high consequence." For an example of an existing table of variants, see the table labeled "Selected Characteristics of SARS-CoV-2 Variants of Concern" under the classification "Variant of Concern" on the same webpage. 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 Centers for Disease Control and Prevention ("CDC").

Type: The type of Contract is a Binary Contract.

Issuance: ~~The Issuance of the initial Contract will be on or after September 4th, 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 will be listed on a semi-annual basis.

<number>: Kalshi may list iterations of the Contract with <number> levels that fall within an inclusive range between a maximum value of <10> and a minimum value of <0> at consecutive increments of <1>. Due to the potential for variability in the Underlying, the Exchange may modify <number> levels in response to suggestions by Members.

<date>: <date> refers to a calendar date specified by Kalshi.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that are strictly greater than <number>.

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 same day as the Expiration Date. The Last Trading Time will be the same as the Expiration time.

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 ~~March 1, 2022.~~the sooner of the first 10:00 AM ET following an event that is encompassed by the Payout Criterion or <date>.

Expiration time: The Expiration time of the Contract shall be ~~7~~10:00 ~~PM~~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.