publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR–CboeBYX–2026–033 and should be submitted on or before October 14, 2026.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[17]

Sherry R. Haywood,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–106422; File No. SR–KALSHIEX–2026–02]

Self-Regulatory Organizations; KalshiEX LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Listing Standards for Security Futures Products

September 18, 2026.

Pursuant to Section 19(b)(7) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–7 under the Act,[2] notice is hereby given that on September 18, 2026, KalshiEX LLC (''Kalshi'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change described in Items I, II and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. Kalshi has submitted the proposed rule change to the Commodity Futures Trading Commission (''CFTC'') for approval under Section 5c(c) of the Commodity Exchange Act (''CEA'') [3] on September 18, 2026. The CFTC has not yet approved the proposed rule change.

I. Self-Regulatory Organization's Description and Text of the Proposed Rule Change

Kalshi proposes to adopt Chapter 14 of its Rulebook to enable the Exchange, pursuant to its designation by the CFTC as a contract market (a ''DCM'') and notice-registration with the SEC as a national securities exchange under the Act, to list contracts that convey exposure to the price of an underlying equity security, have no pre-specified expiration date and are designated as Perpetual SFPs in their respective contract specifications (such contracts, ''Perpetual SFPs'') as security futures.

Holders of long and short positions in Perpetual SFPs will exchange periodic payment obligations in the form of ''funding payments'' that vary based on the price of the equity security underlying a Perpetual SFP (the ''Underlying Security'') relative to the price of the Perpetual SFP. The method through which the Exchange will calculate Perpetual SFP funding payment obligations and associated settlement mechanics are set forth in Rule 14.10, discussed below.

When the price of a Perpetual SFP exceeds the price of its Underlying Security, payment will be due from long-side holders of the Perpetual SFP to short-side holders, and vice versa if the price of the Underlying Security exceeds the price of the Perpetual SFP. This funding mechanism is designed to cause the price of the Perpetual SFP to converge to the price of the Underlying Security at each daily settlement cycle by incentivizing market participants to take on positions in the Perpetual SFP (long or short) that align the price of the Perpetual SFP with the price of its Underlying Security. Holders of Perpetual SFPs will exit their positions by offset. All transactions involving Perpetual SFPs listed on the Exchange will be cleared by Kalshi Klear LLC, a CFTC-registered derivatives clearing organization (''Klear'').

Categorization of Perpetual SFPs as Security Futures Products

The CFTC has already approved Kalshi's listing of perpetual contracts referencing Bitcoin (the ''BTCPERP Contracts'') as commodity futures contracts.[4] Although Perpetual SFPs differ from the BTCPERP Contracts in that they overlie equity securities, rather than digital commodities, the defining characteristics of commodity futures and security futures products apart from their respective underliers are the same. This is clearly reflected in the statutory text and structure of the Act and the CEA.

The CEA classifies securities as a type of ''excluded commodity,'' [5] such that security futures are themselves a type of commodity future. Further, the phrase ''contract of sale for future delivery'' used in the ''security future'' definition [6] mirrors the language used consistently throughout the CEA to reference commodity futures contracts (''contracts of sale of a commodity for future delivery'').[7] There is no case law or regulatory guidance attributing a different meaning to the phrase ''contract of sale for future delivery'' as used in the security future definition relative to the same phrase as used to reference commodity futures contracts elsewhere in the CEA, and courts often interpret the meaning of words in a statute by looking to similar phrases used elsewhere in the same statute.[8]

Like the BTCPERP Contracts, Perpetual SFPs will exhibit the ''key characteristics of futures contracts'' identified in relevant judicial precedent and CFTC guidance: they will trade at a fixed, standardized unit quantity; each party's obligations will be guaranteed via novation to Klear, a central clearing house that sets margin requirements; holders will be able to exit their positions by offset, they will be available to the public (subject to eligibility requirements in Rule 14.37, discussed below); they will enable their holders to shift and assume risks associated with holding Underlying Securities without requiring actual possession or transfer of such Underlying Securities; and they will be traded on the centralized market of the Exchange.[9]

[17] 17 CFR 200.30–3(a)(12), (59).

[1] 15 U.S.C. 78s(b)(7).

[2] 17 CFR 240.19b–7.

[3] 7 U.S.C. 7a–2(c).

[4] Order Approving KalshiEX LLC BTCPERP Futures Contract, *In re Request for Approval by KalshiEX LLC of the BTCPERP Futures Contract* (CFTC May 29, 2026).

[5] 7 U.S.C. 1a(19).

[6] 15 U.S.C. 78c(a)(55) (defining ''security future'' as ''a contract of sale for future delivery of a single security or of a narrow-based security index, including any interest therein or based on the value thereof,'' subject to exclusions not relevant here).

[7] *See, e.g.,* 7 U.S.C. 2(a)(1)(A).

[8] *See, e.g., Unicolors, Inc.* v. *H&M Hennes & Mauritz, L.P.,* 595 U.S. 178, 179 (2022) (''nearby statutory provisions help confirm that here ''knowledge'' refers to knowledge of the law as well as the facts.''); *United Sav. Ass'n of Texas* v. *Timbers of Inwood Forest Associates, Ltd.,* 484 U.S. 365, 371 (1988) (''A provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme—because the same terminology is used elsewhere in a context that makes its meaning clear [. . .]'').

[9] *See* note 4 *supra; CFTC* v. *Co Petro Marketing Group, Inc.,* 680 F.2d 573, 579–580 (9th Cir. 1982) (''Except for price, all the futures contracts for a specified commodity are identical in quantity and other terms. The fungible nature of these contracts facilitates offsetting transactions by which purchasers or sellers can liquidate their positions by forming opposite contracts.''); *In re Stovall, et al.,* [1977–1980 Transfer Binder] Comm. Fut. L. Rep. (CCH) 20,941, p. 6 (CFTC Dec. 6, 1979) (describing futures contracts as ''standardized contracts for the purchase or sale of commodities which provide for future, as opposed to immediate, delivery, and which are directly or indirectly offered to the general public and generally secured by earnest money, or 'margin' [and that] are entered into primarily for the purpose of assuming or shifting the risk of change in value of commodities, rather than for transferring ownership of the actual commodities.''); *Salomon Forex, Inc.* v. *Tauber,* 8 F.3d 966, 971 (4th Cir. 1993) (''To facilitate the development of a liquid market in these transactions, these contracts are standardized and transferrable. Trading in futures seldom results in physical delivery of the subject commodity, since the obligations are often extinguished by offsetting transactions that produce a net profit or loss'').

That Perpetual SFPs will lack a predetermined final settlement date does not disqualify them from categorization as security futures products. Although security futures contracts have traditionally involved ''future delivery'' in the form of final settlement (in cash or by physical delivery) of the contract on a pre-specified expiry date, the text of the ''security future'' definition does not require future delivery on a single, specified future date.[10] Every court that has specifically addressed the regulatory treatment of contracts of indefinite duration has found them to be futures contracts where the defining characteristics of a futures contract exist.[11] In one such case, the Seventh Circuit specifically addressed the treatment of listed security derivatives of indefinite duration, holding that contracts of ''indefinite duration'' can possess the attribute of ''futurity''—generally associated with futures contracts—because futurity means any ''value that is set in the future.'' [12] As future executory payment obligations of contract holders, the periodic funding payments associated with Perpetual SFPs constitute ''value that is set in the future'' as much as the final settlement date of a traditional futures contract.[13]

Although certain regulations adopted by the Commission and the CFTC applicable to security futures (the ''Final Settlement Rules'') contemplate cash-settled security futures having a final settlement price,[14] the Final Settlement Rules do not affirmatively create a standalone regulatory requirement that security futures, whether cash-settled or otherwise, must have a predefined final settlement date. Rather, the joint adopting release of the Commission and the CFTC for the Final Settlement Rules is not only silent on the possibility that a security future may lack a final settlement date, but the core problem the agencies sought to address by adopting the Final Settlement Rules—namely, liquidity constraints resulting from closing-price settlement—does not exist for contracts that, like the Perpetual SFPs, generally do not expire.[15] Further, the perpetual nature of the Perpetual SFPs is not inconsistent with the Final Settlement Rules, which generally require that the final settlement price of a cash-settled security futures contract must fairly reflect the opening price of the underlying security or securities.[16] Rather, the Perpetual SFPs will still be subject to and the Exchange will comply with the Final Settlement Rules to the extent Kalshi initiates delisting or accelerated final settlement procedures pursuant to Rule 14.7 or Rule 14.30 (each as discussed below).

