October 23, 2024

VIA Electronic Submission

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
          Comment for Industry Filing IF 24-01

Dear Mr. Kirkpatrick:

Susquehanna International Group, LLP ("Susquehanna")[1] appreciates the opportunity to submit comments on KalshiEx, LLC's ("Kalshi") rule submission dated September 11, 2024, regarding the proposed pre-execution communication system and Request for Quote ("RFQ") functionality. The Commodity Futures Trading Commission's ("CFTC" or the "Commission") decision to stay this proposal, citing concerns about novelty and complexity, prompts Susquehanna to respectfully submit that the RFQ system is well within established industry norms and does not conflict with Designated Contract Market ("DCM") Core Principles 2, 9, or 12 of the Commodity Exchange Act. In fact, CME Group ("CME") has long operated a similar RFQ system, demonstrating the effectiveness of such mechanisms in highly regulated environments.

RFQ systems allow market participants to efficiently source liquidity, particularly for large or illiquid trades, without creating excessive market impact. The RFQ process offers both sides of the market the ability to transact at competitive prices, as it enables the Requester to obtain multiple quotes while only accepting the best price. Kalshi's RFQ mechanism will promote market efficiency by ensuring that Requesters can only accept the most favorable quotes. Further, all market participants are granted access to the RFQ, preserving competitive integrity.

The Kalshi RFQ system also integrates seamlessly with the order book, ensuring that after the RFQ is confirmed, the resulting orders are subject to the same time and price priority rules that apply to all other orders. This interaction ensures the transparency and competitiveness of the market are maintained. Moreover, the RFQ mechanism guards against any form of market abuse by requiring that any quote accepted be the best available price, with subsequent trades being subjected to the existing order book for execution. Kalshi's proposal is similar to CME's Committed Cross ("C-Cross") and other cross systems which allow large trades to occur with competitive pricing safeguards while adhering to order book rules (CME Rule 539.C.3.b.).

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[1]   Susquehanna 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.

Without access to RFQ functionality, participants seeking to trade large volumes would be forced to break up their orders or execute them outright on the order book, potentially facing worse execution due to market slippage or adverse price movement. RFQs enable such participants to receive block prices that are more favorable, particularly in large sizes, while still maintaining the benefits of order book protection. The RFQ system provides critical assurances to market participants by minimizing the risks of significant price impact when placing large orders, allowing for smoother and more efficient trading processes. This has been demonstrated by, for instance, CME's RFQ + RFC Cross, which ensures that orders executed after an RFQ receive efficient and competitive pricing without allowing manipulation, helping large trades to minimize slippage (CME Rule 539.C.3.c.).

We understand the Commission's concern under DCM Core Principle 9, relating to the protection of the price discovery process. Kalshi's RFQ system, however, aligns with industry standards, ensuring that the best price is always sought and executed in an open and competitive environment. The system's design ensures that orders generated from RFQs are entered into the order book and interact with any resting bids or offers, further safeguarding the integrity of price discovery. In a similar way, CME Group's systems ensure that large trades resulting from RFQs are integrated with the order book, maintaining price transparency and competitive execution (CME Rule 539.C.).

Additionally, DCM Core Principles 2 and 12, which seek to prohibit abusive trading practices and pre-arranged trades, are equally respected under this proposal. The RFQ system's transparency ensures that no pre-arranged trades can occur, as every RFQ is initiated publicly and all members can participate, thus promoting fair competition. By requiring that the Requester accept only the best price offered, the system prevents any pre-arranged or preferential trades and maintains the competitive, open market that the CFTC regulations demand. The Kalshi proposal further safeguards the process by prohibiting disclosure of pre-execution communications and preventing abuses of the RFQ system by requiring all quotes and requests to be for the purpose of executing bona fide transactions and preventing any party to pre-execution communications from entering, modifying, or canceling orders on any market to take advantage of information conveyed. This is in line with CME's prohibition on disclosing details of pre-execution communications to non-participants and restrictions on entering orders based on non-public information (CME Rule 539.C.2.).

We appreciate the Commission's consideration of these points and would welcome any further discussion on the matter.

Sincerely,

David Pollard,
Head of Strategic Planning