Introduction from Kalshi: The Better Markets letter does not represent the progressive view on election markets, and progressives have explicitly rebuked it. Many progressives, including (but hardly limited to) Data for Progress's Sean McElwee, former Obama CEA chair Jason Furman, former CFTC official and Senator Markey advisor Justin Slaughter, Vox Future Perfect's Dylan Matthews, and progressive civil rights attorney Joel Wertheimer also support these markets. Some of those (like Furman and McElwee) emphasized how election prediction markets contributed to decision-making in the White House and their efforts to help elect progressives, as well as how these markets would combat disinformation. With that said, we have included a line-by-line rebuttal of Better Markets's claims, along with claims by some other groups made today, the final day of the public comment process for Kalshi's proposal.

In this response, comments from Kalshi's previous proposal on Congressional control contracts are referenced, as they are material and relevant to Kalshi's current proposal.

Better Markets claim: *"Kalshi does not presently allow leveraged or margined trading on its platform, but it reserves the right to change this policy in the future, as it, of course, can change any of its other policies, procedures or statements…The Self-Certified Contract application also does not offer a description of how margin will be handled under the contract."*

1. Kalshi does not offer leveraged or margined trading.
2. The implication that Kalshi may attempt to surprise the Commission with the introduction of leveraged trading (or another rule change), thus changing their calculus regarding the public interest of the proposed contract, is wrong. Kalshi has to submit to the Commission any proposal to allow leveraged trading, as it would be an alteration of our Rulebook. If the Commission thought that improper, it could block such a rule change under the relevant provisions of the law. Better Markets should be aware of CFTC Regulation 40, which lays out these procedures exactly (available here: https://www.ecfr.gov/current/title-17/chapter-I/part-40), in particular 40.5 and 40.6. They should not use a hypothetical future change in Rules (which the Commission could prevent) as a cudgel to stop these contracts.

Better Markets claim: *"Kalshi's Self-Certified Contract fails to provide sufficient detail regarding several key issues surrounding the contract. As discussed above, Kalshi's submission includes no specific details regarding the fee structure it would charge its users, stating only that users will be charged fees according to its own "Rulebook," which Kalshi fails to include with its publicly available submission."*

1. The Kalshi Rulebook has always been–since the Exchange's launch in July 2021, been available to the public. The Rulebook is available here: https://kalshi-public-docs.s3.amazonaws.com/regulatory/rulebook/kalshi_rulebook_1.10.pdf and can be reached from the Kalshi homepage by clicking on the "Regulatory" button. Kalshi also has a dedicated page to highlight the fee schedule, which is available here: https://kalshi.com/docs/kalshi-fee-schedule.pdf. This page is also accessible from the Kalshi homepage by clicking on the Fee Schedule button. Kalshi has made all this information available to the Commission and to the public on day one.
2. In addition, the transparency of the fees is entirely immaterial to the question of whether the contract is permissible under the Commodity Exchange Act; this is why it was not included in the submission. Whether Kalshi charged low or high fees is a business decision, and not relevant to the question before us. This is why Kalshi's Rulebook was not included; submissions by other exchanges for new products similarly do not include their Rulebooks or fee schedules or for other proposals unless that requires amendments to those documents.
    a. In addition, Better Markets argue that the reason it is necessary to include this information is for the public's consideration. However, Kalshi did not know, choose, or expect that the contract would be up for public comment prior to the vote of the Commission, and so would not have done so for that reason.

Better Markets claim: *"...the Self-Certified Contract conspicuously omits any assessment of the actual impact of that trading activity, either on investors or those who may have attempted to use those contracts to, for example, hedge a risk. Finally, information regarding the Self-Certified Contract's risk mitigation analysis and price-basing utility, as well as any additional considerations related to the Self-Certified Contract is not available to be reviewed for public comment for it is supposedly included in confidential appendices of Kalshi's submission."*

1. This information is readily available in Kalshi's public comment response; it is also available in Kalshi's public comment response to the previous proposal, as well as Kalshi's confidential appendices provided to the Commission for that previous proposal. This information was also provided in confidential appendices for the current submission. These assessments–drawing on private research, academic work, and market testimony–is more in-depth and research than anything yet provided to the Commission for a new contract. Whatever one's qualms with this contract are, they are probably not, "Kalshi has not proposed that these contracts have hedging, price-basing, and other social value in detail."
    a. For convenience, here is the link to Kalshi's public comment for this submission, public comment for its last submission, and the now public appendices for the previous submission.
2. To quickly summarize the major points:
    a. **Hedging.** The financial press frequently reports on how elections (and changes in election polling, no less) affect the prices of financial assets, well before any laws by the new Congress have been enacted; thus, elections have an impact on expected cash flows.[1][2][3] Academic research consistently finds a link between movements in election prediction markets and financial assets, as well as between polls and financial assets.[4] Investment banks also publish research to money managers (and the public, as the above mentions) that provides advice on how to hedge election risk in very specific ways. For example, JP Morgan Chase projected that a Democratic victory in 2020 would lead to a rally in 'left-behind' equities, such as "European cyclicals, value, China-exposed stocks and renewables" and portfolios should be adjusted accordingly. Even though the exact consequences of elections are not certain, political parties make sufficiently credible commitments to changing government policies in a manner that market participants currently believe are predictable enough–they're already pricing in

[1] Noel Randewich. 2020. "S&P 500 futures rise as U.S. election suggests less regulatory risk." Reuters.
[2] Myra P. Saefong. 2020. "Here's how the U.S. presidential election could shake up the oil market." Marketwatch.
[3] Matthew Weaver. 2020. "Congressional elections could impact commodity prices most, expert says." *Capital Press*.
[4] Such as Snowberg, Zitzewitz, and Wolfers (2006); Zitzewitz and Wolfers (2016); and Jayachandran (2016). Available at: https://www.frbsf.org/economic-research/publications/working-papers/2006/08/, https://www.brookings.edu/research/what-do-financial-markets-think-of-the-2016-election/, https://escholarship.org/content/qt25p4z52g/qt25p4z52g.pdf?t=krnmet.

the risk and putting money on the line. Many commenters, ranging from managers of small businesses to major institutions, corroborated these points and testified to the value they would get from the contract.