Chapter 14 of the Exchange's Rulebook

Proposed Chapter 14 specifies rules regarding listing standards, margin requirements, eligibility criteria, contract specifications, membership standards and other provisions relating to Perpetual SFPs listed on the Exchange. The full text of Proposed Chapter 14 is included in Exhibit 4 hereto and provided in blackline format—proposed new language is italicized; and proposed deletions are in [brackets]. The Exchange developed Chapter 14 to comply with Section 6(h) of the Exchange Act [17] and the criteria under Section 2(a)(1)(D)(i) of the CEA.[18]

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for the, Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for the, Proposed Rule Change

1. Purpose

The Exchange proposes to adopt Kalshi Rulebook Chapter 14 (''Perpetual Security Futures Products'') to allow the listing of Perpetual SFPs as security futures products.

Listing Standards for Perpetual SFPs

Kalshi proposes adopting Rulebook Chapter 14, Part II and related new definitions in Rule 14.2 to set out listing standards pursuant to which it will list Perpetual SFPs for trading and procedures for delisting. The proposed initial and maintenance listing standards are equally or more stringent than the sample listing standards published in Staff Legal Bulletin No. 15 (''SLB 15'').[19] Commission staff published SLB 15 to provide guidance

[10] *See* note 6, *supra.* Unlike elsewhere in the CEA, Congress did not define ''security future'' to capture a contract *only* if it had a single future delivery date. *Contrast with* 7 U.S.C. 1a(24) (defining a foreign exchange forward as a ''transaction that solely involves the exchange of 2 different currencies on a *specific future date* at a fixed rate agreed upon on the inception of the contract covering the exchange.'') (emphasis added).

[11] *See Standard Forex II,* 1996 WL 435440, at *10, 1996 U.S. Dist. LEXIS 14778, at *29 (E.D.N.Y. 1996). *See also CFTC* v. *Intern. Fin. Servs.,* 323 F. Supp. 2d 482, 498 (S.D.N.Y. 2004) (''As a matter of law, defendants wrongly characterize certain indicia of futures contract [*sic*] as essential features of such contracts. Principally, they argue at length that without a fixed date for future delivery, a transaction cannot be a futures contract within the [CFTC]'s jurisdiction. They cite no authority for this proposition, however [. . .]'') and *CFTC* v. *International Foreign Curren.,* 334 F. Supp. 2d 305, 312 (E.D.N.Y. 2004) (''[T]he fact that Defendants' contracts failed to have a specified future delivery date is not determinative'').

[12] *Chicago Mercantile Exchange* v. *SEC,* 883 F.2d 537, 541 (7th Cir. 1989). Security futures were categorically prohibited at the time *CME* v. *SEC* was decided. However, the opinion makes clear that ''any index''—including, in principle, a narrow-based security index—could be used as the underlying interest for index participations, which the *CME* v. *SEC* court held would be treated as futures. *Id.* at 539. Under *CME* v. *SEC,* as applied under current law, those contracts would constitute security futures. *See also CFTC* v. *First Lexington Group, LLC et al.,* 03 CV 9124 (GBD) (S.D.N.Y. Mar. 24, 2008).

[13] The Chicago Mercantile Exchange (''CME''), beneficiary of the *CME* v. *SEC* holding, recently initiated litigation against the CFTC in response to the CFTC's approval of Kalshi's BTCPERP Contract, arguing that the BTCPERP Contracts should not have been approved for listing as futures contracts. *Chicago Mercantile Exchange Inc.* v. *Selig, and Commodity Futures Trading Commission,* Case No. 26–cv–02157 (D.D.C. June 18, 2026). The existence of this litigation should not affect the Commission's regulatory treatment of Perpetual SFPs. Not only have no merit rulings yet been delivered in connection with CME's lawsuit, but CME's arguments are misguided as to the text and judicial interpretation of the CEA. For example, CME argues that perpetual contracts such as the BTCPERPs are swaps under the CEA, but ignores the rest of the CEA's ''swap'' definition, which *per se* excludes futures from its scope; CME argues that perpetual contracts are not futures contracts because they lack a final settlement date, failing to grapple with the lack of any binding judicial precedent supporting this conclusion and affirmative case law contradicting it. *Id.* at 35. CME's arguments also contradict positions CME itself has taken in the past. *See, e.g.,* Letter from Jonathan Marcus, Senior Managing Dir. & Gen. Couns., CME Grp. Inc., to Christopher J. Kirkpatrick, Sec'y of the Comm'n, 2 (May 21, 2025) (''certain perpetual-style derivative contracts may accurately be classified as futures''); Letter from Craig S. Donohue, Chief Exec. Officer, CME Grp. Inc., to David A. Stawick, Sec'y of the Comm'n, 4 (July 22, 2011) (''under [the Dodd-Frank Act] market participants retain the option to trade products as either 'futures' or 'swaps' [. . .]'').

[14] 17 CFR 41.25(c); 240.6h–1(b) (the ''Final Settlement Rules'').

[15] SEC and CFTC Joint Final Rule, *Cash Settlement and Regulatory Halt Requirements for Security Futures Products,* 67 FR 36740, 36755 (May 24, 2002) (''The SEC believes that SEC Rule 6h– 1(b)(1) should facilitate the ability of the securities markets to handle expiration-related unwinding programs and mitigate the liquidity strains that had previously been experienced in the securities markets on expirations for stock index futures and options'').

[16] 17 CFR 41.25(c); 240.6h–1(b).

[17] 15 U.S.C. 78f(h).

[18] 7 U.S.C. 2(a)(1)(D)(i).

[19] SEC Division of Market Regulation, Staff Legal Bulletin No. 15: Listing Standards for Trading Security Futures Products (Sept. 5, 2001), *available at https://www.sec.gov/interps/legal/mrslb15.htm.*

as to how an exchange can comply with the requirements of Section 6(h)(3) of the Act and Section 2(a)(1)(D) of the CEA, which set forth minimum criteria for security futures products traded on national securities exchanges. SLB 15 makes clear that, in addition to the listing standards it sets forth, ''there may be other listing standards that would also be consistent with the [Act].''[20]

The proposed Perpetual SFP listing standards are identical to the sample listing standards in SLB 15, except that they:

• Reflect the modifications to the statutory listing standards requirements jointly adopted by the Commission and the CFTC with respect to shares of exchange-traded funds (''ETFs'') and trust-issued receipts (''TIRs'');[21]

• Include more stringent listing standard requirements, consistent with rule changes recently filed by another security futures exchange,[22] including that (i) the Underlying Security must have an estimated deliverable supply in excess of 20 million shares, (ii) the Underlying Security must have a minimum market capitalization of at least $100 billion, and (iii) the Underlying Security must have had a minimum average daily value of transactions (''ADTV'') of at least $450 million over the prior six months, except where the Underlying Security has been listed for trading for less than six months, in which case the requirement would be a minimum ADTV of at least $1 billion over the prior month;

• Include more stringent maintenance listing standard requirements, consistent with rule changes recently filed by another security futures exchange,[23] including that (i) the Underlying Security must have an estimated deliverable supply in excess of 20 million shares, (ii) the Underlying Security must have a minimum market capitalization of at least $50 billion and (iii) the Underlying Security must have had a minimum ADTV of at least $200 million for the prior calendar quarter, except where the Underlying Security has been listed for trading for less than a quarter, in which case the requirement would be a minimum ADTV of at least $1 billion over the trading period during the calendar quarter;

• Categorically exclude several categories of securities from serving as underlying securities of Perpetual SFPs, as described below;

• Require the issuers of securities underlying Perpetual SFPs to be current in all periodic reporting obligations under Sections 13 and 15(d) of the Act (or, if the security is an ETF share, under the Investment Company Act of 1940 (the ''1940 Act'') and the Securities Act of 1933) and provide that the Exchange shall verify reporting status through review of the issuer's EDGAR filings prior to listing and on an ongoing basis thereafter;

• Because Perpetual SFPs have no expiration date such that the Exchange will not continually open for trading contracts for subsequent delivery months, provide that failure of a security to satisfy maintenance standards and failure to remedy such failure within a 90 day cure period result in delisting of the Perpetual SFP overlying that security;

• Provide that the Exchange shall immediately halt trading (including the execution and reporting of block trades) in and initiate delisting of a Perpetual SFP upon the occurrence of any of the Immediate Delisting Events described below; and

• Contain certain provisions that reflect rule changes that have been filed by other security futures exchanges since the adoption of SLB 15, which vary from the sample listing standards set forth in SLB 15.

This section describes the generalized Rule framework for Part II of Rulebook Chapter 14 (Rules 14.3 through Rule 14.8).

