September 22, 2026

VIA CFTC PORTAL

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Kalshi Klear LLC — Submission Pursuant to Section 5c(c)(1) of the Commodity Exchange Act and Commodity Futures Trading Commission Regulation 40.5(a) — Adoption of the Event Contract Margin Framework

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (the "CEA"), Commodity Futures Trading Commission ("Commission") Regulation 40.5(a), and Kalshi Klear LLC ("Klear" or the "Clearing House")'s order of registration with the Commission as a derivatives clearing organization, as amended (the "Registration Order"),[1] Klear is submitting this request for Commission approval of amendments to the Klear Rules and the Klear Margin Risk Framework in order to implement a new initial margin methodology for eligible event contracts (the "Event Contract Margin Framework" or the "Framework"). The Framework will apply to event contracts that satisfy the product- and side-specific eligibility criteria discussed below, including contracts relating to economic, financial, political, commercial, and other objectively verifiable events. For purposes of this submission, event contracts whose underlying event involves a sporting contest will not be eligible for margined treatment.

These amendments are to become effective no earlier than the first business day following the forty-fifth calendar day after this submission, or such later date as Klear and/or the Commission may determine. The text of the proposed amendments to the Klear Rules is set forth in Appendix A hereto. Klear has respectfully requested confidential treatment for the detailed methodology whitepaper, calibration parameters, and validation packages that describe the Framework in mathematical terms, which have been submitted concurrently with this submission. In addition, pursuant to Commission Regulations 40.8 and 145.9, Klear is requesting confidential treatment for Sections 2 through 4 of this submission, which contain commercially sensitive information regarding the design of the Framework. A public version of this submission, from which those portions have been redacted, is being filed concurrently.

1. Introduction and Key Features of the Event Contract Margin Framework

Event contracts cleared by Klear are binary contracts that pay $1 if a specified event occurs and $0 otherwise. Before settlement, contracts trade at prices greater than $0 and less than $1 per contract. Because the final payoff is bounded, each side's maximum possible loss is known at the time of trade: a YES position can lose at most the price paid, and a NO position can lose at most $1 minus the price paid by the YES. The Framework establishes risk-based initial margin requirements that are commensurate with this bounded, side-specific risk profile of event contracts cleared by Kalshi, with the additional safeguard of requiring full collateralization during periods of time when binary uncertainty and risk are greatest. The Framework is expected to safely

[1] The Registration Order states that "prior to implementing a margin methodology applicable to swaps . . . , Klear will have such margin methodology approved by the Commission pursuant to Commission Regulation 40.5." All eligible event contracts qualify as swaps under the CEA.

increase liquidity in event contract markets by making carefully managed margined treatment available for a subset of appropriate event contracts for eligible participants. Margined event contracts will be available for clearing only through a futures commission merchant ("FCM") or to an eligible contract participant ("ECP") approved by Klear as a Self-Clearing Member, consistent with Klear Rules 3.2 and 4.2.

The Framework is designed around the following core features:

- **Risk-based, side-specific margining.** The Framework establishes initial margin requirements based on the modeled adverse price movement of each contract side over the applicable holding period, subject to the bounded maximum loss of the position. Margin eligibility is assigned separately to the YES side and the NO side of each market, because early or discontinuous resolution can affect one side differently from the other.
- **A conservative coverage standard.** The Framework is calibrated to establish, with a high degree of certainty, that losses resulting from adverse price movements over the holding period will not exceed the initial margin requirement. The model target exceeds the 99% confidence level required under Commission Regulation 39.13(g)(2)(iii).
- **A one-day margin period of risk for eligible products.** The Framework uses a one-day (24-hour) margin period of risk ("MPOR"), which is based on characteristics that support the Commission's exercise of its discretion to establish product-specific liquidation times under Regulation 39.13(g)(2)(ii)(D), as discussed in Section 4 below.
- **Anti-procyclicality measures.** The Framework incorporates multiple anti-procyclicality measures, including volatility floors that prevent margin from collapsing in quiet markets, a dual-speed volatility estimate that raises requirements promptly after a shock while preventing them from falling back too quickly, and conservative treatment of newly listed markets.
- **Scheduled-event and near-resolution protections.** The Framework requires additional margin around scheduled events that can produce discontinuous repricing, and ramps margin toward full collateralization as a contract approaches resolution, when binary uncertainty is greatest.
- **Liquidity and concentration charges.** The Framework factors in the cost of closing out positions during a Clearing Member default by applying charges above initial margin to address bid-ask spread cost and the additional cost of unwinding concentrated positions.
- **Validated portfolio margining.** The Framework recognizes offsets between related contracts only where the payoff logic or correlation basis is reliable and only after the relevant portfolio has satisfied portfolio-loss backtesting; broader portfolio margining is limited to eligible cohorts and is used conservatively.

2. Overview of the Event Contract Margin Framework

[Redacted. Confidential treatment requested by Kalshi Klear LLC.]