b. **Price-basing.** As discussed earlier, the market frequently reprices assets on the basis of changes in election expectations and election outcomes.[5][6][7] The contracts can obviously be used to price MIAX's corporate tax futures and Kalshi's other political event markets related to bills passing, government shutdowns, and the debt ceiling. In 2012, more than two dozen economists signed a letter to the Commission supporting Nadex's submission that argued as much. Led by the late Nobel Laureate Kenneth Arrow in that 2012 letter, they wrote: "Political event futures facilitate price discovery in other asset markets. One of the findings of [our] research is that firms and industries are exposed to political and policy risk. Political event futures provide investors with a market-based assessment of outcome probabilities, which reduces investors' uncertainty when trading other assets."[8] Many economists have done the same for Kalshi, including Nobel Laureate Robert J. Shiller, Phillip Tetlock, Justin Wolfers, Scott Sumner, Michael Abramowicz, Joseph Grundfest, Alex Tabarrok, Michael Gibbs, Jason Furman, David Pennock, Harry Crane, David Rothschild, Koleman Strumpf, Ryan Oprea, and others.[9]

c. **Forecasting value.** The demand for accurate information surrounding elections is enormous – and valuable. This is why so many Americans turn to election models and updates offered by *FiveThirtyEight*, *The New York Times*, and *The Economist* around election time for advanced models that incorporate information. In a public comment, Jason Furman also emphasized the importance of election markets for policy making. Markets tend to be more accurate than any pundit or forecasting alternatives. The efficient, price-discovering nature of markets in a wide range of contexts is a well-substantiated finding in academic research. The collective wisdom of many people who have a direct monetary stake in the outcome results in a valuable price signal. Weather derivatives and agricultural futures are better at predicting the weather than meteorologists. Markets trading on the reproducibility of scientific research are better at discovering which papers will reproduce than experts, who do no better than chance. Most importantly, research studying IEM and PredictIt have confirmed that markets provide more accurate information than traditional forecasting methods.

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[5] Noel Randewich. 2020. "S&P 500 futures rise as U.S. election suggests less regulatory risk." Reuters.

[6] Myra P. Saefong. 2020. "Here's how the U.S. presidential election could shake up the oil market." Marketwatch.

[7] Matthew Weaver. 2020. "Congressional elections could impact commodity prices most, expert says." *Capital Press*.

[8] *Nadex* public comment by Zitzewitz et al. Available at https://www.cftc.gov/sites/default/files/stellent/groups/public/@rulesandproducts/documents/ifdocs/ericzitzewitzltr020312.pdf.

[9] See public comments 70761, 69708, and 69735.

Better Markets claim: *"Notwithstanding Kalshi's representations, as deficient and incomplete as they are, Kalshi could possibly materially change any term, policy, or practice after receiving Commission approval of its contract."*

1. Kalshi would have to self-certify any such change at a minimum. If the Commission thought that improper, it could block such a rule change under the relevant provisions of the law. Better Markets should be aware of CFTC Regulation 40, which lays out these procedures exactly (available here: https://www.ecfr.gov/current/title-17/chapter-I/part-40), in particular 40.5 and 40.6. They should not use a hypothetical future change in contract specifications (which the Commission could prevent) as a cudgel to stop these contracts.

Better Markets claim: *"The Kalshi contract involves gaming…The conclusion that the Kalshi contract, and the NADEX contract before it, involve or are similar to "gaming" follows from an analysis of both federal and state law. With respect to federal law, although 'gaming' is not defined in either the CEA or CFTC regulations, the Commission previously relied on the Unlawful Internet Gambling Enforcement Act in its prior finding that NADEX's similar political event contracts constituted 'gaming' under the CEA and Commission Rule 40.11…Clearly, Kalshi's proposed event contracts fall squarely within this definition–namely, 'the staking or risking by any person of something of value upon the outcome of a contest of others'"*

Kalshi response:

- 1: Elections and political control are not games. Unlike games, in which the underlying activity has no inherent economic value apart from the money wagered on it, political control has an obvious and large economic impact, as it heavily influences expectations and the likelihood of public policy change. As Gregory Kuserk noted, unlike games, "Elections are events that are very important to the public, and there is a very strong public interest in having accurate data regarding elections." Kalshi detailed as much in dozens of pages of evidence provided to the Commission, drawing on private and university research, policymaker and industry testimony, and the financial press. Many public comments by retail, industry, and academia have confirmed as much. Kalshi's contracts do not involve gaming. It involves the partisan affiliation of the Speaker of the U.S. House of Representatives and the U.S. Senate's President *pro tempore*, which are not determined through or relate to games of chance, or games of skill. Elections are not games, full stop. Indeed, the *Nadex Order* did not identify political elections themselves–the core of American democracy–as being a game.
    - Better Markets attempts to try and say elections are "gaming" because they involve a "contest of others". However, the definition of gaming that they use–from Unlawful Internet Gambling Enforcement Act–made sure to specifically exempt Commission-regulated products.
- 2: Trading on Congressional control is not gaming. The Better Markets complaint cites the definition in the *Nadex Order* that defines gaming as the "the staking or risking by any person of something of value upon the outcome of a contest of others." If taking a position on a Congressional control contract is equivalent to a 'wager' or 'bet' because it places money on an event's outcome, that would imply that taking a position in any event contract is also equivalent to a 'wager' or 'bet'. This is not true in law. While gambling is illegal in many states and interstate betting is prohibited, event contracts are legal in all jurisdictions. As former Commissioner Quintenz wrote: Gaming describes wagering money on an occurrence that has no inherent economic value itself other than the money wagered on its outcome. For instance, wagering money on roulette or blackjack should be considered gaming because there is no economic significance of the activity apart from

the wager itself. Speculation, on the contrary, is risking value where the underlying activity has economic consequences, which then means the speculative activity creates valuable societal and economic benefit from a price-discovery and risk transfer function for those exposed to the risk of that underlying activity. The relevant language of "involve, relate to, or reference" comes from Commission regulation 40.11. This language cannot be broader than the statutory language that is simply "involves". By definition, if the regulation applied *more broadly* than the statute, it would per se violate the APA and be invalid.

- 3: The Application of the Special Rule is improper in this case: It would be improper to read that the provision of the CEA is referring to the contract as a whole when it would not make sense for the other prongs (e.g. assassination) to be possible *using* the contract. At the risk of bogging down this letter in further pages dedicated to just this question, we would direct the reader's attention towards the letters from former CFTC general counsels Jonathan Marcus and Daniel Davis and the letter from Kalshi chief regulatory officer Elie Mishory. Better Markets' claim regarding skill in poker is irrelevant to this analysis, as the Special Rule only applies to the *underlying event* (the partisan affiliation of the Speaker of the House and President Pro Tempore), and not the act of trading. Despite the two major parties both attempting to have control of the Speaker of the House and President Pro Tempore, the underlying event is not a game.

