January 21, 2025

SUBMITTED VIA CFTC PORTAL
Secretary of the Commission
Office of the Secretariat
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: KalshiEX LLC – CFTC Regulation 40.2(a) Notification Regarding the Initial Listing of the "Will <team> win <title>?" Contract

Dear Sir or Madam,

Pursuant to Section 5c(c) of the Commodity Exchange Act and Section 40.2(a) of the regulations of the Commodity Futures Trading Commission, KalshiEX LLC (Kalshi), a registered DCM, hereby notifies the Commission that it is self-certifying the "Will <team> win <title>?" contract (Contract). The Contract will initially be listed on **January 22, 2025**. The Exchange intends to list the contract on a custom basis. The Contract's terms and conditions (Appendix A) includes the following strike conditions:

- **<team>**
- **<title>**

Along with this letter, Kalshi submits the following documents:

- A concise explanation and analysis of the Contract;
- Certification;
- Appendix A with the Contract's Terms and Conditions;
- Confidential Appendices with further information; and
- A request for FOIA confidential treatment.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Xavier Sottile
Head of Markets
KalshiEX LLC
xsottile@kalshi.com

KalshiEX LLC
Official Product Name: "Will <team> win <title>?"
Rulebook: TITLE
Kalshi Contract Category: Sports
January 21, 2025

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 (discussed in Appendix E), and the Commission's regulations thereunder.

I. Introduction

The "Will <team> win <title>?" Contract is a contract relating to American sports leagues.[1]

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 C, D, and E.

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 event 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. 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, if they are charged, are charged in such amounts as may be revised from time to time to be reflected on the Exchange's Website. A new Source Agency can be added via a Part 40 amendment. All instructions on how to access

[1] The Contract has not been endorsed by the National Football League, the National Hockey League, or the National Collegiate Athletic Association. The use of the terms National Football League, the National Hockey League, or the National Collegiate Athletic Association does not indicate an endorsement of this product.

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. The Expiration Value and Market Outcome are determined at or after Market Close. 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 an event occurs that is encompassed within the Payout Criterion, 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.

CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY EXCHANGE ACT, 7 U.S.C. § 7A-2 AND COMMODITY FUTURES TRADING COMMISSION RULE 40.2, 17 C.F.R. § 40.2

Based on the above analysis, the Exchange certifies that:

- ❏ The Contract complies with the Act and Commission regulations thereunder.
- ❏ This submission (other than those appendices for which confidential treatment has been requested) has been concurrently posted on the Exchange's website at https://kalshi.com/regulatory/filings.

Should you have any questions concerning the above, please contact the exchange at ProductFilings@kalshi.com.

____

By: Xavier Sottile
Title: Head of Markets
Date: January 21, 2025

Attachments:

Appendix A - Contract Terms and Conditions
Appendix B - Trading Prohibitions
Confidential Appendices

APPENDIX A – CONTRACT TERMS AND CONDITIONS

Official Product Name: “Will <team> win <title>?”
Rulebook: TITLE

TITLE

Scope: These rules shall apply to this contract.

Underlying: The Underlying for this Contract is the winner of <title>.[2] Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Source Agency: The Source Agency is the Associated Press.

Type: The type of Contract is an Event Contract.

Issuance: The Contract is based on the outcome of a recurrent event, which is issued on a seasonal basis. Thus, Contract iterations will be issued on a recurring basis, and future Contract iterations will generally correspond to the next season for the league with <title>.

<team>: <team> refers to a specified franchise of the league that has <title>.

<title>: <title> refers to a given sports league title, including a specified year, e.g., “The 2025 National Football League Super Bowl”. <title> may refer to the titles of the National Football League, the National Hockey, League and the National Collegiate Athletic Association (including its subdivisions/tournaments, e.g. the NCAA Division I men's basketball tournament).

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that the first official final result of <game> is that <team> has won.

- If a title game is postponed past its scheduled date (e.g. because of severe weather), then the market will remain open and will resolve when the game is played.
- If a title game is moved to be earlier than its scheduled date, then the market will remain open and will resolve when the game is played.
- If a title game is cancelled outright (or declared “no contest”) before it is played, then the market will resolve to “No”.
- If a title game is cancelled outright (or declared “no contest”) after it is started, then the market will resolve to “No”.
- If a title game is suspended during play, then the market will remain open and will resolve when the game is resumed and finished.
- If a title game ends with a tie, the market will resolve to “No”.
- If <team> forfeits the game, the market will resolve to “No”.

