KalshiEX LLC
~~Rule 40.2~~ New Contract Submission: ~~"Will there be more than <count> new~~What will COVID-19 ~~cases on <date>?"~~case numbers be?
~~7/21~~Ticker: CASE
Kalshi Contract Category: Economic/Demographic Measure (U.S. Government Data)
COVID-19 Cases
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 there be more than <count> new~~What will COVID-19 ~~cases on <date>?"~~case numbers be?" Contract (CASE contract or Contract) is a contract relating to the number of new COVID-19 cases reported for the United States each day. The emergence of SARS-CoV-2, the coronavirus that causes COVID-19, has had enormous implications for the American economy. Despite vaccination efforts, the virus remains a threat in the United States. 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.

As of June 2021, over 600,000 Americans have died of COVID-19, and over 33 million cases of COVID-19 have been recorded.[1] Millions of Americans have lost loved ones, jobs, and a sense of normalcy. Shutdowns, social distancing requirements, and fear of contracting the virus have shuttered businesses, prompted layoffs, and reduced income streams. Unemployment climbed to 14.8% in April 2020,[2] before declining to 5.8% in May 2021 -- still over 2 points higher than pre-pandemic levels.[3] The number of new COVID-19 cases is an essential indicator of the state of the pandemic. Government officials at the local, state, and federal levels make policy decisions around shutdowns, social distancing measures, and fiscal stimulus based on COVID-19 case counts, among other factors. Fear of contracting or spreading COVID-19 also tracks with new case

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[1] https://www.nytimes.com/interactive/2020/us/coronavirus-us-cases.html
[2] https://fas.org/sgp/crs/misc/R46554.pdf
[3] https://www.bls.gov/news.release/pdf/empsit.pdf

counts: higher levels of COVID-19 deter would-be customers from eating inside, shopping inside, travelling, and more. The ~~contract~~Contract allows individuals and institutions to directly hedge the economic fallout that comes with higher COVID-19 levels.

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 reported new COVID-19 cases in the US for <date> is ~~more than~~above <count>, 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

~~**Rule 100.25**~~

~~**Contract: "Will there be more than <count> new COVID-19 cases on <date>?"**~~

Official Product Name: What will COVID-19 case numbers be?
Ticker and Rulebook: CASE

CASE

Scope: These rules shall apply to the ~~"Will there be more than <count> new COVID-19 cases on <date>?" Contract~~CASE contract.

Underlying: The Underlying for this Contract is the number of new ~~cases of~~ COVID-19 cases in the United States for ~~the given~~ <date> ~~published by~~according to the Centers for Disease ~~Control's~~Control and Prevention (CDC~~)~~). No data for <date> counts as zero. Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Instructions: The number of new cases of COVID-19 can be found at the CDC's "Trends in Number of COVID-19 Cases and Deaths in the US Reported to CDC". This report is available at the following stable URL:
 https://covid.cdc.gov/covid-data-tracker/#trends_dailytrendscases. Scroll down to the section titled "Data Table for Daily Case Trends"; the Underlying is the number of "New Cases". ~~Updated data for a given <date> is released the day after. Revisions~~These instructions on how to access the Underlying ~~that~~ are ~~published after~~provided for convenience only and are not part of the binding Terms and Conditions of the ~~Expiration~~Contract. They may be clarified at any time ~~on the Expiration Date will not be accounted for in determining the Expiration Value~~.

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 Contract is based on the outcome of a recurrent data release, which is issued on a daily basis. Thus, Contract iterations will be issued on a recurring basis, and future Contract iterations will generally correspond to the next day. ~~The Exchange will publish all available contract days on its website. The Issuance of the initial Contract will be on or after July 23, 2021. After the initial Contract, future Contracts will be issued in a manner which reflects the daily schedule of "Trends in Number of COVID-19 Cases and Deaths in the US Reported to CDC".~~

Count: Kalshi may list ~~"Will there be more than <count> new COVID-19 cases on <date>?" contracts~~iterations of the Contract with <count> levels that fall within an inclusive range between a maximum value of ~~1~~3,000,000 and a minimum value of 0 at consecutive increments of 1. 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 calendar date specified by Kalshi. Kalshi may list "Will there be more than <count> COVID-19 cases on <date>?" contractsiterations of the Contract corresponding to different statistical periods of <date>, ranging from July 23, 2021>.

<Last_Trading_Date>: <last_trading_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 <last_trading_date>.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that are strictly greater than <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, theThe Last Trading Date forof the Contract will be <last_trading_date>. It will correspond to the day of the expected release of the data, which is typically one day after the date of Issuance.<date>, but may be different in cases of Sundays and federal holidays and varies based on the holiday. The Last Trading Time will be 8:00pm ET.11:59 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: Unless otherwise noted by the Exchange and indicated on the Exchange website, theThe Expiration Date of the Contract shall be two days after the the sooner of the nearest 10:00 AM ET following the release of the data for <date of Issuance. >, or one week following <date>.

Expiration time: Unless otherwise noted by the Exchange and indicated on the Exchange website, theThe Expiration time of the initial Contract iteration shall be 11:00am10:00 AM ET.

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

Expiration Value: The Expiration Value is the value of the Underlying for the statistical period of <date> 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.