3. Parameter Review Process and Ongoing Oversight

[Redacted. Confidential treatment requested by Kalshi Klear LLC.]

4. One-Day Margin Period of Risk for Eligible Event Contracts

[Redacted. Confidential treatment requested by Kalshi Klear LLC.]

5. Coverage, Backtesting, and Validation

Klear has determined that the actual coverage of the Framework's initial margin requirement, together with projected measures of its performance, meets an established confidence level of at least 99 percent per side, based on data from an appropriate historic time period, consistent with Commission Regulation 39.13(g)(2)(iii). The Framework's model target exceeds that regulatory minimum.

The Framework is validated using walk-forward backtesting, in which the margin requirement at each point in time is computed using only information available at that time, and is then compared against the subsequently realized price movement over the holding period. Coverage is evaluated separately for each contract side and is assessed using standard statistical diagnostics, including side-specific breach rates, rolling-window breach-rate measures, unconditional coverage tests, traffic-light classification, and independence diagnostics for breach clustering. Consistent with Commission regulations, Klear conducts sensitivity analyses across a range of parameter settings and market conditions to confirm that the parameters and assumptions remain appropriate in light of the specific characteristics of the cleared products and portfolios, and reviews model performance on an ongoing basis. The detailed backtesting and validation results supporting the Framework are set out in the confidential materials submitted concurrently with this filing and are available to Commission staff upon request.

The Framework has been independently validated by a qualified reviewer independent of its development and operation, and will continue to be validated on a regular basis, consistent with Commission regulations.

6. Compliance with the Act and Regulations

Klear reviewed the foregoing amendments and determined that they comply with the requirements of the CEA and the rules and regulations promulgated by the Commission thereunder.

In this regard, Klear reviewed the derivatives clearing organization core principles ("Core Principles") and determined that the amendments are potentially relevant to the following Core Principles and the applicable regulations of the Commission thereunder:

Financial Resources (Core Principle B). Implementing the Framework will not change the fact that Klear maintains financial resources sufficient to enable it to meet its financial obligations to its Clearing Members notwithstanding a default by the Clearing Member(s) creating the largest combined financial exposure to Klear in extreme but plausible market conditions. Klear maintains such resources through the initial margin posted by defaulting Clearing Members, Klear's own contributed resources, and the Guaranty Fund, and will continue to perform stress tests on at least a monthly basis. The Framework does not change the methodology used to size the Guaranty Fund, which will support both margined perpetual futures and margined event contracts. However, because Klear will designate margined event contracts as a contract segment distinct from perpetual futures, the guaranty fund and other elements of the default waterfall described in Chapter 12 of the Klear Rules will apply separately to margined event contracts, on the one hand, and margined perpetual contracts, on the other hand, as set forth in the Klear Rules. Accordingly, the Framework and the related amendments are consistent with Core Principle B and Commission Regulations 39.11 and 39.33.

Participant and Product Eligibility (Core Principle C). The Framework's margin eligibility methodology establishes documented, deterministic, and reviewable standards for determining which event-contract sides may receive model-based margin as opposed to full collateral, with new products defaulting to full collateral until reviewed and approved. This is consistent with Core Principle C and the applicable Commission regulations. Additionally, the amendments herein would not alter Klear Rules 3.2 and 4.2, which provide that a member may not clear margined contracts unless it is a FCM or an ECP that is approved as a Self-Clearing Member.

Risk Management (Core Principle D). The Framework establishes initial margin requirements that are commensurate with the risks of each event contract and the portfolio in which it is held, including the bounded, side-specific characteristics of event-contract payoffs. The Framework meets an established confidence level of at least 99 percent per side, based on data from an appropriate historic period. Further, the Framework will apply only to event contract sides that possess characteristics and risk profiles that warrant a one-day minimum liquidation time, and Klear respectfully requests that the Commission exercise its discretion pursuant to Subsection (D) of the MPOR Rule to permit a one-day MPOR for these contracts. The Framework provides for reductions in initial margin only for related positions that are significantly and reliably correlated and that have satisfied portfolio-loss backtesting, consistent with Commission Regulation 39.13(g)(4). Klear will continue to review and back-test its margin methodology, collect margin, and impose time deadlines for margin payment consistent with the applicable Commission regulations. Accordingly, the Framework and the related amendments are consistent with Core Principle D and Commission Regulations 39.13 and 39.36.

Treatment of Funds (Core Principle F). Customer assets for trading in margined event contracts will remain segregated in accordance with Klear Rule 7.7 (Segregation of Participant Funds). Margined event contracts may constitute one or more contract segments distinct from fully collateralized event contracts, such that persons trading fully collateralized event contracts will not be subject to any aspect of the default waterfall resulting from such a default in a margined event contract position, except that – in an extreme scenario – a fully collateralized position could be subject to tear-ups only to the extent of the portion of profits of the position associated with opposite-side margined positions. In no event will customers trading fully collateralized event contracts be exposed to losses of their collateral for fully collateralized positions as the result of defaults in margined event contract positions.