Better Markets claim: *"...the legislative history of CEA Section 5c(c)(5)(C) makes clear that the relevant question for the Commission in determining whether a contract involves one of the activities enumerated in CEA Section 5c(c)(5)(C)(i) is whether the contract, considered as a whole, involves one of those activities"*

1. Better Markets cites the *Nadex Order*, which merely repeats this assertion rather than providing analysis. The relevant part of the "legislative history" in the Congressional record appears to be a short dialogue between Senators saying that the purpose of the provision is to prevent contracts from being on the Kentucky Derby.[10] This has no relation to whether 5c(c)(5)(C)(i) is referring to the contract as a whole or as one of its underlying activities.

[10] Congressional Record—Senate, S5906 (July 15, 2010)

Better Markets claim: *"The Kalshi contract involves an activity that is unlawful under state law…Placing a bet or wager on the outcome of an election is civilly or criminally unlawful in well over a dozen states nationwide."*

Kalshi response:

1. The Application of the Special Rule is improper in this case: Elections and political control are what is relevant to evaluate, which are nakedly not illegal under state law. It would be improper to read that the provision of the CEA is referring to the contract as a whole when it would not make sense for the other prongs (e.g. assassination) to be possible *using* the contract. Similarly, it is not possible to be in violation of state or federal law by trading a contract on a Commission-regulated board of trade. At the risk of bogging down this letter in further pages dedicated to just this question, we would direct the reader's attention towards the letters from former CFTC general counsels Jonathan Marcus and Daniel Davis and the letter from Kalshi chief regulatory officer Elie Mishory. The Special Rule only applies to the *underlying event* (the partisan affiliation of the Speaker of the House and President Pro Tempore), and not the act of trading.
2. These laws do not refer, or apply, to CFTC-regulated products, and thus Kalshi's product would not be "illegal under state or federal law" even when applying the "contract as a whole" standard. Federal law definitions of gaming, betting, and wagering carve out exemptions for CFTC-regulated products. Many states' gaming provisions also include such exemptions. States' gaming provisions are preempted explicitly as well by the Commodity Futures Modernization Act ("CFMA"). Even derivatives products that are excluded or exempted from CFTC regulation still preempt state gaming and bucket shop laws per the CFMA. It could not follow more plainly that CFTC-regulated derivatives have the same preemptive effect. Congress has repeatedly recognized that futures and other derivative contracts serve economic purposes and, therefore, state laws that purport to prohibit or regulate futures or derivative contracts (including gaming laws, which are specifically referenced in the CFMA as being preempted) do not violate the CEA and are preempted. Congress and the states understand that there is a critical distinction between betting and legitimate, federally recognized and regulated financial activity. Election contracts that are designed for price formation and hedging on a derivative exchange constitute legitimate financial activity.
    a. In addition, an event contract on election outcomes is not the same as " gambling". This is a critical distinction that Better Markets repeatedly conflates. As former Commissioner Quintez wrote in his *ErisX* statement, "there are qualitative and logical distinctions between speculation and betting. Whereas bettors participate in games of pure chance, whose sole purpose is to completely reward the winner and punish the loser for an outcome that would otherwise provide no economic utility (think roulette), speculators in the derivatives market

participate in non-chance driven outcomes that have price forming impacts upon which legitimate businesses can hedge their activities and cash flows."

b. If this interpretation is accurate, then generic anti-gambling laws by states would also prohibit other event contracts, including well established futures products. Clearly this is not the Commission's interpretation of this provision of the Act, and in fact, *Nadex* is an outlier that is inconsistent with reams of Commission precedent, both preceding it and following it.

Better Markets claim: *"The proposed event contract is readily susceptible to manipulation… In her 2009 Harvard Law Review article "Prediction Markets and Law: A Skeptical Account," Professor Rebecca Haw Allensworth detailed how bad actors might manipulate prediction markets: 'Prediction markets are vulnerable to manipulation…First, they could profit by artificially lowering the trading price temporarily and purchasing shares to be sold at a higher price when the market returns to 'normal'. Second, they could try to affect the informational value of the market. For example, a candidate's supporter could purchase his shares at an inflated valued, raising the perceived odds that he would win the election, and (hopefully) getting more voters to jump on the putative bandwagon…Given the use and abuse of social media in the gambling space and artificial intelligence (AI) in the political space, allowing gambling on U.S. elections will invite if not incentivize more interference, abuse, and misconduct as gamblers seek to effect political outcomes to maximize their winnings."*

There are several issues with this line of reasoning:

1. Critically, this is a misread of the cited research.
    a. Allensworth only cites one incident of successful manipulation, on an online exchange called TradeSports, referencing the case study on the incident conducted by Paul W. Rhode & Koleman S. Strumpf's, "Manipulating Political Stock Markets: A Field Experiment and a Century of Observational Data." However, Rhode and Strumpf conclude the opposite of Allensworth/Better Markets: that even the attempt to manipulate TradeSports' small, unregulated market only succeeded in changing prices briefly, and conclude, "In the cases studied here, the speculative attack initially moved prices, but these changes were quickly undone and prices returned close to their previous levels. We find little evidence that political stock markets can be systematically manipulated beyond short time periods."
    b. The other study cited, by Deck et al., does find researchers successfully manipulate a small exchange of *their own creation, with made up assets, with a mere eight traders*. This clearly cannot be grounds to judge Kalshi's proposed contract.
2. All research on this issue demonstrates how resilient such markets are to manipulation even in spite of no regulation.
    a. Like Allenworth, Deck et al. even acknowledge this.[11] They wrote, "Wolfers and Zitsewitz (2004, p. 119) assert that 'The profit motive has usually proven sufficient to ensure that attempts at manipulating these [prediction] markets were unsuccessful.' Failed attempts at manipulating markets include political candidates betting on themselves (Wolfers and Leigh 2002) and bettors placing large wagers at horse races (Camerer 1998). Hansen, et al. (2004) did

[11] Deck, C., Lin, S., & Porter, D. (2010). Affecting policy by manipulating prediction markets: Experimental evidence. ESI Working Paper 10-17.

successfully manipulate election prediction markets, but the effects were short lived. In fact, Rhode and Strumph (2009, p. 37) provide an extensive discussion of attempts to manipulate political markets and conclude that 'In almost every speculative attack, prices experienced measurable initial changes. However, these movements were quickly reversed and prices returned close to their previous levels.'" They go on to cite more experiments that showed resilience to manipulation, including that of Ryan Oprea and Robin Hanson, two supportive commenters.[12] They do not find any research that shows any successful manipulation that is not short-lived.