---

[2] The Contract has not been endorsed by the National Football League, the National Hockey League, or the National Collegiate Athletic Association. The use of the terms National Football League, the National Hockey League, or the National Collegiate Athletic Association does not indicate an endorsement of this product.

- If a title game is ended early, before regulation time has ended, but the league declares that the game is over and there is a winner, or a tie, then the market will resolve based off that determination.

Minimum Tick: The Minimum Tick size for the Contract shall be $0.01.

Position Accountability Level: The Position Accountability Level for the Contract shall be $25,000 per strike, per Member.

Last Trading Date: The Last Trading Date of the Contract will be the same 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 latest Expiration Date of the Contract shall be the day after the day the title game has an official final result. If an event described in the Payout Criterion occurs, expiration will be moved to an earlier date and time in accordance with Rule 7.2.

Expiration time: The Expiration time of the Contract shall be 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 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(d) of the Rulebook. If an Expiration Value cannot be determined on the Expiration Date, Kalshi has the right to determine payouts pursuant to Rule 6.3(b) in the Rulebook.

APPENDIX B – TRADING PROHIBITIONS

In addition to the general prohibition against trading on material nonpublic information, the Exchange will be instituting additional prohibitions for trading the TITLE contract. Persons under 18 years of age are already not permitted to create Kalshi accounts. Nonetheless, the following individuals will be prohibited from trading:

- Current and former players, coaches, and staff of the National Football League, the National Hockey, League and the National Collegiate Athletic Association;
- Paid employees of the league and league participants;
- Owners of teams and the league;
- and household members and immediate family of all above.

APPENDIX C (CONFIDENTIAL) – FURTHER CONSIDERATIONS

The outcome of a single sports game may seem, at a glance, to be a strictly athletic event. Yet, the economic consequences of a team's win or loss can reverberate beyond the scoreboard, affecting businesses, local governments, and even employment rates. Research indicates that victories often spark increased spending in local economies due to heightened fan enthusiasm and confidence, whereas losses can momentarily dampen consumer behaviors tied to team success.

First, consumer spending tends to rise when a team wins, particularly in the hospitality sector. Fans who celebrate a victory are more inclined to spend money on meals, beverages, and merchandise. Local bars and restaurants near stadiums often report significant revenue boosts following high-stakes wins, driven by fans' desire to savor the moment. Team merchandise sales can also increase, as supporters are more likely to buy jerseys, hats, and other items commemorating a successful season or marquee victory. Furthermore, this influx of spending can ripple outward: suppliers and distributors benefit from the higher demand, and these gains, in turn, support jobs and local tax revenues.

Second, the outcome of a game can impact tourism and media exposure for a given location. A well-performing team can attract fans—both casual and dedicated—from outside the immediate region, leading to overnight stays and associated tourism expenditure (e.g., hotels and transportation). This effect can be particularly pronounced during playoff runs or championship events, where positive media coverage of the hosting city often encourages return visits and broader interest in local offerings. A loss, on the other hand, can curb the momentum that encourages fans to travel or engage in such celebratory spending, cooling the short-term inflow of tourism dollars.

Lastly, intangible factors play a role. A sports team's win can elevate the community's morale, leading to a "feel-good" factor that indirectly influences consumer confidence. Individuals who feel pride and optimism may be more willing to make discretionary purchases or invest in local projects—effects that may be muted if their team repeatedly loses. While these intangible aspects are challenging to measure, they have real economic implications tied to spending patterns and business strategies.

In sum, the economic impact of a sports team's victory is multifaceted, affecting consumer spending, tourism, media attention, and overall confidence. Though one game's result might not entirely shift a city's economic fortunes, it can amplify or dampen existing trends, generating measurable financial ripples for both businesses and the community at large.

The Exchange has not determined such contracts to be contrary to the public interest and there has been no determination by the Commission that such contracts would be contrary to the public interest. The Contract provides a means for managing and assuming price risks, discovering prices, and disseminating price information on the Exchange's fair and financially secure trading facility.