Initial Listing Standards for Perpetual SFP. Rule 14.3 provides that an equity security is eligible to serve as the Underlying Security for a Perpetual SFP listed on the Exchange only if it satisfies the following requirements at the time of initial listing:

Rule 14.3(h), or ''Requirement 1,'' requires that the Underlying Security must be common stock, an American Depositary Receipt (''ADR''), TIR or an ETF share that satisfies the requirements of Rule 14.4(e). Rule 14.4(e) categorically excludes exchange-traded notes, closed-end fund shares, shares of other pooled investment vehicles registered under the 1940 Act and shares of leveraged, inverse or synthetic exchange-traded products from eligibility to serve as Underlying Securities for Perpetual SFPs, provided that Rule 14.4(e) does not exclude from eligibility shares of an ETF that ''(i) is registered with the [Commission] as an open-end management investment company or unit investment trust under the [1940 Act], (ii) issues and redeems shares at net asset value in creation-unit aggregations, (iii) holds or seeks to track a diversified portfolio or index of equity securities, and (iv) is not leveraged, inverse or synthetic.''

Rule 14.3(a) requires that the Underlying Security ''must be registered pursuant to Section 12'' of the Act (''Requirement 2'') and ''a 'NMS security' as defined in Section 11A of the Exchange Act and Rule 600(b) of SEC Regulation NMS'' and its issuer ''must be in compliance with any applicable requirements of the'' Act (''Requirement 3''). In addition, Rule 14.3(a) provides that securities traded exclusively on over-the-counter (''OTC'') markets, foreign exchanges without a U.S. listing or any non-registered trading venue are not eligible to serve as Underlying Securities for Perpetual SFPs and that, in all cases, an Underlying Security must satisfy the requirements applicable to securities underlying SFPs under CFTC Regulation 41.21(a).

Rule 14.3(e), or ''Requirement 4,'' requires that ''[t]he Underlying Security must have a Public Float of not less than 7,000,000 shares.'' Rule 14.2 defines ''Public Float'' as ''the number of outstanding shares of the Underlying Security that are not held by officers, directors, or beneficial owners of more than 10% of the class of securities, calculated based on the most recent publicly available filings with the SEC.'' The corresponding requirement in the SLB 15 listing standards requires any security underlying a security futures product based on a single security to have at least seven million shares outstanding that are owned by persons other than those required to report their stock holdings pursuant to Section 16(a) of the Act, which requires reporting by ''[e]very person who is directly or indirectly the beneficial owner of more than 10 percent of any class of any equity security (other than an exempted security) which is registered pursuant to

[20] *Id.*

[21] *See* Joint Order Modifying the Listing Standards Requirements under Section 6(h) of the Securities Exchange Act of 1934 and the Criteria under Section 2(a)(1) of the Commodity Exchange Act, Securities Exchange Act Release No. 34–61027 (November 19, 2009), 74 FR 61380 (November 24, 2009) (superseding Joint Order Granting the Modification of Listing Standards Requirements, Securities Exchange Act Release No. 46090 (June 19, 2002), 67 FR 42760 (June 25, 2002)).

[22] *See* Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Adoption of Chicago Mercantile Exchange's Rules Governing Security Futures Product Listing Standards, Adoption of Chicago Mercantile Exchange Inc.'s Rules Governing Security Futures Adjustments, and Adoption of Chicago Mercantile Exchange Inc.'s Rules Governing Cash Settled Single Stock Security Futures, Exchange Act Release No. 34–105844 (July 2, 2026), 91 FR 41676 (July 7, 2026) (''CME SFP Rule Filing'').

[23] *Id.*

[Section 12], or who is a director or an officer of the issuer of such security.'' [24]

Rule 14.3(j), or ''Requirement 5,'' requires an Underlying Security, other than an ETF share or a TIR, to have at least 2,000 security holders, whether of record or beneficial.

Rule 14.3(c), or ''Requirement 6,'' requires that any Underlying Security ''have an ADTV of not less than $450,000,000 over the six months immediately preceding the New Product Committee (''NPC'')'s review, except where the Underlying Security has been listed for trading for less than six months, in which case the Underlying Security must have an ADTV of not less than $1,000,000,000 over the prior month.'' In computing ADTV, the Exchange will use consolidated price data from the relevant securities information processor (''SIP''). The Exchange proposes adding this requirement, which is substantially more stringent than the corresponding requirement in the SLB 15 listing standards which require any security underlying a security futures product based on a single security to have an ADTV of at least 109,000 shares in each of the preceding 12 months, in order to more effectively protect against manipulative practices.

Rule 14.3(d), or ''Requirement 7,'' requires that ''[i]f the Underlying Security is a 'covered security' as defined under Section 18(b)(1)(A) of the Securities Act of 1933, the closing price of the Underlying Security has been at least $3.00 for the previous five consecutive business days preceding the date on which the Exchange commences to list and trade the Perpetual SFP contract on such Underlying Security.'' And, ''[i]f the Underlying Security is not a 'covered security' as defined under Section 18(b)(1)(A) of the Securities Act of 1933, the closing price of the Underlying Security has been at least $7.50 for the previous five consecutive business days preceding the date on which the Exchange commences to list and trade the Perpetual SFP contract on such Underlying Security.'' The $3.00 minimum share price requirement for Underlying Securities that are ''covered securities'' has been implemented by several other security futures exchanges.[25]

In the case of an Underlying Security that is an ADR, Rule 14.3(l), or ''Requirement 8,'' requires that one of the four conditions set forth in requirement VIII of the SLB 15 initial listing standards for security futures products based on a single security must be satisfied.[26]

Rule 14.3(m) includes interpretations of Requirements 4 (Public Float), 5 (Number of Shareholders), 6 (Trading Volume) and 7 (Share Price) as applied to ''Restructure Securities,'' defined in Rule 14.2 as an ''equity security that a company issues or anticipates issuing as the result of a spin-off, reorganization, recapitalization, restructuring or similar corporate transaction'' consistent with the term's definition in SLB 15. 14.3(m) interprets Requirements 4, 5, 6 and 7 as applied to Restructure Securities in a manner substantially identical to the interpretations of the corresponding requirements in SLB 15 to Restructure Securities, except that the relevant market price of the Restructure Security—for purposes of determining whether a Restructure Security that is distributed pursuant to a public offering or a rights distribution satisfies Requirement 7—refers to the market price of the Restructure Security being at least the minimum share price applicable to it under Rule 14.3(d) (which may be $3.00 for Restructure Securities that are ''covered securities'' or $7.50 for Restructure Securities that are not ''covered securities''). Rule 14.4 categorically excludes Restructure Securities that are not yet issued and outstanding, regardless of whether the Restructure Security is traded on a ''when issued'' basis or on another basis that is contingent upon the issuance or distribution of securities (''Requirement 9'').

Rule 14.3(b), or ''Requirement 10,'' requires that any Underlying Security must have a market capitalization of at least 100 billion U.S. dollars, calculated as of the product of (i) the closing price on the principal listing exchange of the security and (ii) total shares outstanding, measured as of the most recent trading day prior to the NPC's review of the security. The Exchange proposes adding this requirement, which is substantially more stringent than the corresponding requirement in the SLB 15 listing standards which do not impose any minimum market capitalization requirement for the underlying securities of initial listing of security futures products based on a single security, in order to more effectively protect against manipulative practices.

Rule 14.3(f), or ''Requirement 11,'' requires that ''[t]he Underlying Security must have an Estimated Deliverable Supply in excess of 20 million shares.'' Rule 14.2 defines ''Estimated Deliverable Supply'' as the ''free float of the Underlying Security, calculated as issued and outstanding shares less restricted shares (*e.g.,* restricted and control securities not registered with the SEC for public sale).'' This definition is intended to reflect the definition of ''estimated deliverable supply'' in CFTC Regulation 41.25 and the CFTC's guidance in Appendix A to Subpart C of Part 41 of CFTC Regulations.[27] The Exchange proposes adding this requirement in order to more effectively protect against manipulative practices.

Rule 14.3(g), or ''Requirement 12,'' requires that the issuer of an Underlying Security ''must be current in all periodic reporting obligations under Sections 13 or 15(d) of the [Act] (including, in the case of a foreign private issuer whose equity securities are represented by an ADR, the reports required on Form 20–F and Form 6–K).'' Rule 14.3(g) further provides that the Exchange shall verify reporting status through the Commission's EDGAR reporting system prior to listing. With respect to Underlying Securities that are ETF

[24] 15 U.S.C. 78p(a)(1).

[25] *See, e.g.,* CME SFP Rule Filing at 41678; *Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by CBOE Futures Exchange, LLC Relating to Its Listing Standards for Security Futures Products,* Exchange Act Release No. 34–52295 (August 18, 2005), 70 FR 49691, 49692 (Aug. 24, 2005).