3. The research cited by Better Markets only focused on small-scale, generally illiquid, unregulated online prediction markets. A highly regulated market that can onboard institutional clients is even less likely to be a victim of a particular manipulator, as markets incentivize speculators to reverse any potential price impact a manipulator could have. Indeed, Hanson and Oprea found one major reason why political contracts are resistant to manipulation attempts is that any attempt to manipulate prices induces informed counter-parties to enter on the other side of the market. In fact, the greater the attempts to jack up one side's prices, the greater the returns to becoming an informed trader. As University of Michigan economist Justin Wolfers and Dartmouth economist Eric Zitzewitz wrote regarding previous political contracts, "none of these attempts at manipulation had a discernible effect on prices, except during a short transition phase." This finding was also noted by over two dozen economists in their 2012 Nadex letter and by many letters supporting Kalshi's submission.
4. Such trading, even on a very large scale, is already happening. More than half a billion dollars was traded, for example, on the 2020 election by Betfair; such incentives already exist and have not impacted society at large. This is evidence, not speculation or conjecture.
5. The momentum theory, moreover, makes little sense in the first place. For one, momentum effects are symmetric: being down in the odds can be a fundraising tool as much as being up (people may like to support favorites, but they donate to underdogs). But it also does not make any sense in the context of the proposed Kalshi contract. The Kalshi contract regards the partisan identity of the President Pro Tempore and the Speaker of the House, *not* the result of individual races. Boosting the odds of Democrats winning the Senate from 55c to 60c does not motivate more or fewer people to show up, because they are not voting on a generic ballot for the Democrats or Republicans, they're voting in individual races whose odds do not necessarily co-move with the national odds. This mechanism might be an argument against hosting a prediction market with no position limits and no surveillance on a minor election with lots of candidates, requiring people to make strategic decisions about preventing wasted votes, but that is not the contract before us.

[12] Hanson, R. and Oprea, R. "A Manipulator Can Aid Prediction Market Accuracy," Economica, 2009, 76, 304-314.

6. The existence of social media or “artificial intelligence” (large language models) does not affect this analysis. False information is an issue in every democracy and in every time; in the *status quo*, there are more resources to discern truth (such as fact checkers and access to different, competing newspapers) than ever before in American history. Disinformation was much easier in the 1770s. The creation of false information only increases the returns to being an informed trader and proving that information false, as described in the paper by Hanson cited above.

Better Markets claim: *"...While Kalshi's Self-Certified Contract is nominally limited to the change in partisan control of Congress, it can be anticipated that, if allowed, Kalshi and others would quickly offer similar contracts on all sorts of elections from the local level to the Presidency. Thus, the proposal, if approved or otherwise allowed to go into effect, would almost certainly usher in widespread betting on elections throughout America."*

1. It is not true that approving this contract has implications for any contract, just as denying Nadex did not preclude the Commission from considering Kalshi now. The Commission cannot hold against Kalshi's proposal that it could submit other proposals which are less worthy of being listed in the future to not list this one.

Better Markets claim: *"With Kalshi allowing single contracts of $100,000,000 and aggregate amounts at risk almost certain to be in the tens if not hundreds of billions of dollars, the incentive to interfere with and manipulate the political events are likely to prove overwhelming so some* [*sic*] *number of gamblers."*

It is important for the Commission to engage with the evidence on election integrity rather than speculate. The *Nadex Order*'*s* suggestion that voters could be incentivized to switch their votes, and thus harm election integrity, was outright speculative in 2012, and has since been disproven by PredictIt's success without any claim of, let alone proof of, election impropriety driven by those markets. PredictIt has traded more than a billion shares, all speculative. Today, election trading remains alive and well in other democracies like the United Kingdom, Australia, Ireland, and New Zealand, without documented attempts at–let alone successful–distortion of the electoral process.[13] In foreign countries (which Americans use via virtual private networks as well), trading on American elections is even more popular than on their own, with Betfair logging more than a half billion in trades in 2020, without any such result or attempt. There is also major election trading on existing products that are traded on-exchange as well as products over-the-counter by institutions. Several commenters confirmed this, including Eric Crampton, the academic advisor to iPredict, a New Zealand based political prediction market:

> What experience we had with iPredict suggests CFTC really doesn't have anything substantial to worry about in allowing contracts on political events. If anything, they heightened voter engagement. The CE [Chief Executive] of iPredict even featured on the nightly news during the election, giving the latest on election market prices. And for that brief period, whenever blowhard partisans insisted that some outcome was going to happen, people could just point to the iPredict price on the event and ask them why they thought that price was wrong, and whether they'd actually put their money where their mouth was. It was a remarkable era. iPredict inflation forecasts (they also had markets on inflation going out several years - it was so very good) wound up being noted in our Reserve Bank's Monetary Policy Statements. I desperately miss it. I envy the opportunities Americans could have if CFTC takes a sensible approach to regulation.[14]

Or Dustin Moskovitz, a co-founder of Facebook and founder of Asana:

> Of course, it's important to validate that these contracts would not conflict with the public interest, and specifically the integrity of our elections. I am confident, however, they would not do so. Similar markets not only exist in many liberal democracies like the UK, but create a thriving scene that actually encourages voter participation and engagement.[15]

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[13] iPredict, the New Zealand political trading exchange, is no longer in operation, but was following the *Nadex Order*.

[14] Public comment by Eric Crampton. Available at https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=69738.

[15] Public comment by Dustin Moskovitz. Available athttps://comments.cftc.gov/PublicComments/ViewComment.aspx?id=69716.

References to other political markets without integrity issues were made by many commenters to the first submission, including, in addition to the above, Justin Xavier Geraghty, Upsolve founder Rohan Pavuluri, People's Policy Project founder Matt Bruenig, Zvi Mowshowitz, Roots of Progress founder Jason Crawford, macro analyst Sebastian Strauss, Quantitative Management Associates co-founder Margaret Stumpp, and New York University Law School professor Max Raskin, among others.