The Contract has bona fide risk mitigation and price basing utility for participants with underlying economic exposure, as described above. The Contract is not merely recreational, as the discussion of risk mitigation and price basing/price discovery utility demonstrates. The outcome of the Contract is not predominantly determined by chance and depends on a variety of factors. Finally, it is possible for traders to use skill and effort to gain knowledge and information about the likelihood of the event.

APPENDIX D (CONFIDENTIAL) – SOURCE AGENCY

The Source Agency is the Associated Press, a major American news publication.

APPENDIX E (CONFIDENTIAL) – COMPLIANCE WITH CORE PRINCIPLES

Compliance with Core Principles

The Exchange has conducted a comprehensive analysis of the designated contract market core principles ("Core Principles") as set forth in Part 38 of the Act. The Core Principles relevant to the Contract are outlined and discussed in further detail below:

<u>Core Principle 2 - Compliance with Rules and Impartial Access:</u> The Exchange has adopted the Rulebook, which provides the requirements for accessing and trading on the Exchange. Pursuant to Chapters 3 and 5 of the Rulebook, in utilizing the Exchange's services, all Members must comply with the rules of the Rulebook ("Rules"), cooperate with Exchange investigations, inquiries, audits, examinations and proceedings, and engage in conduct consistent with just and equitable principles of trade. Chapter 3 of the Rulebook also provides clear and transparent access criteria and requirements for Exchange Members. Trading the Contract will be subject to all the rules established in the Rulebook, which are aimed at enforcing market integrity and customer protection.

In particular, Chapter 5 of the Rulebook sets forth the Exchange's Prohibited Transactions and Activities and specifically prescribes the methods by which Members trade contracts, including the Contract. Pursuant to Rule 3.2, each Member is required to cooperate promptly and fully with an Exchange investigation by providing access to information on the activities of the Member in any referenced market, which includes books and records of trading. Pursuant to Rule 9.2, the Exchange may compel testimony, subpoena documents, and require statements under oath from any Member. As described in Rule 9.1, the Exchange conducts trade practice surveillance, market surveillance, and real-time market monitoring to ensure that Members adhere to the Rules of the Exchange. The Exchange, through the compliance department, initiates review and, where appropriate, investigates unusual trading activity. The compliance department also investigates any time it has other reason to believe that inappropriate activity of any sort is taking place on the Kalshi Platform or its website.

Core Principle 2 also stipulates that an exchange shall establish means to provide market participants with impartial access to the market. Chapter 3 of the Rulebook, and Rule 3.1 in particular, provides clear and transparent access criteria and requirements for Members. The Exchange will apply access criteria in an impartial manner, including through the application process described in Rule 3.1.

<u>Core Principle 3 - Contract not Readily Subject to Manipulation:</u>

Core Principle 3 and Rule 38.200 provide that a DCM shall not list for trading contracts that are readily susceptible to manipulation. The Exchange's marketplace and contracts, including this Contract, have been designed in accordance with this fundamental principle. The Exchange maintains various safeguards against outcome manipulation and other forms of manipulation, including, (i) real-time market monitoring, automated trade surveillance, and suspicious behavior detection, (ii) Rulebook prohibition, Member certification, and notification, (iii) Member monitoring and know-your-customer verification, and (iv) sanctions. These safeguards render the Contract not readily susceptible to manipulation.

(i) **Real-time market monitoring, automated trade surveillance, and suspicious behavior detection**: Kalshi conducts real-time market monitoring of all trading activity on the Exchange to identify disorderly trading and any market or system anomalies. As described in Rule 5.10, Kalshi has the authority to adjust trade prices or cancel trades when necessary to mitigate market disrupting events caused by malfunctions in its electronic trading platform or errors in orders submitted by members and market participants. Any trade price adjustments or trade cancellations must be transparent to the market and subject to standards that are clear, fair, and publicly available. Kalshi also maintains an automated trade surveillance system capable of detecting and investigating potential trade practice violations. The automated system loads and processes orders and trades as they occur on the Exchange (well within 24 hours after the completion of the trading day stated in Commission Regulation 38.156). The automated trade surveillance system has the ability to detect and flag specific trade execution patterns and trade anomalies; compute, retain, and compare trading statistics; compute trade gains, losses, and positions; reconstruct the sequence of market activity; perform market analyses; and support system users to perform in-depth analyses and ad hoc queries of trade-related data. As described in Rule 9.2(a), Kalshi's Compliance Department investigates unusual trading activity or other activity that the Compliance Department has reasonable cause to believe could constitute a violation of Kalshi's Rules, or upon the receipt of a request from Commission staff. The Exchange disciplinary process is conducted in accordance with Chapter 9 of the Exchange Rulebook, and penalties may be imposed in accordance with Rule 9.5.