[26] *See* SLB 15 (''If the underlying security is an ADR: (a) The Exchange or Association must have an effective surveillance sharing agreement with the primary exchange in the home country where the stock underlying the ADR is traded; (b) The combined trading volume of the ADR and other related ADRs and securities occurring in the U.S. ADR market, or in markets with which the Exchange or Association has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 50% of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock over the three-month period preceding the dates of selection of the ADR for futures trading ('Selection Date'); (c)(1) The combined trading volume of the ADR and other related ADRs and securities occurring in the U.S. ADR market, and in markets where the Exchange or Association has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 20% of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three-month period preceding the Selection Date; (2) The average daily trading volume for the security in the U.S. markets over the three-month period preceding the Selection Date is at least 100,000 shares; and (3) The trading volume is at least 60,000 shares per day in the U.S. markets on a majority of the trading days for the three-month period preceding the Selection Date; or (d) The Securities and Exchange Commission and Commodity Futures Trading Commission have otherwise authorized the listing'').

[27] *See* 17 CFR 41.25(a) (defining ''Estimated deliverable supply'' as ''the quantity of the security underlying a security futures product that reasonably can be expected to be readily available to short traders and salable by long traders at its market value in normal cash marketing channels during the specified delivery period.''); 17 CFR Appendix A to Subpart C of Part 41 (Guidance and Acceptable Practices for Position Limits and Position Accountability for Security Futures Products) (a)(1).

shares, Rule 14.3(g) provides that the ''issuer must instead be a registered investment company that is current in the periodic reports, financial statements, and registration-statement or prospectus updates required of it under the [1940 Act] and the Securities Act of 1933, as verified through the [Commission's] EDGAR system.''

In the case of an Underlying Security that is an ETF or a TIR, Rule 14.3(k), or ''Requirement 13,'' requires such an Underlying Security to ''have had a total trading volume (in all markets in which it has traded) of at least 2,400,000 shares or receipts evidencing the Underlying Security in the twelve (12) months preceding the NPC's review.''

Categorical Exclusions from Eligibility. In addition to these requirements, Rule 14.4 categorically excludes from eligibility as an Underlying Security for a Perpetual SFP listed on the Exchange: (i) any security whose issuer has filed a bankruptcy petition or has been the subject of an involuntary petition (or is subject to analogous foreign insolvency proceedings, (ii) any security that is subject (or, in the prior 10 trading days has been subject) to a trading halt, suspension or revocation of listing by its principal listing exchange or by the Commission pursuant to Section 12(k) of the Act,[28] or that is subject to a suspension of the effectiveness of, or revocation of, its registration by the Commission pursuant to Section 12(j) of the Act,[29] (iii) any security issued by a blank check company or special purpose acquisition company that has not completed a qualifying de-SPAC business combination or that remains in the pre-combination trust period, (iv) any security whose issuer is or is controlled by entities in a sanctioned jurisdiction or is subject to sanctions, (v) other than qualifying ETF shares, exchange-traded notes, closed-end fund shares, pooled investment vehicles registered under the 1940 Act and leveraged, inverse or synthetic exchange-traded products, (vi) rights, warrants, subscription receipts, units consisting of multiple component securities or similar derivative or hybrid equity instruments and (vii) subject to exemptions which may be granted by the NPC, any security for which a material corporate action has been publicly announced and is pending completion, where such action, if completed with respect to the underlying security of a Perpetual SFP, could result in accelerated final settlement of the Perpetual SFP.

The Exchange proposes adding these categorical exclusions in order to more effectively protect against manipulative practices.

New Product Approvals. Rule 14.8 sets forth the Exchange's new product approval process for Perpetual SFPs. Prior approval of the NPC is required for any new Perpetual SFP to be listed on the Exchange. The NPC shall consist of at least three members, including the Exchange's Head of Markets (or his or her designee) and requires the NPC to maintain written records of all product determinations. For each proposed Perpetual SFP listing, the NPC shall verify that the Underlying Security satisfies all initial listing criteria under Rule 14.3, confirm that no categorical exclusion under Rule 14.4 applies, evaluate the susceptibility of the Underlying Security to manipulation, assess the adequacy of the proposed contract specifications, review the availability and reliability of data sources necessary for settlement and margining and document the basis for its determination in a written approval memorandum. The NPC shall specifically factor anti-manipulation considerations into their determination of whether to approve a new Perpetual SFP for listing on the Exchange and may deny or condition approval on enhanced position limits, margin requirements or other risk controls upon identification of elevated manipulation risk. The NPC retains discretion to decline to list a Perpetual SFP on any Underlying Security notwithstanding such security's satisfaction of any criteria set forth in Chapter 14. Additionally, Rule 14.3(i) states that, for an issuer with multiple classes of common stock, each class shall be assessed independently against the criteria in Rule 14.3. The NPC may elect to list Perpetual SFPs on more than one class of an issuer's stock.

Following NPC approval, the Exchange shall certify or submit for voluntary approval the new Perpetual SFP with or to the CFTC pursuant to either (i) CFTC Regulations 40.2 and 41.23(a)[30] or (ii) CFTC Regulations 40.3 and 41.23(b),[31] and, where applicable, certify or submit corresponding rule changes with or to the CFTC pursuant to CFTC Regulation 40.5 or CFTC Regulation 40.6,[32] in each case as applicable. The Exchange shall ensure that the listing process for and trading of Perpetual SFPs comply with all Commission and CFTC requirements applicable to security futures products. The Exchange shall publish and maintain current on its website a table (the ''Approved Securities Table'') setting forth the Underlying Securities that have been approved to underlie Perpetual SFPs listed on the Exchange.

Maintenance Listing Standards for Perpetual SFPs. Rule 14.6(a) provides that the Exchange shall, on the last business day of each calendar quarter (each such date, a ''Review Date''), ''evaluate each listed Perpetual SFP against'' each of six maintenance requirements and Rules 14.6(d) and 14.6(f) each set forth additional maintenance requirements. These eight maintenance requirements are as follows, as of each Review date: (i) the Underlying Security maintains a Public Float of not less than 6.3 million shares (''Requirement 1.a''), (ii) other than for ETF Shares and TIRs, there are at least 1,600 holders of the Underlying Security, whether of record or beneficial (''Requirement 2.a''), (iii) the ADTV of the Underlying Security is not less than $200 million for the prior calendar quarter, except where the Underlying Security has been listed for less than a quarter, in which case the Underlying Security must have an ADTV of not less than $1 billion over the period traded during the calendar quarter (''Requirement 3.a''); (iv) the Underlying Security must have a closing price of not less than $3.00 per share on each of the ten (10) consecutive trading days immediately preceding the Review Date (''Requirement 4.a.''), (v) if the Underlying Security is an ADR, meet one of the four criteria set forth in Maintenance Requirement V of SLB 15 (''Requirement 5.a''), (vi) confirmation that the issuer of the Underlying Security is current in all periodic and other reporting obligations under Sections 13 and 15(d) of the Act[33] (''Requirement 6.a''), (vii) the Underlying Security has an estimated deliverable supply of at least 20 million shares (''Requirement 7.a'') and (viii) the Underlying Security has a market capitalization of not less than $50 billion (''Requirement 8.a'').

For Underlying Securities that are Restructure Securities, pursuant to Rule 14.6(h), the ADTV and market price history of the related equity security of the relevant company that existed prior to the ex-date of the spin-off, reorganization, recapitalization, restructuring or similar corporate transaction giving rise to a Restructure Security prior to commencement of trading in the Restructure Security,

[28] 15 U.S.C. 78l(k).

[29] 15 U.S.C. 78l(j).

[30] 17 CFR 40.2, 41.23(a).

[31] 17 CFR 40.3, 41.23(b).

[32] 17 CFR 40.5, 40.6.

[33] 15 U.S.C. 78m, 78o(d).

including when-issued trading, may be taken into account in determining whether the corresponding maintenance requirements (*i.e.,* Requirements 3.a and 4.a, respectively) apply.

Rule 14.6(e) provides that, for an Underlying Security that is an ETF share or a TIR, the applicable initial listing requirements shall apply to the ETF share or TIR instead of the maintenance requirements described above.

Under Rule 14.6(b), if an Underlying Security fails to satisfy any one of these maintenance requirements on a Review Date, the Exchange shall provide notice to its participants and allow a cure period of ninety (90) calendar days. If the Underlying Security fails to regain compliance with all applicable maintenance requirements within this cure period, the Exchange shall initiate delisting procedures with respect to the Perpetual SFP overlying such Underlying Security pursuant to Rule 14.7. Because Perpetual SFPs have no fixed expiration date, such that they have indefinite durations and do not require periodic contract roll-overs on a delivery month, the initiation of delisting procedures with respect to a Perpetual SFP is the analogous measure to refusal to open for trading a dated security futures product with a new delivery month.