Likely trillions in stock value are deeply dependent on elections; entire sectors, firms, and places can be favored by a candidate for office; and almost every actor in the economy is directly affected by tax rates. Elections already have billions in consequences for retail, small businesses, and industry, dwarfing the value of even very large position limits, and yet attempts at manipulation are rare, and successful manipulation of Congressional control has never succeeded, thanks to the large, decentralized nature of elections, strong political norms, and laws protecting the vote. These contracts do not change, much less materially change the fact that individuals already have large stakes in election outcomes.

The only groups that can directly affect the leadership decisions are the U.S. Senate and U.S. House of Representatives. Members of these groups are extremely unlikely to attempt intentional manipulation of the leadership of their chambers merely to settle the contracts a certain way. Their finances are heavily monitored and subject to public disclosure and scrutiny, and Kalshi does not permit them, their close associates, or families to trade. Kalshi flags them and other politically exposed persons in the Know-Your-Customer authorization. Members of Congress also have a sworn duty to represent their constituents and have strong incentives not to manipulate electoral processes for private gain. Other related officials (like election officials, vote counters) also take such oaths and are heavily monitored because of the strong public interest in maintaining election integrity. Those actors also have a very marginal impact on the outcome (e.g. a vote counter in a particular precinct). This should clarify any claim that this could de-legitimize elections internal to Congress itself.

As further evidence, consider the history of political control contracts. University of Michigan professor Paul Rhode and Wake Forest professor Koleman Strumpf conducted a systematic review of the history of prediction markets both domestically and abroad, documenting their emergence back to "16th century Italy, 18th century Britain and Ireland, 19th century Canada and 20th century Australia and Singapore."[16][17] In the United States, they were popular from the post-Civil War period until the Great Depression tarnished the image of Wall Street in the public imagination. They wrote,

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[16] Paul Rhode and Koleman Strumpf. 2012. "The Long History of Political Betting Markets: An International Perspective." Strumpf also was a signatory to a supportive public comment. *See* Public comment 69735. Available at: https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=69735&SearchText

[17] Paul Rhode and Koleman Strumpf. 2003. "Historical Prediction Markets: Wagering on Presidential Elections".

> Although vast sums of money were at stake, we are not aware of any evidence that the political process was seriously corrupted by the presence of a wagering market. This analysis suggests many current concerns about the appropriateness of prediction markets are not well founded in the historical record.[18]

As with other contracts that deal with publicly important information, the integrity of the decision-making process by political bodies like the Federal Open Market Committee (which could conceivably be impacted by the existence of federal funds rate futures) has not been eroded despite contracts that trade enormous volumes on their impact. This is no different.

In fact, Kalshi's contract will move this behavior into the light where it can be monitored by the Commission. Americans readily access offshore platforms using a virtual private network such as Betfair.[19] Betfair had more than $500 million traded on the 2020 election.[20] These platforms are not registered with the Commission as DCMs, but frequently host such markets. There are no indications that the markets caused or induced an attempt to manipulate elections, let alone a successful manipulation. However, if the Commission is concerned that election markets could nevertheless create election integrity threats, it is imperative to shift trading to an exchange compliant with the Core Principles, with insider trading protections, surveillance, and KYC. In this way, among others, approving the contracts would improve, not harm, election integrity and the perception of it.

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[18] Paul Rhode and Coleman Strumpf. 2003. "Historical Prediction Markets: Wagering on Presidential Elections".
[19] Comment letter by policy commentator Matt Bruenig. Available at https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=69670.
[20] See end of document.

Better Markets claim: *"Kalshi's submission (or at least the part available to the public) does not explain how it will identify and eliminate manipulation risks. Given the many ways one could conceivably influence or manipulate a prediction market to their advantage, the Commission should not allow the adoption of political event contracts as Kalshi proposes."*

Kalshi at length describes in its submission to the Commission and its public comments how unlikely and near impossible election manipulation is; the standard for Core Principle 3 is that contracts not be ready susceptible to manipulation, and the American electoral system is plainly less susceptible to manipulation than oil futures are. That being said, Kalshi is deeply committed to making sure that such attempts are never even attempted, and to that end–as detailed in its submission and comments–has taken major steps to prevent such behavior. For these contracts, Kalshi employs Know-Your-Customer authorization and would prevent trading by Politically Exposed Persons, including campaigns and PACs, as well as individuals' close associates and family. It also has identified a long list of political actors who are specifically prohibited from trading. The Exchange has rules that prohibit manipulative trading, and the Exchange performs surveillance to detect manipulation. This serves as a deterrent to attempts to manipulate the market via manipulative trading. In addition, the Exchange's rules also prohibit trading on non-public information, and the Exchange performs surveillance to detect violations of this rule. The Exchange is also adopting contract specific gating rules that further buttress this rule. Specifically:

a. Before being allowed to participate, market participants must certify that they are not implicated by the prohibition list in Appendix B
b. Before being allowed to participate, market participants must certify that they do not have access to material nonpublic information
c. The Exchange's surveillance staff will conduct manual background checks and interviews with the top traders in a market, as well as randomly selected participants, to monitor and enforce the gating rules

The Exchange will be surveilling its market for any sign of trading that is indicative of manipulative or fraudulent behavior. The Commission will have all of the necessary data to do the same, should it so wish.

Better Markets claim: *"...unlike non-profit prediction markets, Kalshi would face significant commercial pressure to extract wealth from its users through high transaction, commission, withdrawal, and other fees."*

1. This is again immaterial as to whether or not the contract is compliant with the Act and the Core Principles.
2. Kalshi would not have a monopoly on such a contract and would presumably compete with other registered contract markets, which would reduce the ability of any individual exchange, including Kalshi's, from setting abusive fees, which would in fact *increase* competition to the benefit of market participants.
3. Kalshi's fee schedule is on its website and is plainly reasonable.

Better Markets claim: *"Kalshi's proposed contract would redirect capital from productive uses into highly speculative markets…Such markets prey on unwary traders and typically serve to enrich the few at the expense of the many."*

This is again immaterial to whether the contract complies with the Act and the Core Principles.

Better Markets claim: *"CFTC Regulation 40.11(a)(2) includes a very important catch-all provision…betting via event contracts on where the next school shooting will be or how many school children will be murdered in the next school shooting are not enumerated and therefore it could be argued not prohibited…Regarding Kalshi's Self-Certified Contract, in addition to being unlawful under a number of state and federal laws and prohibited gaming (either directly or because it "involves" and "relates to" gaming), it should also be prohibited because it is similar to gaming and therefore should be rejected as contrary to the public interest."*

1. This is a ludicrous example: obviously event contracts on the next school shooting would be captured by the prong that includes activity illegal under state or federal law. It is covered by 40.11 in the *status quo*.
2. Kalshi's proposed contracts, for the reasons described earlier in this response, do not involve, relate, or refer to gaming or activity that is illegal under state or federal law. For the same reasons, they are not "similar" to such activity or any of the enumerated activities in 40.11. Better Markets does not describe why they are 'similar' to the enumerated activities; they merely argue that they are, and those arguments are wrong as detailed in earlier responses.

