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September 23, 2022

*VIA Electronic Submission and Email*

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

Re: CFTC Rule 40.11(c) Review and Comment Period
*Proposed Congressional Control Contracts* (Industry Filing 22-002)

Dear Mr. Kirkpatrick:

Susquehanna International Group, LLP ("SIG")[1] appreciates the opportunity to comment on the proposed KalshiEX futures contracts regarding control of Congress (the "Contracts") self-certified by KalshiEx, LLC (the "Exchange") on July 19, 2022 (the "Proposal"). The Commodity Futures Trading Commission ("CFTC") has provided several questions regarding the Proposal that relate, in large part, to the public interest. As a longstanding market maker of exchange traded derivative instruments, we believe that the public interest would be very much served by the Exchange providing a regulated market to trade the Contracts in the proposed manner. The reasons supporting our views are provided below.

As an initial matter, several of the CFTC's questions regarding the potential listing of the Contracts relate to whether the Contracts constitute "gaming" as referenced in CFTC Rule 40.11. While we defer to the arguments submitted by the Exchange and legal experts on this issue, we would note that our understanding of "gaming" is that it involves an activity wherein a person (typically a gambler, a casino, or a sportsbook) takes on financial risk as an *inherent* part of the person's gambling operations and *unrelated* to any other business activity. By contrast, the Contracts at issue offer genuine hedging opportunities by providing persons (typically businesses) involved in industries unrelated to gambling a financial market solution to alleviate financial risk and uncertainty arising *outside* of their day-to-day operations by trading that risk with a third-party without otherwise affecting those day-to-day business operations.

The value of a derivatives product stems largely from its ability to offer a hedge against unwanted risk. When a regulated derivates market makes such a product available, the public generally benefits. In this case, the listing of the Contracts provides significant direct and indirect benefits to the public as it offers the most efficient method of hedging the numerous risks associated with one party winning control of Congress instead of another.

[1] SIG affiliated companies have operated as registered market makers and broker/dealers in the U.S. securities and futures markets for over 30 years and collectively participate in a significant percentage of daily consolidated volume in exchange listed products.

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As other commentors have explained, market participants already regularly adjust their trading strategies in response to electoral outcomes, as different governments have substantially different policies. While there is some uncertainty regarding the exact manifestation of specific policies, the Contracts allow a market participant—and the market as a whole—to forecast the implications associated with one party's political agenda and then react to the possible outcome of an election. Indeed, the directional effect of a given government on commodity and security prices can be (and is) predicted. For example, one political party with a majority control of Congress may be more likely than another to impose either more strict or more lenient environmental regulations that would respectively raise or reduce operational costs associated with certain energy industries. If the risk of increased regulatory costs is great enough, businesses and suppliers in the energy sector could alleviate the potential cost increase by trading a Contract with a party more willing to bear that risk. Similarly, a given political party may be more or less likely to approve new expenditures—such as infrastructure projects—than another. Market participants relying upon congressional spending in that sector could use the Contracts to hedge the risk of gaining or losing this anticipated source of funding.

Plainly, changes in government result in myriad regulatory consequences, which in turn pose a quantifiable risk to many different market participants. Our experience over decades in the financial industry suggests that traditional instruments are insufficient to fully hedge the risk that arise from these fluctuations in federal policy. Many products do not have future markets associated with them (for example, in the agriculture space, most fruits and vegetables do not have a futures market). As such, market participants that face idiosyncratic policy risk are forced to use imperfect exchange-traded products that do not fully reduce their unwanted risk.

The Contracts, on the other hand, can be used to efficiently hedge business risks in the same manner as other successfully listed hedging products. That is, once the excess business risk associated with one party's political agenda has been identified by the Customer, it can be efficiently transferred to another party more willing and able to manage the risk. Indeed, when a farmer uses a listed future to hedge a crop harvest, or a financial institution uses a listed future to hedge a portfolio of investment products, the same general risk management goal applies to those instances as it would to a business that will hedge using the Contracts on the Exchange. The ability to hedge risk also enables market participants to operate steadier businesses. For instance, a public works contractor concerned about the above-hypothetical change in infrastructure spending could alleviate that risk and, for example, potentially avoid preemptive layoffs.

The availability of the Contracts on the Exchange likely has an equally beneficial impact on broader financial markets. Specifically, because election results already influence the way that market participants trade, the prices of certain commodities and securities necessarily react to an anticipated election result as well. As such, we believe that by allowing market participants to trade positions on upcoming elections, the market will naturally and efficiently determine the most accurate underlying prices associated with one party winning over another. These prices, in turn, provide the most accurate indicator of the outcome of the upcoming elections. Market participants likely react to that data and the market adjusts the prices of commodities and securities that would be impacted by the election accordingly. Thus, while no specific outcome may be guaranteed, the availability of this data often results in more efficiently priced commodities and securities for consumers while allowing for less fluctuation and speculation. Stated differently, by

allowing market participants to trade on the outcome of elections, the actual outcome of those elections would have a minimized impact on the volatility of the market as a whole because that outcome will be "priced in." The resulting predictability of prices benefits both market participants and the general public.

The final set of questions posed by the CFTC with respect to the Contracts concern whether the Contracts are "contrary to the public interest." While many other commenters have weighed in regarding the social significance of these contract's hedging utility and their resistance to market manipulation, SIG would emphasize the importance of bringing this valuable activity under a US-based regulatory framework. Vast amounts of election-related trading already occur in the status quo, often on unregulated platforms that do not have the robust oversight and protections that American consumers have come to expect or on other overseas markets. This fact should not only highlight the clear demand that exists for these products but also underscores the benefit to citizens and businesses by bringing this activity to the onshore, regulated, and taxed market. Approval of the Contracts and the resulting ability for market participants to manage their own risk in a regulated environment would provide much needed market protection for the many that already avail themselves of these hedging tools.

In conclusion, SIG strongly supports the CFTC's approval of the listing of the Contracts and believes that the Contracts are in the public interest as they are an innovative product that provide an active, competitive hedging market to the benefit of a multitude of stakeholders.

Sincerely,

David Pollard,
Head of Strategic Planning