Immediate Delisting Events. Rule 14.6(c) provides that certain events relating to an Underlying Security will result in immediate delisting of the corresponding Perpetual SFP by the Exchange without the ninety (90) day cure period described above. Such events include: (i) delisting of the Underlying Security from the national securities exchange on which the security is primarily listed for trading (the ''Primary Listing Exchange''), (ii) the issuer's entry into bankruptcy, liquidation or insolvency proceedings, (iii) the Commission's issuance of a trading suspension under Section 12(k) of the Act or an order under Section 12(j) of the Act suspending the effectiveness of, or revoking, the registration of the security, (iv) the security ceasing to exist as a result of a completed corporate action or (v) the issuer or its controller becoming subject to sanctions (each such event, an ''Immediate Delisting Event''). Upon the occurrence of an Immediate Delisting Event, the Exchange shall promptly confirm that such event has occurred and, upon such confirmation, immediately halt trading (including the execution and reporting of block trades) in the Perpetual SFP corresponding to the relevant Underlying Security. The Exchange shall then publicly announce such halt and notify participants by Exchange Notice of the applicable final settlement timeline. All open positions in affected Perpetual SFPs shall be settled in accordance with the delisting procedures in Rule 14.7.

Delisting Procedures. Rule 14.7 provides that, ''[w]hen the Exchange determines that a Perpetual SFP must be delisted, the following procedures apply.''

The Exchange shall first provide written notice to all of its participants specifying the reason for the delisting and the applicable timeline. For delistings involving a cure period (*i.e.,* failure to satisfy a maintenance requirement), the Exchange shall provide not less than thirty (30) calendar days' notice prior to the final settlement date of the relevant Perpetual SFPs. For Immediate Delisting Events, the Exchange shall conduct final settlement as promptly as practicable, but no later than five business days following the triggering Immediate Delisting Event.

Final settlement will then proceed in a manner fully compliant with the Final Settlement Rules. Where delisting arises from a Corporate Action addressed under Part VII of Chapter 14 and as applicable, the final settlement price shall be the consideration payable to holders of the Underlying Security under the announced terms of the Corporate Action. Otherwise, the final settlement price for a delisted Perpetual SFP shall be the opening price of the Underlying Security on its Primary Listing Exchange on the date of final settlement. Where such price is not readily available, the final settlement price shall fairly reflect the price of the Underlying Security on its Primary Listing Exchange during the most recent regular trading session for such Underlying Security or the next available opening price of the Underlying Security. Notwithstanding the foregoing, as provided in the Final Settlement Rules, where Klear, in its capacity as central clearinghouse of the Perpetual SFPs, determines that such price is not consistent with the protection of customers and the public interest, taking into account the factors set forth in CFTC Regulation 41.25(c)(3) and Commission Rule 6h–1(b)(3),[34] Klear may determine, pursuant to its rules, an alternative final settlement price.

Higher Margin Levels for Perpetual SFPs

Kalshi proposes adopting Rulebook Chapter 14, Part V and related new definitions in Rule 14.2 (the ''Perpetual SFP Margin Rules'') to specify customer margin requirements for Perpetual SFPs listed on the Exchange. Specifically, the Perpetual SFP Margin Rules will establish procedures relating to the determination and administration of customer margin requirements for Perpetual SFPs and the applicability of those requirements. Section 3(a)(57)(C) of the Act defines ''higher margin level'' and ''higher level of margin,'' when such terms are used with respect to a security futures product, as ''a margin level established by a national securities exchange registered pursuant to [S]ection 6(g) [of the Act] that is higher than the minimum amount established in effect pursuant to [S]ection 7(c)(2)(B)'' of the Act.[35] Section 7(c)(2)(B) of the Act grants the Commission and the CFTC joint rulemaking authority to prescribe margin requirements for security futures products.[36] Pursuant to this authority, the Commission and the CFTC have adopted parallel rules establishing a fifteen (15) percent minimum initial and maintenance customer margin requirement for long or short security future positions and permitting exchanges to prescribe lower margin requirements for permitted offsetting positions involving security futures and related positions.[37] The Perpetual SFP Margin Rules will establish ''higher margin levels,'' as defined in Section 3(a)(57)(C) of the Act, as discussed below.

Perpetual SFP Margin Rates. Rule 14.16(a) requires each member of the Exchange intermediating Perpetual SFP transactions on behalf of customers (such members, who must satisfy the eligibility requirements set forth in Rule 14.37, ''SFP Broker Members'') that is also a futures commission merchant that has entered into an futures commission merchant (''FCM'') Member Agreement with Kalshi (a ''FCM SFP Broker Member'') to collect and maintain from each of their customers, for each Perpetual SFP position carried in such customer's account, ''margin in an amount not less than 15.50% (such percentage, the ''Perpetual SFP Margin Ratio'') of the Current Market Value of the position'' (such amount, with respect to a Perpetual SFP, the ''Perpetual SFP Required Margin'').

Rule 14.16(b) further provides that the ''Current Market Value'' of a position equals the product of (i) the number of Perpetual SFP contracts comprising the position, (ii) the number of shares of the

[34] 17 CFR 41.25(c)(3); 240.6h–1(b)(3).

[35] 15 U.S.C. 78c(a)(57)(C).

[36] 15 U.S.C. 78g(c)(2)(B).

[37] 17 CFR 242.403(b); 41.45(b) (together, the ''Customer Margin Rules'').

Underlying Security represented by one Perpetual SFP contract, which shall be one hundred (100) shares of the Underlying Security (the ''Contract Unit'') and (iii) the settlement value, as determined by the Exchange pursuant to Rule 14.12(a)–(c), of the Perpetual SFP (the ''Mark Price''). Rule 14.12 describes the process by which the Exchange shall determine the Mark Price of a Perpetual SFP as ''the following tiered methodology, applied in descending order:

(i) *Tier 1—Trade VWAP.* [i]f one or more trades other than [b]lock [t]rades in the Perpetual SFP occur during the [sixty-second] Computation Interval, the Mark Price shall be the volume-weighted average price (''VWAP'') of those trades (excluding any [b]lock [t]rades executed during the Computation Interval). The VWAP calculation shall be adjusted to exclude outliers. The Exchange generally shall apply a Median Absolute Deviation filter but may, in its discretion, exclude other outlier or manipulative transactions. Tier 1 shall not apply, and the Mark Price shall instead be determined under Tier 2 or Tier 3, as applicable, if the VWAP so calculated differs from the Underlying Price Index as of the Mark Price Calculation Time by more than fifty percent (50%) of that Underlying Price Index.

(ii) *Tier 2—Sampled Midpoint Average.* [f]or purposes of this Tier 2, sixty (60) observation points shall occur at exactly N seconds before the Mark Price Calculation Time for each integer N from 1 through 60 (each, an ''Observation Point''). The prevailing best bid and prevailing best ask at an Observation Point shall be the best bid and best ask resting on the Perpetual SFP order book as of that instant. An Observation Point shall be ''two-sided'' if both a prevailing best bid and a prevailing best ask are present at that instant, and the ''Midpoint'' at a two-sided Observation Point shall be the arithmetic mean of its prevailing best bid and prevailing best ask. A two-sided Observation Point shall be disregarded if the difference between its prevailing best ask and prevailing best bid exceeds ten percent (10%) of its Midpoint. If the Mark Price is not determined under Tier 1, whether because no trades in the Perpetual SFP occur during the Computation Interval or because Tier 1 does not apply as provided in paragraph (a)(1), and at least one Observation Point is two-sided and is not disregarded, the Mark Price shall be the arithmetic mean of the Midpoints at all two-sided Observation Points that are not disregarded.

(iii) *Tier 3.* [i]f the Mark Price is not determined under Tier 1 or Tier 2, the Mark Price shall equal the prior Mark Price plus the net change in the Underlying Price Index between the prior Mark Price Calculation Time and the current Mark Price Calculation Time''

(iv) If a Mark Price cannot be determined under Tiers 1–3, the Exchange may determine the Mark Price using (a) the Underlying Price Index, if available and reliable, or (b) such other reasonable methodology as the Exchange determines appropriate pursuant to Rule 7.1.

Pursuant to Rule 14.12(b), ''[i]f trading in a Perpetual SFP is halted during any portion of the Computation Interval, trades occurring during the halt shall be excluded from Tier 1, and no Observation Point occurring during the halt shall be considered two-sided for purposes of Tier 2. If trading in the Perpetual SFP is halted at the Mark Price Calculation Time, the Mark Price shall be determined under Tier 3.''