Better Markets claim: *"Congress did not intend for the CFTC to police elections…The prospect of the CFTC assuming the role of an "election cop" raises valid concerns about the misalignment of that role with the CFTC's mandate and with the original intent and objectives set forth by Congress."*

This again does not address whether or not the contract complies with the Act and the Core Principles. That being said, Kalshi firmly agrees that Congress did not intend for the CFTC to be an "election cop" *per se* like the Federal Election Commission or Department of Justice; this is immaterial and does not preclude the listing of an event contract on such a matter. They also did not intend for the CFTC to be a "GDP data cop" or a "Fed cop" or a "cattle fraud cop" even though it did give the CFTC the authority of monitoring contracts on the outcomes of Federal Reserve decisions and GDP data (even when the Federal Reserve does have credible allegations of insider trading, as it has had in the last three years).

There is no reason for the Commission to believe it will be responsible for policing attempts at or successful election fraud. No more and no less than the CFTC is responsible for any other type of underlying fraud that has impacts on a contract. Earlier this year, there were two individuals who were arrested for attempting to destroy power stations with the ultimate goal of destroying the city of Baltimore.[21] If successful, the sabotage would have impacted electricity prices significantly. Is the CFTC "obligated . . . to investigate or otherwise become involved in the" prosecution of these two individuals? Is the CFTC "obligated . . . to investigate or otherwise become involved in the" protecting of America's power grid? OPEC+ impacts the prices of global oil, including the futures markets that the CFTC regulates. Is the CFTC therefore "obligated . . . to investigate or otherwise become involved in the" OPEC+ meetings, a cartel that is obviously manipulating prices? Is the CFTC "obligated . . . to investigate or otherwise become involved in the determination of corporate dividends that underlie the CME's contract? The answer to all of these is that the CFTC will get involved to the extent that it is necessary for it to administer and enforce the CEA. The CFTC does not, in any of these cases, assume the role of the "cop on the beat". This application here is no different.

Election manipulation is a crime.[22] There are law enforcement agencies who police elections, and elections are policed much more effectively than other markets that have CFTC derivative products trading on them. The Commission is not the only "cop on the beat" with regard to election fraud. Elections, unlike many other reference markets or events that have CFTC-derivatives trading on them, are governed by multiple law enforcement agencies whose very existence is to prevent and detect election manipulation and fraud. This includes the Federal Election Commission, the federal Department of Justice, state election commissions, state Secretaries of State, and state ethics commissions. History has shown that these agencies are very

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[21] https://abc7chicago.com/power-grid-attack-sarah-clendaniel-brandon-russell-baltimore-plot/12777303/.

[22] https://www.fbi.gov/how-we-can-help-you/safety-resources/scams-and-safety/common-scams-and-crimes/election-crimes-and-security#:~:text=Intentionally%20deceiving%20qualified%20voters%20to,%2Fhow%2Dto%2Dvote.

good at their job. The other day, the CFTC brought an enforcement charge against Alexander Mashinsky and Celsius Network, LLC, where the CFTC acknowledged the role that was played by both the SEC and the U.S. Attorney's Office for the Southern District of New York.[23] Similarly, Cody Easterday committed fraud that was discovered by Tyson foods and prosecuted by the Department of Justice. The CFTC *also* charged Easterday, presumably after cooperating with the relevant criminal authorities. These are two examples of many. The CFTC is well-versed in cooperating with the relevant law enforcement agencies, be it the FBI or DOJ or any other relevant federal or state authority. There is no reason to assume that the CFTC would somehow lose that competency in this case.

[23] https://www.cftc.gov/PressRoom/PressReleases/8749-23

Better Markets claim: *"The unpredictability of the specific, concrete economic consequences of an election (or change in partisan control of Congress) means that the political event contracts cannot reasonably be expected to be used for hedging purposes. The political event contracts' prices could not form the basis for the pricing of a commercial transaction involving a physical commodity, financial asset or service, which demonstrates that the political event contracts have no price-basing utility."*

The financial press frequently reports on how elections (and changes in election polling, no less) affect the prices of financial assets, well before any laws by the new Congress have been enacted.[24][25][26] Academic research consistently finds a link between movements in election prediction markets and financial assets, as well as between polls and financial assets.[27] Even though the exact consequences of elections are not certain, political parties make sufficiently credible commitments to changing government policies in a manner that market participants currently believe are predictable enough–they're already pricing in the risk and putting money on the line.

Investment banks routinely provide clients with advice on hedging through their private wealth divisions. This was described in a comment letter provided by a Managing Director of JPMorgan Chase. He wrote,

> At JPMorgan, election risk is one of the largest risks our clients face, and they frequently engage us proactively on how to minimize it (hedge it, in other words). We work with and advise our clients on how to avoid that risk in their portfolios, especially when a client's cash flows or investments are very politically sensitive (for example, those in the coal industry are very concerned regarding election outcomes and policy expectations).
>
> Since clients have different risk profiles, we do extensive research to fine-tune how these risks add up in our clients' positions. Our division employs a team of economists, at service to our partners, whose role in election years is heavily to research election probabilities as well as the impact election outcomes will have on equities and other investment products. We frequently host discussions with experts and clients on the relevant risks (including one coming up this week!) and publish research for both clients and the public.[28]

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[24] Noel Randewich. 2020. "S&P 500 futures rise as U.S. election suggests less regulatory risk." Reuters.

[25] Myra P. Saefong. 2020. "Here's how the U.S. presidential election could shake up the oil market." Marketwatch.

[26] Matthew Weaver. 2020. "Congressional elections could impact commodity prices most, expert says." *Capital Press*.

[27] Such as Snowberg, Zitzewitz, and Wolfers (2006); Zitzewitz and Wolfers (2016); and Jayachandran (2016). Available at: https://www.frbsf.org/economic-research/publications/working-papers/2006/08/, https://www.brookings.edu/research/what-do-financial-markets-think-of-the-2016-election/, https://escholarship.org/content/qt25p4z52g/qt25p4z52g.pdf?t=krnmet.