(ii) **Rulebook prohibition, member certification and notification:** The Exchange's Rulebook includes various provisions that prohibit manipulative behaviors. As noted above in the discussion of Core Principle 2, the Exchange's Rulebook gives the Exchange the authority to investigate potential violations of its rules. Pursuant to Rule 3.2, each Member is required to cooperate promptly and fully with an Exchange investigation by providing access to information on the activities of the Member in any referenced market, which includes books and records of trading. Pursuant to Rule 9.2, the Exchange may compel testimony, subpoena documents, and require statements under oath from any Member. The Exchange's Surveillance Officers, which operate within the Compliance Department, perform trade practice surveillance and real-time market monitoring to ensure that Members adhere to the Exchange's rules. The Rulebook also imposes sanctions on Members who break rules. Potential penalties include fines, disgorgement, and revocation of membership in Kalshi. Only Members are allowed to trade on the Exchange, and the Exchange requires its Members to strictly comply with the Rulebook. Members cannot complete the account creation process and trade on the Exchange until they certify that they have read the Exchange's rules and agree to be bound by them.

In addition, prior to trading, the Exchange requires Members to represent and covenant that the Member will not trade on any contract where they have access to material non-public information, may exert influence on the market outcome, or are an employee or affiliate of the Source Agency. In order to further reduce the potential for manipulation, the Exchange maintains a dedicated page on the trading portal that lists all the source agencies and their associated contracts, together with a warning that employees of those companies, persons with access to material non-public information, and persons with an ability to exert influence on the underlying of a contract are prohibited from trading on those contracts. This page is intended to serve as an effective means of raising Members' awareness of these rules and prohibitions, further reducing the potential for manipulation. Similarly, the Exchange places a prominent notice on each contract page that notifies Members of the prohibition on trading the Contract while employed by its Source Agency, trading the Contract on the basis of non-public information, and trading the Contract while having the ability to exert influence on the Contract's Market Outcome.

(iii) **Member monitoring and know-your-customer verification ("KYC")**: The Exchange has a robust KYC process. The KYC process is an important tool that helps flag and uncover higher risk traders before they become Members of the platform. The Exchange's KYC process ensures that the Exchange has access to all of its members' personal identifying information, and the Exchange can leverage this information as part of its surveillance and to ensure the overall fairness and integrity of its markets. During the application process, individual applicants are required to share personally identifiable information, such as their full legal name, social security number, date of birth, and address with the Exchange. Applicant information is run through a comprehensive set of databases that are actively compiled and maintained by an independent third party. The databases are utilized by the Exchange to identify applicants that are employees or affiliates of various governments and other agencies.

Additionally, as part of the KYC process for its individual members, the Exchange runs applicants through adverse media databases. The adverse media dataset is a real-time structured data feed of companies and individuals subject to adverse media. Monitoring thousands of news sources, business and trade journals, in addition to local, regional and national newspapers, the adverse media feed isolates and highlights any entities or individuals subject to a range of adverse media. The Exchange utilizes the database to trigger enhanced due diligence, because applicants with adverse media may be more likely to engage in certain types of unlawful activity including market manipulation.

(iv) **Sanctions**: Exchange Members must agree to the terms and conditions of the Exchange's Rulebook before being allowed to trade. As a result, Members are subject to disciplinary actions and fines for engaging in improper market conduct that is prohibited by the Exchange's Rulebook. In the event that suspicious trading activity is detected and results in an investigation initiated by the Exchange, market participants are required to provide the Exchange with information relevant to the scope of the investigation under Rule 3.2. Chapter 9 of the Exchange's Rulebook details the process for discipline and rule enforcement. Disciplinary action can range from a letter of warning to fines to referral to governmental authorities that can result in criminal prosecution.