The Exchange shall not permit customer margin requirements lower than the Perpetual SFP Required Margin (*i.e.,* the Perpetual SFP Margin Ratio multiplied by the Current Market Value of a Perpetual SFP position), including for offsetting positions involving Perpetual SFPs and related positions that would be permitted under subparagraph two (2) of the Customer Margin Rules to be subject to margin requirements lower than the fifteen (15) percent minimum margin requirement established under subparagraph one (1) of those rules.[38] Further, the Exchange shall not exempt market makers (*i.e.,* Exchange members that are registered as dealers with the SEC under Section 15(b) of the Act) or ''exempted persons'' as defined in applicable SEC and CFTC regulations [39] as ''customers'' for purposes of the Perpetual SFP Margin Rules, notwithstanding that the Customer Margin Rules would permit such exemptions.[40] Pursuant to Rule 14.16(c), the Perpetual SFP Margin Ratio shall apply at all times to all positions, and there shall be ''no separate initial margin or maintenance margin rate.'' Rule 14.16(d) further provides that the total Perpetual SFP Required Margin for a FCM SFP Broker Member's customer account shall, in all cases, be the sum of the Perpetual SFP Required Margin for each individual Perpetual SFP position, provided that, pursuant to Rule 14.16(e), ''[t]he Exchange may, in its discretion, impose margin requirements in excess of the Perpetual SFP Margin Ratio for any Perpetual SFP or class of Perpetual SFPs, effective upon such notice to FCM SFP Broker Members as the Exchange deems appropriate.'' The Exchange may consider factors including market volatility, liquidity conditions, concentration risk, and the financial condition of FCM SFP Broker Members or their customers in determining whether to impose such higher margin requirements.

Rule 14.22(a) further states that ''[t]he Exchange may, in an emergency, impose special margin requirements for specific Perpetual SFPs or accounts, or require FCM SFP Broker Members to collect margin on an intraday basis, effective immediately upon notice to FCM SFP Broker Members.'' The Exchange is required, pursuant to Rule 14.22(b) to report any such emergency actions

[38] 17 CFR 242.403(b)(2); 41.45(b)(2). Certain national securities exchanges registered under Section 6(g) of the Act have filed rule changes establishing customer margin requirements for security futures with the Commission under Sections 19(b)(1) and 19(b)(2) of the Act. *See Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Nasdaq Liffe Markets, LLC Relating to Margin Rules for Security Futures Products Other Than Options on Security Futures,* 67 FR 61361 (Sept. 30, 2002); *Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by OneChicago, LLC Relating to Customer Margin Requirements for Security Futures,* 67 FR 61707 (Oct. 1, 2002); *Self-Regulatory Organizations; CBOE Futures Exchange, LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to Customer Margin Requirements for Security Futures,* Exchange Act Release No. 34–52381 (Sept. 2, 2005); *Self-Regulatory Organizations; Board of Trade of the City of Chicago, Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Relating to Customer Margin Requirements for Security Futures,* Release No. 34–53626 (April 10, 2006); *Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing of a Proposed Rule Change Relating to Amendments to Chicago Mercantile Exchange Inc.'s Rules Governing Performance Bond Requirements: Account Holder Level,* Exchange Act Release No. 34–105607 (June 3, 2026). However, the rules of each such exchange contemplated margin requirements no higher than the ''minimum amount established in effect pursuant to'' the Customer Margin Rules adopted by the Commission and CFTC ''pursuant to [S]ection 7(c)(2)(B)'' of the Act. Section 7(c)(2)(B) of the Act grants the Commission and the CFTC joint rulemaking authority to prescribe margin requirements for security futures products. 15 U.S.C. 78c(a)(57)(C). Accordingly, these rules did not result in ''higher margin levels'' as defined in Section 3(a)(57)(C) of the Act, such that they were required to be filed under Sections 19(b)(1) and 19(b)(2) of the Act. *See* 15 U.S.C. 78f(g)(4)(B)(ii). By contrast, rule changes related to higher margin requirements may be filed by an exchange pursuant to Section 19(b)(7) of the Act. *See* 15 U.S.C. 78f(g)(4)(B)(i).

[39] 17 CFR 41.43(a)(9); 17 CFR 242.401(a)(9).

[40] *See* 17 CFR 41.43(a)(5); 242.401(a)(5) (excluding ''exempted persons'' from the ''customer'' definition); 17 CFR 242.400(c)(2)(v); 41.42(c)(2)(v) (permitting an exchange to adopt rules containing specified requirements for security futures dealers subject to which a security futures dealer's relationship with a security futures intermediary is excluded from the customer margin requirements of the Customer Margin Rules).

taken to the Commission and the CFTC as promptly as practicable.

Perpetual SFP Margin Administration. Rule 14.17 identifies the manner in which a customer may satisfy the Perpetual SFP Required Margin. Consistent with Commission Rule 242.404(b) and CFTC Regulation 41.46(b),[41] under Rule 14.17(a), acceptable types of collateral for Perpetual SFPs include cash and, if permitted by the Exchange at its discretion and with notice to members, margin securities (subject to specified restrictions), exempted securities, any other assets permitted under Regulation T of the Board of Governors of the Federal Reserve System to satisfy a margin deficiency in a securities margin account, and any combination thereof. Rule 14.17 further provides that ''[t]he Exchange may impose conditions on, or decline to accept, any form of collateral.'' Pursuant to Rule 14.17(b), the collateral value of all collateral accepted to satisfy the Perpetual SFP Required Margin shall be determined in accordance with CFTC Regulations 41.46(c) and 41.46(e) and the parallel provisions in Commission Rules 242.404(c) and 242.404(e).[42]

In addition, Rule 14.18 sets forth rules relating to the Exchange's daily mark-to-market process and Rule 14.19 details the Exchange's process for administering margin calls to participants with under margined Perpetual SFP positions.

Contract Terms and Trading Rules for Perpetual SFPs

Kalshi proposes adopting Rulebook Chapter 14, Parts III (Contract Specifications and Trading Rules), VI (Position Limits and Reporting), and related new definitions in Rule 14.2 to govern the specifications and trading of Perpetual SFPs.

Contract Specifications. Part III of Chapter 14 (Rules 14.9 through 14.13) sets forth certain contract specifications for Perpetual SFPs, including:

Trading Unit. Rule 14.9(a) sets forth the Contract Unit (one hundred (100) shares of the Underlying Security) and provides that eligible participants may trade fractional Contract Unit quantities as provided in the applicable contract specifications for a Perpetual SFP. For the avoidance of doubt, the Exchange does not propose to offer Perpetual SFPs on fractional interests in Underlying Securities. Rather, one Perpetual SFP Contract Unit will in all cases overlie one hundred (100) shares of the Underlying Security, and the Exchange shall permit participants to trade a fractional quantity of the Perpetual SFP Contract Unit.

Minimum Price Fluctuation. Rule 14.9(c) specifies that the minimum price fluctuation for Perpetual SFPs shall be one one-half of a cent ($0.005) per share. The Exchange proposes this rule in order to permit market participants to more precisely price the equity financing spread. The Commission has previously permitted rule changes by OneChicago, LLC (''OneChicago'') to adopt four decimal pricing for security futures products.[43] As noted in the filing discussing OneChicago's proposed rule change, ''[u]nlike securities—which are assets—[security futures] are contingent liabilities that represent the forward value of the underlying security. The primary difference in pricing between securities and the [security futures] that overlay them is the interest rate component of the forward contract.'' [44] The equity financing spread (*i.e.,* the ''interest rate component'') of a Perpetual SFP is essentially the cost of carry of the Underlying Security, and this spread is generally quoted in basis points (*i.e.,* hundredths of percentage points). Because the equity financing spread associated with a given Perpetual SFP quoted in basis points by reference to the notional value of a Perpetual SFP, sub-penny pricing is necessary to ensure that that the price of a given Perpetual SFP is sufficiently granular to accurately capture its associated equity financing spread.

Perpetual SFPs will have daily settlement cycles, during which funding payment obligations and payments will be exchanged to motivate price convergence with the Underlying Security. As a result, the carry component of a Perpetual SFP will reflect only a single day of financing rather than, as would be the case with a traditional dated future, a full month, quarter or year of financing. For example, in the case of an Underlying Security priced at four hundred dollars ($400) per share, a one cent tick size would represent approximately .25 basis points on a single-day basis, or roughly 91 basis points annualized. OneChicago cited a 141 basis point annualized spread as unreasonably wide for a financing instrument.[45] By contrast, the half-penny pricing proposed by the Exchange would produce half that—a roughly 46 basis point spread on an annualized basis –, permitting a materially more precise reflection of the equity financing spread.