[28] Public comment by Angelo Lisboa. Available at https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=69666.

Investment banks also publish research to money managers (and the public, as the above mentions) that provides advice on how to hedge election risk in very specific ways. For example, JP Morgan Chase projected that a Democratic victory in 2020 would lead to a rally in 'left-behind' equities, such as "European cyclicals, value, China-exposed stocks and renewables" and portfolios should be adjusted accordingly.[29]

Many other comment letters by retail traders (Raphael Crawford-Marks, Scott Supak, Jacob Colbert, Jacob Faircloth, Andrew Karas, Joseph Turano, among many others), industry leaders (Jorge Paulo Lemann, Christopher Hehmeyer, Ron Conway, Seth Weinstein, among many others) and owners of politically sensitive businesses, (Continental Grain Company, Klarna, Greenwork, Upsolve, among many others) agreed and specifically discussed personal hedging use cases.[30] Consider the comment by Scott Supak:

> In the more immediate political future, the hedging benefits are obvious: since I'm no longer employed through my union, my wife no longer has health coverage through my union, so we must purchase (very expensive) health insurance from the marketplace. When it seems that Republicans are likely to take control, I can invest in that possibility, and hedge against the risk that her health insurance premiums will go up (or that the subsidy will get smaller, or that her ability to purchase insurance at all is taken away completely).[31]

Or the comment by Greg Sirotek, the co-founder and CEO of Moneytree Power, a startup dedicated to installing solar power:

> Congress has an incredible influence over the future of the zero-carbon energy industry, particularly the solar industry…Given the respective differences in the two parties' positions on the importance of climate change mitigation, renewable energy development and the deficit, the risk profiles depending on which party is in power is vast. An event contract which pays out on the basis of Congressional control would allow our business to manage this previously unhedged risk.[32]

Lemann, a founder at 3G Capital (one of the world's largest investment firms) and a Board member of firms like AB-InBev and Kraft Heinz (some of the largest participants in traditional agricultural and metals futures), wrote:

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[29] Ksenia Galouchko. 2020. "JPMorgan Says Biden Victory Could Mark a Stock Market Shift." Bloomberg.

[30] Public comments 69668, 69715, 69667, 69683, 69678, 69619, 69684, 69717, 69714, 69718, 69727, 69707, 69677, 69655.

[31] Public comment by Scott Supak. Available at https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=69715

[32] Public comment by Greg Sirotek. Available at https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=70751.

> These statements [the *Nadex Order*'s claims that there are no hedging or price basing use cases for elections] are inconsistent with the preponderance of the academic research on the subject and is inconsistent with the actual experience of anyone who has ever operated a business in or with the United States or traded on the global commodity markets. Experience and empirical observation show that elections have consequences, and these consequences directly create risk that can be hedged, and are factored into pricing commodities, financial assets, and services.[33]

Hehmeyer, former Chair of the National Futures Association and Board Member of the Futures Industry Association, added that many are affected *regardless of policy outcomes*:

> For example, media personalities and companies face risk from Congressional control and elections. Early professionals hoping to work on Capitol Hill know there are far more positions available if their preferred party is victorious, as there are more Congressional offices and committee positions for them to staff. A consultancy that specializes in specific topic areas (for example, a green energy consultancy) may know the demand for their services will decline in anticipation that their issue of expertise is less likely to be operative under a split Congress. These risks occur regardless of the legislation that actually passes. There are billions of dollars at risk surrounding the outcome of Congressional control and elections. These risks can reasonably be expected to be managed through this contract on Congressional control.[34]

Although some commenters claimed election outcomes aren't predictable enough to be a useful hedge, that in no way contradicts or even diminishes those who say the opposite. *At most*, those commenters don't see hedging utility for themselves. But they cannot credibly say, especially given the comment file, that all the people who identify how they would use the contracts for hedging and managing their risk are mistaken or deficient in their ability to recognize risk and potential tools to manage or mitigate that risk. It would be arbitrary for the Commission to listen only to those who assert that there is no hedging use case for anyone when there are many others who state that they *would* use the product for themselves or their business.

As noted by Hehmeyer, there is sufficient impact from elections themselves, independent of the policy implications of political control, to not only justify these markets' economic utility but to make them valuable. In addition, markets already believe that the policy implications of elections themselves are sufficiently meaningful so as to be worth repricing assets, suggesting that they are predictable *enough*. Elections have vast consequences, which directly impact the likelihood of

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[33] Public comment by Jorge Paulo Lemann. Available at: https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=69684.

[34] Public comment by Christopher Hehmeyer. Available at https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=69717&SearchText=christopher.

events happening or not happening (such as a bill being passed). While it is true that there is some uncertainty about the precise implementation of any given law by a new Congress (e.g., what exactly would the size of the stimulus checks be, what exactly would the new tax rate be), changes in probabilities are more than sufficient for hedging purposes. In addition, once the specifics of a policy risk have been announced (like the text of a bill), it's practically impossible to hedge because of the high cost now that the probability of the event has increased. It's important for a potential hedger to hedge in advance of the specifics of their risks being announced.

Changes in *general risk* also can provide a strong hedging need as opposed to the changes in risk of a specific outcome. If one party is in complete control of Congress, there is likely to be a change in *general* risk on carbon-based energy products and industries and an opposite change in *general* risk on renewable energy products and industries. While the specific policies implemented may be hard to know in advance, that change in *general* risk has been discussed at length in comment letters and is hedged extensively by larger institutions through complex products.[35]

Consider a concrete example of probabilistic change from the bond markets. Ten percent of the catastrophe bond market is in "parametric triggers," which means the bond pays out if certain meteorological triggers are met. The bond issuer does not know for certain whether the storm that meets the threshold will cause mass flooding, power outages and property damage (and conversely, it's possible that such damages could occur with a storm that does not meet the trigger thresholds) yet they use the bond to hedge nonetheless, because other features of the bond (hedging wind speed, namely) are more important to them than eliminating basis risk. Moreover, even if a wheat farmer buys a contract that pays out if the price of wheat falls below a certain threshold, there is still some uncertainty as to whether that event will harm them. It's possible that (a) wheat falls below a certain threshold because weather conditions are so great that there was a bumper crop and that the increase in their supply offset the loss in price, or (b) that the national price does not perfectly correlate with the local price they received–but they can use the product nevertheless.

It is not Better Markets' place, nor is it the Commission's place, to tell market participants how they are supposed to asses their own risks and how they would hedge them.

