From: Victor Jacobsson
Organization(s): Rosfelt, Klarna

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Comment Text:

My name is Victor Jacobsson, and I am a co-founder of Klarna, the world's largest buy-now pay-later company, with over $80 billion in online sales in 2021. Today, I work as an independent advisor to a variety of startups and investors all around the world. In my experience–as an entrepreneur, advisor, and investor–political control has a vast impact on American businesses, and American business owners and workers deserve the opportunity to hedge the risk that political control might change in a way that adversely affects them.

The CFTC has asked the public to answer whether the effects of elections are predictable enough for them to be hedge-able events. While no one would claim to have a crystal ball and know exactly what bills Congress might pass, or exactly who they might confirm to important regulatory positions, risks indisputably rise when certain Congresses come into power, and hedging instruments are needed to mitigate that risk. The modern investor and business owner needs to take a comprehensive look at the risks (and opportunities) a business faces. Consider two risks, one of which has a 10% chance of occurring and will cause a $250,000 loss if it happens. Another has a 25% chance of happening but will cause a $100,000 loss. That first risk might be a hurricane, or a wildfire, or a particularly vicious hailstorm. The second might be an adverse change in Congress, with its concomitant changes in regulations, taxes, and beyond. It is considered negligent to not get insurance against the first risk. But in the United States, not only is it not obligatory to directly hedge yourself against the second, direct hedging products are strictly prohibited! From a business perspective, elections risk and other risks are very similar. Regulators should recognize that fact, and give business owners the tools they need to protect themselves in a similar manner.

The CFTC has also asked about whether these contracts can be used to price other services, including financial assets or commodities. As an investor and advisor, I receive a lot of pitches and proposals from entrepreneurs. A core part of any good pitch is an understanding of the legal, regulatory, and political environment. Shifts in any one of these key factors can impact a deal. There are any number of ways this can happen. An election might mean the end to a subsidy program the businesses rely on, or a tightening of regulation that increases their compliance cost, or a change to the way their customer base does business so that the expected future earnings of that company are lower. It is absolutely valuable then to know the probability of a new Congress entering government, as that affects the price that an investor is willing to pay per share of that company, and this is information that industry takes into account all the time. There is no doubt that businesses will start incorporating the data from the contract market into their assessments.

In conclusion, these contracts serve a valuable hedging function and price-basing function. My years of experience building, advising and investing in businesses strengthens the conviction I have in this fact. The CFTC should permit Kalshi to offer this valuable risk reduction tool to small business owners and the broader public.