Furthermore, three decimal pricing for Perpetual SFPs does not present the same concerns that motivated the Commission to limit the tick size of certain NMS securities to a penny.[46] The Commission adopted Regulation NMS Rule 612 in order to address concerns to prevent market participants from ''queue-jumping'' by ''gain[ing] priority over existing limit orders by posting an economically insignificant price improvement,'' thereby harming market liquidity and price discovery of cash equity markets.[47] Although Perpetual SFPs are not NMS securities subject to Regulation NMS Rule 612, the Exchange has considered whether the concerns underlying Regulation NMS Rule 612 apply to the Exchange's proposed three decimal minimum pricing increment for Perpetual SFPs. The Exchange does not believe that permitting Perpetual SFPs to trade with a tick size of $0.005 will harm liquidity and price discovery for cash equity markets or will lead to queue jumping in Perpetual SFPs. Perpetual SFPs are structurally tethered to cash equity prices through the daily funding mechanism, such that liquidity and price discovery of Perpetual SFPs are driven by the cash market prices of the Underlying Securities they reference. Where the price of a Perpetual SFP deviates from the price of the Underlying Security, the funding mechanism creates a strong, proven economic incentive to converge the price of the Perpetual SFP back towards the price of the Underlying Security. Sub-penny pricing of Perpetual SFPs would therefore be unlikely to have any impact on cash market prices for Underlying Securities, as the prices of Perpetual SFPs are themselves subservient to the prices of their Underlying Securities. Further, the Exchange does not believe that three-decimal pricing results in minimum pricing increments so arbitrarily small as to raise queue-jumping concerns in Perpetual SFP markets, given the impact of financing spreads as discussed above. Also, the Commission itself recently acknowledged that, since adoption of Regulation NMS Rule 612 over two decades ago, ''the market has evolved

[41] 17 CFR 242.404(b); 41.46(b).

[42] 17 CFR 41.46(c), 41.46(e), 242.404(c), 242.404(e).

[43] *Self-Regulatory Organizations; OneChicago, LLC; Notice of Filing of Proposed Rule Change to Implement Four Decimal Pricing for Outright Transactions in Single Stock Futures,* Release No. 34–81022 (June 26, 2017), 82 FR 29953 (June 30, 2017).

[44] *Id.* at 29953–29954.

[45] *Id.* at 29954.

[46] 17 CFR 242.612 (''NMS Rule 612'').

[47] *Regulation NMS: Minimum Pricing Increments, Access Fees, and Transparency of Better Priced Orders,* Exchange Act Release No. 101070, 89 FR 81620, 81622 (Oct. 8, 2024).

considerably,'' necessitating and justifying amendments to permit half-penny tick sizes for NMS securities with sufficiently narrow bid-ask spreads.[48]

Settlement Method. Perpetual SFPs will be cash-settled.

Periodic Transfers and Funding Rate. As mentioned above, holders of long and short positions in Perpetual SFPs will exchange periodic payment obligations in the form of ''funding payments'' that vary based on the price of the Underlying Security relative to the price of the Perpetual SFP. Rule 14.10 sets forth the process by which the Exchange shall calculate, administer and settle funding payment obligations and entitlements of holders of Perpetual SFP positions.

For each successive sixty-second interval, beginning at the start of a clock minute and ending immediately before the start of the next, within the regular trading session of the U.S. equity cash market on a given trading day (each such sixty-second interval, a ''Computation Interval'' and this entire period, the ''Funding Period'') during which the U.S. equity cash market is open for regular trading and trading in the Underlying Security is not halted, the Exchange shall compute a ''Premium,'' which Premium shall be equal to, for a given Computation Interval, the (i) Mark Price, calculated as of the end of the Computation Interval, less (ii) the time-weighted average of the last sale price of the Underlying Security as reported by the securities information processor pursuant to the effective national market system plan for the Underlying Security (the ''Underlying Price Index'') [49] over the Computation Interval (the ''Reference Price''), divided by (iii) the Reference Price.[50]

Pursuant to Rule 14.10(c), calculation of the Premium shall not take into account any block trades executed or reported to the Exchange during a Computation Interval. Block trades are privately negotiated transactions between Exchange participants (*i.e.,* members or member customers) that may only be executed on the Exchange if they comply with the requirements of Rule 5.3(e), including that they must meet the applicable minimum size threshold established by the Exchange and each party must be an eligible contract participant as defined in CEA Section 1a(18),[51] among other requirements. To help ensure that the mark price and funding rate calculation fairly reflect the prevailing executable value of Perpetual SFPs in a competitive marketplace, and given that block trades are privately negotiated, block trades in a Perpetual SFP are excluded from the Mark Price calculation for that SFP and, accordingly, are not reflected in Premium calculations.

The ''Funding Rate'' for a Funding Period will be equal to the equally weighted arithmetic mean of the Premiums computed during that Funding Period (the ''Mean Premium''), subject to adjustments as described below. If no trades (or only block trades) in the Perpetual SFP are executed during a Computation Interval, the Premium for that Computation Interval is excluded from the Funding Rate calculation, and no Premium will be computed for any Computation Interval falling in whole or in part within any period specified in Rule 14.10(f), including periods when the U.S. equity cash market is closed or when trading in the Underlying Security is halted on its Primary Listing Exchange. The Funding Rate is derived solely from observed Premiums, the methodology contains no separate interest rate or dividend term, and expected carry and Ordinary Dividends are reflected only to the extent reflected in the Premium.[52]

The Funding Rate may be adjusted subject to a ''Deadband Threshold'' of 0.002% and a ''Maximum Funding Magnitude'' of 2.00%, each as defined in Rule 14.2 and applied as provided in Rule 14.10(d). Pursuant to Rule 14.10(d), the Funding Rate will be reduced (or increased, if the Mean Premium is negative) toward zero by the Deadband Threshold if the absolute value of the Mean Premium for a given Funding Period exceeds the Deadband Threshold, and will be zero where the absolute value of the Mean Premium does not exceed the Deadband Threshold. In other words, the Deadband Threshold will operate as a continuous reduction in absolute value of the Mean Premium, rather than as a discontinuous threshold, so that the Funding Rate varies continuously with the Mean Premium. Additionally, if the absolute value of the Funding Rate exceeds the Maximum Funding Magnitude, the Funding Rate shall be set to the Maximum Funding Magnitude with the same sign as the originally calculated Funding Rate. The purpose of the Deadband Threshold is to mitigate the operational burdens of market noise and small price deviations (including those potentially attributable to manipulation attempts). The purpose of the Maximum Funding Magnitude is to prevent large but transitory price deviations from triggering disruptive funding payments.

Pursuant to Rule 14.10(e), at the scheduled close of each regular trading session in the U.S. equity cash market (ordinarily 4:00 p.m. ET, or the scheduled early close on early-close days) on each day on which the cash market is open for regular trading (the ''Daily Settlement Time''), holders of Perpetual SFPs will exchange periodic funding payment obligations and entitlements. Specifically, if the Funding Rate is positive, each holder of a long position shall pay, for each Perpetual SFP Contract Unit held (including fractional Contract Unit positions), to holders of short positions in the Perpetual SFP an amount equal to the Funding Rate multiplied by the Mark Price as of the Daily Settlement Time (the ''Daily Settlement Price'') multiplied by the Contract Unit. If the Funding Rate is negative, holders of short positions shall pay, for each Perpetual SFP Contract Unit held (including fractional Contract Unit positions), to holders of long positions in the Perpetual SFP an amount equal to the absolute value of the Funding Rate multiplied by the Daily Settlement Price multiplied by the Contract Unit. If the Funding Rate is zero, no transfer will be made. Such periodic transfers will be computed by the Exchange and collected and paid through Klear, as the clearing house for Perpetual SFPs. Funding payments are separate from variation margin and any other payment obligations due to or from a participant of the Exchange. Pursuant to Rule 14.12(c), if a Daily Settlement Price cannot be determined pursuant to Tiers (1) through (3) set forth in Rule 14.12, the Exchange may determine the Daily Settlement Price pursuant to the Underlying Price Index as of the Daily Settlement Time, if it is available and reliable, or the Exchange's Market

[48] *Id.* at 81623.

[49] During periods when the equity cash market is closed, the Underlying Price Index shall instead be the official closing price of the Underlying Security from the most recent regular trading session of the Underlying Security.

[50] Premiums are used to calculate daily funding obligations associated with Perpetual SFPs, which do not constitute final settlements of Perpetual SFPs and, accordingly, are not subject to the Final Settlement Rules.

[51] 7 U.S.C. 1a(18).

[52] As noted in Rule 14.27, discussed below, ''[t]he economics of an Ordinary Dividend shall be transferred between open interest [in Perpetual SFPs] through the Funding Rate, and no adjustment shall be made to the Contract Specifications, Daily Settlement Price, Contract Unit, or number of outstanding contracts of a Perpetual SFP to reflect an Ordinary Dividend.'' Rather, the economics of Ordinary Dividends will be incorporated into the calculation of Premiums, on the basis of which Funding Rates for Perpetual SFPs are derived, due to the decline in price of the Underlying Security subject to the Ordinary Dividend on the ex-date, which will be reflected in the Underlying Price Index (and therefore the Reference Price) and not otherwise offset within the Perpetual SFP.

Outcome Review Process under Rule 7.1.