[35] Public comment by Angelo Lisboa. Available at https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=69666.

Better Markets claim: *"Moreover, the burden is on Kalshi to also specify why and exactly how the alleged hedging benefits of the proposed contract cannot be adequately addressed by existing hedging instruments. Kalshi's submission fails to carry this burden. More specifically, Kalshi has failed to demonstrate why existing hedging mechanisms more tailored to the particularized risks a hedger arguably faces — such as a sector-specific fund, for example — are inferior to Kalshi's proposed contract. Ultimately, political risk itself must be disaggregated into other, more specific, concrete risks. And to the extent that any more specific risks flow from the change in control of a congressional chamber, they are more appropriately hedged by instruments other than the Self-Certified Contract.*

That is not a burden Kalshi has to prove in order for the contract to be listed. The standard that a derivative product be *unique* in its hedging value is not a norm, law, or regulation. Even so, Kalshi passes it.

This argument can be taken to imply two different things, either that the other products are linked directly on the same risks that the contracts would be used for hedging, or that market participants can reasonably approximate the Contract's hedging utility via a melange of other instruments.

Assuming the former, the answer is yes, there are risks that cannot be currently hedged. First, as noted by Hehmeyer and other commenters, and in the Exchange's submission, there are significant direct, non-policy related economic risks, such as the risks imposed by political outcomes on the fortunes of media personalities, media consultants, and others with connections and ties to the party in power. These risks cannot be otherwise hedged by traditional products.

As discussed earlier, changes in general risk that a certain Congress could pose to various industries can be discerned well in advance of knowledge of the particular policies that may be implemented by that Congress and provide just as valid a hedging rationale. This difference results from the time horizon between the election cycle and the implementation of a new Congress' specific legislative agenda or its potential responses to current events. For example, following the election of Republicans into Congress in 2016, many publications speculated that trade policy would become more restrictive; however, it was not known if this would come in the form of new trade deals, re-negotiating existing trade agreements, new tarrifs (and if so, on what goods and at what level), international lawsuits, and more. Another event contract or future on taxes or public policy would not have been very helpful. However, the risk of a more restrictive policy was there because of who would win the election, exactly what Kalshi's contracts allow traders to hedge.

Another example is new legislation that would burden a market participant. Once the legislation draft is released, the impact will begin to be felt immediately (on assets, cash flows, and

partnerships as market participants price in risk), making a hedge useless; the downside risk has already had much of its effect. Markets are forward looking, and hedging products should reflect that. Even just a statement by a politician can be very damaging for firms.[36]

Additionally, a single market participant may face myriad risks from elections. Many firms and individuals are negatively affected by a suite of a party's policies, and thus wish to hedge the many different changes in risk through a single contract. For example, an oil company may wish to hedge the risk that a new Democratic government will come into office, because that government could not only impose new regulations on them but also change the composition of existing regulatory bodies and increase their labor costs (through raising the minimum wage, supporting unionization, or mandating greater health care benefits for employees). Only Kalshi's proposal lets them hedge the risk they actually face: Democratic government.

If the question is asking instead whether market participants can reasonably approximate the Contract's hedging utility via a melange of other instruments, the answer is they cannot. Many retail and small business market participants do not have access to these other instruments, and the inherent friction and transaction costs in arranging these types of complex proxy plays is prohibitive. It seems unlikely that the Commission would determine it in the public interest to solely rely on these tools that are inaccessible to many of the market participants who need risk management tools most. Additionally, the effectiveness of these baskets and combination of instruments to hedge the risk from political control is considerably less than a contract directly on political control.

Importantly, the question implies that its answer matters, but does not explain why it would. A reasonable inference is that the Commission is saying no new method of hedging a risk should be permitted if there are other existing methods of hedging that risk. Nowhere in the CEA or the Commission's Regulations is there such a standard. The Exchange hopes this is not the Commission's view, as it has not been the Exchange's experience when engaging with the Commission on prior contracts. For example, should the Commission say "farmers can buy crop insurance therefore they should not have access to agricultural futures products"?

Furthermore, such an interpretation would be highly anti-competitive. Such an interpretation would mean that if one firm offers a contract on an event or a commodity, that no challenger should enter the market with a similar but different product to compete with it. In fact, such an interpretation would consistently punish novel or innovative products – in many cases, it is possible to construct a hedge using existing products, and attempting to do so might be expensive or incur excess basis risk. The fact that election risk has implications for other assets is, in fact, much of the justification *for* the contract's hedging utility and would work in concert with such

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[36] White, Spencer. "Hillary Clinton Blog Post Hits Valeant Stock For 9% Loss Without Revealing New Policy." Yahoo Finance. 2016.

assets. Many similar and competing products are listed by different exchanges in order to promote a vibrant and competitive marketplace for hedgers. This is also an important component of the contract's price discovery utility, discussed in a later question.

Such an interpretation would also curtail innovation. Innovation often happens through iterating on already successful products and ideas. As in the earlier example, the existence of insurance products would have inhibited the creation of futures. Innovation often requires creating new, and sometimes flawed, products in order to try and optimize use cases for market participants. Hedgers benefit when many exchanges are launching many different products to try and tailor to their needs; they suffer when the government limits their options. It's in the public interest for such innovation to occur, and for that to happen, the Commission should not take the view that this product should not be listed because it purportedly can be hedged through other means.

OTHER RESPONSES FROM LAST MINUTE COMMENTS

In a letter by Congressmen Raskin and Sarbanes, they argue: "...there is the potential for an event contract like Kalshi's to increase incidents of terrorism or assassination, two of the categories that are expressly defined as 'contrary to public interest.'"

Threats of violence against elected officials or others involved in the political process are destructive to democratic integrity. Kalshi has taken great care to make sure that it's contract is first, not readily susceptible to manipulation, which would incentive such behavior; and second, that this has not occurred with other, similar contracts (e.g. offshore trading on American elections has not caused this behavior, and federal funds futures contracts have not created threats of violence against Federal Open Market Committee members). This impact is also speculative enough that it is not part of the activity underlying the contract, and should not be considered to mean that the contract triggers 40.11 by means of involving terrorism or assassination.

A letter by the Center for American Progress claims that bettors on Betfair "fueled the fire" of election denial in 2020. This is an incorrect reading of their citation, a single press article which discusses how Trump supporters were doing the opposite: betting in favor of Trump *because* they believed he would be President, not trying to make him President because they had traded. Kalshi's Contract will also only be on the outcomes of Congressional control, which individuals have near-zero impact on.