

From: Donald Stalter
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Comment Text:

My name is **Donald** Stalter, and I am a Director at Rocket Internet and Partner at Global Founders Capital, for whom this letter is written. Kalshi's proposed contract—an event contract that pays out if a selected political party wins a majority in a selected chamber of Congress—would serve the public interest and ought to be permitted.

Political control matters to a wide variety of businesses and ordinary citizens, including ourselves. Like any financial firm, we are subject to an expansive range of rule and regulation. Different parties naturally have quite different approaches to that regulation. Should a party hostile to investment firms gain power, then in expectation the value of our business would decline, even though we do not know for certain that such a party will actually pass such finance-skeptical legislation. Since many important financial factors depend on market expectations—such as the ability to attract investment, repayment terms on loans, etc.—these harms to our business could manifest even if the party in question does not actually pass any legislation that materially harms the business. As a result, the predictability of bill passage is immaterial to the question about whether or not the contract can be used for hedging purposes. Instead, it is the change in expectations, i.e. a change in risk, that provides the basis for hedging in financial markets. Congressional control meets that bar for hedging not just for us, but for tens of thousands of other American businesses.

Congressional control contracts also communicate valuable information that can be used to inform our business decision-making. Seeking out a company to acquire in a regulated discipline requires forecasting what the policy environment will look like in a few years. A company that may seem underpriced under current laws may later be wildly overpriced if the policy environment were to shift. But the only way to make an educated guess as to that environment is to know which party is in control of the government. Without a market mechanism to aggregate this information, businesses are left making fuzzy or intuition-based guesses. Those are better than nothing, but it's hardly a good basis upon which to base business-critical decisions. Providing accurate, market-driven data would thus result in more efficient allocation of capital and labor within our firm—and within thousands of other firms as well.

The CFTC has asked for the public to wade in on the question of gaming—specifically, they wish to know what share of market participants need to be engaging in hedging activity in order for an activity to not be considered gaming. The premise of this question is bizarre and wrong-headed. Many markets have a high, or even indefinite, ratio of non-hedgers to hedgers (famously, far more oil is traded per day than is actually produced; what's being traded is speculative 'paper oil'). Moreover, this standard (minimum hedger share) has never been applied before. Applying it now would introduce an unacceptable amount of market uncertainty as other derivatives markets would not know whether it would be arbitrarily applied to them as well. In addition, there is no way for the CFTC to ascertain what that share is for any contract prior to the contract's listing. Instead, they would be reliant exclusively on guesswork. Abandoning data and empirics for guesswork is a recipe to introduce arbitrariness and caprice into Commission decisions, as the claims would be unfalsifiable. The Commission could then de facto reject any event contract that they find inconvenient and justify it on purely speculative grounds about the share of hedgers, and it would be impossible to prove them wrong, since the rejection would block the exchange from actually listing the contract and actually showing how many hedgers there truly are. That's why the rule of law demands bureaucratic decision-making on the basis of data and fact, not discretion.

But the question is nevertheless moot. These contracts are not gaming because they have a large amount of economic purpose and value. The CFTC should recognize this transparent truth, and allow Kalshi to list these contracts.