In addition to these global policies and safeguards, there are a number of contract specific attributes and considerations that render the Contract not readily susceptible to manipulation.

It is unlikely that the existence of the Contract could affect the incentives of any relevant parties given the enormous stakes of the Underlying and the high level of scrutiny applied to its outcome. The relevant persons who could affect the value of the Contract (e.g. players, referees) are prohibited explicitly from trading on the Contract in addition to Kalshi's general prohibition on trading on material non-public information. Moreover, coaches, players, and team staff operate based on their own incentives (e.g., winning records, personal pride, contracts tied to performance). Even if a few individuals were theoretically tempted to influence a game outcome for financial gain, professional sports at the highest levels involve large teams, complex strategies, and multiple layers of oversight. One or two individuals acting secretly would struggle to manipulate an entire event without detection. The competitive environment—where every player is striving for success, career advancement, or personal milestones—further dilutes the possibility that an event contract can meaningfully alter the course of a match.

Professional sports leagues institute strict rules against match-fixing and related unethical behaviors. These standards are enforced through oversight committees, referees, and disciplinary actions, which can include fines, suspensions, or permanent bans for players and organizations. Consequently, players and coaches risk severe penalties and reputational damage by attempting to influence outcomes based on external wagers, making it highly improbable that such contracts would sway in-game performance. The existence of markets otherwise for game outcomes means that the marginal addition of Kalshi's Contract will not plausibly have an effect.

Core Principle 4 - Prevention of Market Disruption: Trading in the Contracts will be subject to the Rules of the Exchange, which include prohibitions on manipulation. Trading activity in the Contract will be subject to monitoring and surveillance by the Exchange's Market Surveillance Department. In particular, the Exchange's trade surveillance system monitors the trading on the Exchange to detect and prevent activities that threaten market integrity and market fairness including manipulation, price distortion, and disruptions of the settlement process. The Exchange also performs real-time market surveillance. The Exchange sets position limits, maintains both a trade practice and market surveillance program to monitor for market abuses, including manipulation, and has disciplinary procedures for violations of the Rulebook.

Core Principles 7 and 8 - Availability of General Information and Daily Publication of Trading Information: Core Principles 7 and 8, implemented by Regulations Sections Subsections 38.400, 38.401, 38.450, and 38.451, require a DCM to make available to the public accurate information regarding the contract terms and conditions, daily information on contracts such as settlement price, volume, open interest, and opening and closing ranges, the rules, regulations, and mechanisms for executing transactions on or through the facilities of the contract market, and the rules and specifications describing the operation of the contract market's electronic matching platform.

Rule 2.17 of the Rulebook sets forth the rules for publicizing information. The Rulebook and the specifications of each contract are made public on the Exchange website and remain accessible via the platform. The Exchange will post non-confidential materials associated with regulatory filings, including the Rulebook, at the time the Exchange submits such filings to the Commission. Consistent with Rule 2.17 of the Rulebook, the Exchange website will publish contract specifications, terms, and conditions, as well as daily trading volume and open interest for the Contract. Each contract has a dedicated “Market Page” on the Kalshi Exchange platform, which will contain the information described above as well as a link to the Underlying used to determine the Expiration Value of the Contract. Chapter 5 sets forth the rules, regulations and mechanisms for executing transactions, and the rules and specifications for Kalshi’s trading systems.

Core Principle 11 - Financial Integrity of Transactions: Each Member must be in good standing and in compliance with the Member eligibility standards set forth in Chapter 3 of the Rulebook. All contracts offered by the Exchange, including the Contract, are cleared through the Clearinghouse, a Derivatives Clearing Organization (“DCO”) registered with the CFTC and subject to all CFTC Regulations related thereto. The Exchange requires that all trading be fully cash collateralized. As a result, no margin or leverage is permitted, and accounts must be pre-funded. The protection of customer funds is monitored by the Exchange and ensured by the Clearinghouse as “Member Property.”

All Remaining Requirements: All remaining Core Principles are satisfied through operation of the Exchange’s Rules, processes, and policies applicable to the other contracts traded thereon. Nothing in this contract requires any change from current rules, policies, or operational processes.