System Safeguards (Core Principle I). The systems supporting the Event Contract Margin Framework will be subject to Klear's existing system safeguards program, including appropriate pre-production and regression testing, capacity and performance testing, change-management controls, information-security controls, and business continuity and disaster recovery procedures. Klear will monitor the reliability, security, and capacity of the systems supporting the Framework and will test and review those systems in accordance with its established policies and Commission Regulations 39.18 and 39.34. Accordingly, implementation of the Framework is consistent with Core Principle I and the applicable Commission regulations.

Public Information (Core Principle L). Klear will provide market participants with sufficient information regarding the Event Contract Margin Framework and applicable margin requirements to enable them to understand and manage the risks and costs associated with clearing margined event contracts. Such information may include descriptions of the principal components of the margin methodology, applicable margin requirements, and information reasonably necessary for Clearing Members to assess the potential margin impact of their positions. Klear will also disclose information about the size and composition of the financial resource package available in the event of a Clearing Member default involving margined event contracts. The Framework does not alter Klear's other disclosures pursuant to Commission Regulation 39.21. Accordingly, the Framework is consistent with Core Principle L and Commission Regulation 39.21.

7. Conclusion

Klear has determined that the amendments to the Klear Rules and the Klear Margin Risk Framework that are the subject of this request comply with the CEA and the rules and regulations promulgated by the Commission thereunder. Klear is not aware of any opposing views regarding, or potential anticompetitive effects of, the proposed amendments. Klear certifies that, concurrent with this filing, a copy of the public version of this submission will be posted on Klear's website.

If you or your staff have any questions or require further information regarding this submission, please do not hesitate to contact the undersigned at +1-602-363-3006.

Sincerely,

Udesh Jha
Chief Risk Officer, Kalshi Klear LLC

Appendix A

Proposed Klear Rulebook Changes

Rule 1.1 Definitions

Fully Collateralized Contract: A Contract entered into by a Member maintaining sufficient Margin with the Company to fully collateralize the Obligation of the Member to the Company associated with the Contract**; provided that Contracts eligible to be Margined Contracts traded by a Participant eligible to trade Margined Contracts pursuant to Rule 3.2C will not be Fully Collateralized Contracts even if they are fully collateralized.**

Rule 7.1 Margin Requirements; Margin Payments

A. With respect to Margined Contracts:

1. The relevant Member shall deposit with, pay to, or otherwise maintain with, the Company unencumbered assets sufficient to satisfy the Initial Margin and Variation Margin for each Margined Contract in such amounts, in such forms, at such times, and in accordance with such procedures or methodologies as may be prescribed by the Company pursuant to the Rules or the Company's policies in respect thereof. The Member shall be responsible for all fees associated with deposits, withdrawals, or transfers of Margin to or from the Company.

2. The Company will determine whether each Contract that is a Swap shall be a Fully Collateralized Contract or a Margined Contract pursuant to the Company's Margin policies and methodologies and shall notify Members of such determination. If the Company does not expressly designate a Contract that is a Swap as a Margined Contract, the Contract shall be a Fully Collateralized Contract. For Swaps that are binary options, the Company may designate one "side" of the Contract (e.g., the "YES" or the "NO" position) as a Fully Collateralized Contract while designating the other side as a Margined Contract (or it may designate both sides as Fully Collateralized Contracts or Margined Contracts).

3. For each Margined Contract that is a binary option, the Company will increase the Initial Margin periodically as the term of the Contract continues, or as otherwise warranted by market conditions, developments with respect to the Underlying, or other risk-management considerations, such that the Contract reaches full collateralization (i) as it approaches expiration or (ii) at such earlier time as the Company determines to be necessary for effective risk management with respect to the Contract. Any such increase in collateral shall not result in the Margined Contract becoming a Fully Collateralized Contract for purposes of these Rules.

4. Each transfer of United States dollars in respect of Initial Margin or Variation Margin shall constitute a settlement (within the meaning of CFTC Regulation 39.14) and shall be final as of the time the Company's accounts are debited or credited with the relevant payment.

. . .

Rule 7.3 Initial Margin

. . .

D. The methodology used by the Company to calculate Initial Margin shall incorporate at a minimum the following factors, among others as determined by the Chief Risk Officer from time to time consistent with the guidance of the Risk Management Committee and in consultation therewith as appropriate:

1. An estimate of the potential risk exposure of the Company to price movements in a Margined Contract over an estimated liquidation period which shall be no less than five (5)-day liquidation for Margined Contracts that are Swaps or one (1)-day liquidation for Margined

Contracts that are futures contracts, or such longer liquidation time as is appropriate based on the specific characteristics of a particular Margined Contract or Member's positions, or such shorter period as the Commission may approve **<u>(including one (1) day for Margined Contracts that are Swaps and meet the Company's Commission-approved criteria for such treatment under the Company's Margin methodology and other Margin policies) and</u>**

<u>…</u>