Under the Market Outcome Review Process, the Exchange's Outcome Review Committee, a standing committee consisting of three members, two of which must be Public Directors appointed by the Exchange's Regulatory Oversight Committee pursuant to Exchange Rule 2.7(e), would determine the final Daily Settlement Price for a given Funding Period. The Outcome Review Committee would review all relevant evidence and determine a final Daily Settlement Price within a 24-hour period after the Market Outcome Review Process is initiated, and associated funding entitlements and obligations would be settled on the date that the Outcome Review Committee reaches a determination on the Daily Settlement Price. If the Market Outcome Review Process is initiated, the Exchange will post on its website that the Perpetual SFP's Daily Settlement Price is under review.

Trading Hours. Rule 14.11 provides that ''Perpetual SFPs shall be available for trading from 6:00 p.m. ET on Sunday through 5:00 p.m. ET on Friday, with a daily maintenance window from 5:00 p.m. ET to 6:00 p.m. ET during which Perpetual SFPs do not trade, subject to trading halts as provided in Rule 14.13 and the Exchange's discretionary authority under Rule 14.15.'' Rule 14.11 further states that ''[t]he Exchange may establish specific trading hours for particular Perpetual SFPs or classes of Perpetual SFPs as it deems appropriate.'' The trading hours for Perpetual SFPs will be consistent with the 23 hours a day, five days a week trading schedules established for cash equities and security futures on other national securities exchanges.[53]

Coordinated Trading Halts. Rule 14.2 defines a ''Regulatory Halt'' to include any event within in the meaning of that term in (i) Commission Rule 6h–1(a)(3) and CFTC Regulation 41.1(l) and (ii) the ''Plan to Address Extraordinary Market Volatility Submitted to the Securities and Exchange Commission Pursuant to Rule 608 of Regulation NMS Under the Securities Exchange Act of 1934'' approved 31 May 2012 by the SEC, as amended from time to time (SEC, SRO Rulemaking, National Market System Plans, File 4 631) and as implemented under New York Stock Exchange Rule 7.12 for Trading Halts Due to Extraordinary Volatility or under Nasdaq Stock Market Rule 4121 for Trading Halts Due to Extraordinary Volatility. Consistent with the parallel requirements in CFTC Regulation 41.25(b)(2) and Commission Rule 6h–1(c),[54] Rule 14.13(a) provides that the Exchange shall ''halt trading in a Perpetual SFP at all times during a Regulatory Halt affecting the Underlying Security.'' Rule 14.13(a) further provides that, ''[f]or the avoidance of doubt, no [b]lock [t]rades in a Perpetual SFP may be executed on or reported to the Exchange during any period during which the Exchange has halted trading in the Perpetual SFP.'' Rule 14.13(b) further specifies that, in the event of a Regulatory Halt resulting from the operations of a circuit breaker or trading curb procedures by a national securities exchange or national securities association, the levels, thresholds and durations applicable to such market-wide circuit breaker or trading curb procedures are those established by the applicable national securities exchange or national securities association, as in effect from time to time. Pursuant to Rule 14.13(c), ''[s]uspension of trading due to a Regulatory Halt shall remain in effect until the Primary Listing Exchange of the Underlying Security resumes trading, unless the Exchange determines, in its discretion, that additional conditions must be satisfied before trading in the Perpetual SFP may resume.'' The Exchange shall resume trading only upon its determination that price discovery in the Perpetual SFP can occur on a fair and orderly basis.

Rule 14.13(d) authorizes the Exchange to, at its discretion, permit members to submit, modify or cancel orders in affected Perpetual SFPs, but clarifies that ''[n]o matching shall occur during the Regulatory Halt.'' Rule 14.13(d) also provides that ''[a]ll market orders resting at the time a Regulatory Halt is initiated shall be cancelled.''

Rule 14.13(e) requires the Exchange to ''promptly disseminate notice to all Members of any coordinated trading halt and the resumption of trading via the Exchange's notification channels and market data feeds.''

Finally, Rule 14.13(f) authorizes the Exchange to ''at its sole discretion, halt trading (including execution and reporting of [b]lock [t]rades) in a Perpetual SFP at any time when trading in the Underlying Security is halted for any reason on any national securities exchange listing the Underlying Security.''

Position Limits and Reporting for Perpetual SFPs

Kalshi proposes adopting Rulebook Chapter 14, Part VI and related new definitions in Rule 14.2 to specify position limits and position accountability levels applicable to Perpetual SFPs and related large trader reporting obligations. Rule 14.23(a) provides that ''[e]xcept with the prior written permission of the [Exchange's] Chief Regulatory Officer or his designee, all Members must comply with the position limits set forth in'' Rule 14.23. The proposed position limits and position accountability levels are designed to ensure compliance with CFTC Regulation 41.25(b)(3), a primary purpose of which is to ensure comparability of position limits applicable to security futures with those applicable to equity options.[55]

CFTC Regulation 41.25(b)(3) requires DCMs to have rules establishing position limits and position accountability levels applicable during ''the last three trading days of an expiring contract month'' of a security future.[56] Because the Perpetual SFPs have no predetermined expiration date, and can have potentially indefinite durations, the Exchange believes that the position limit requirements of CFTC Regulation 41.25(b)(3) apply with respect to a Perpetual SFP only during the three (3) trading days (the ''last three trading days'') preceding the date on which the Exchange has determined that final settlement of a Perpetual SFP will occur pursuant to Rule 14.7 (applicable to Perpetual SFPs that are delisted by the Exchange due to the Underlying Security or its issuer failing to satisfy a maintenance listing requirement during the applicable cure period or being subject to an Immediate Delisting Event) and Rule 14.30 (applicable to Perpetual SFPs subject to accelerated final settlement, discussed below).

In order to more effectively protect against manipulation, the Exchange shall impose position limits more stringent than those required under CFTC Regulation 41.25(b)(3) throughout

[53] *See, e.g., Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Amendment Nos. 2 and 3 and Order Granting Accelerated Approval of a Proposed Rule Change, as Amended by Amendment Nos. 2 and 3, to Extend the Exchange's Trading Hours to 23 Hours a Day, Five Days a Week,* Release No. 34–105199 (April 10, 2026); CME SFP Rule Filing at 41683.

[54] 17 CFR 41.25(b)(2); 240.6h–1(c).

[55] *See, e.g., Position Limits and Position Accountability for Security Futures Products,* Final Rule, 84 FR 51005, 51006 (''When adopted, the [CFTC]'s existing [security futures products] position limits were set at levels that were generally comparable, but not identical, to the limits that applied to options on individual securities at that time. However, over time, a competitive disparity emerged between the [CFTC]'s [security futures product] position limits and security options limits despite both serving economically similar functions. . . . . To address this disparity, the Commission drafted the Proposal with the goal of providing a level regulatory playing field''.

[56] 17 CFR 41.25(b)(3).

the life of each Perpetual SFP. Specifically, Rule 14.23(b) provides that, except as otherwise provided in Rule 14.23, Perpetual SFPs, which will in each case overlie a single Underlying Security, ''shall be equal to: (i) at all times other than the last three trading days of an expiring contract, 50,000 Perpetual SFP [units of exposure equal to one hundred (100) shares of the Underlying Security (each such unit, a ''Standard Contract Equivalent'')] or (ii) during the last three trading days of an expiring contract, 25,000 Perpetual SFP Standard Contract Equivalents.'' Rule 14.23(b) further specifies that ''[t]he number of Standard Contract Equivalents held by a person may not exceed the limit either net or on the same side of the market.'' Notwithstanding the foregoing, Rule 14.23(b) provides that a Perpetual SFP position in excess of the applicable position limit that arises solely as the result of an adjustment to a Perpetual SFP effected in connection with a corporate action affecting the Underlying Security pursuant to Part VII of Chapter 14 ''shall not, by reason of the adjustment alone, constitute a violation of [Rule 14.23], provided that the person holding the position does not increase the position on the same side of the market after the adjustment becomes effective.'' Rule 14.23(b) further clarifies that ''[i]n no event shall the applicable [position limit] be established or administered in a manner inconsistent with CFTC Regulation 41.25 and applicable CFTC regulations, guidance or orders.''

Rule 14.23(c) sets out liquidity-tiered position limit standards. Specifically, where the estimated deliverable supply of an Underlying Security exceeds twenty (20) million shares, the Exchange may (if appropriate in light of the liquidity of trading in the Underlying Security) assign the Perpetual SFP to a liquidity tier and adopt a position limit for the Perpetual SFP no greater than the lesser of (i) the number of Perpetual SFP Standard Contract Equivalents specified for the applicable tier in the schedule established by the Exchange by notice to Members and (ii) the equivalent of 12.5 percent of the estimated deliverable supply of the Underlying Security, either net or on the same side of the market, applicable to positions held during the last three days of an expiring contract.

Consistent with CFTC Regulation 41.25(b)(3), for a Perpetual SFP on an Underlying Security where the six-month total trading volume exceeds 2.5 billion shares and the estimated deliverable supply exceeds 40 million shares, the Exchange may adopt a position accountability rule in lieu of a position limit under Rule 14.23(d). The position accountability level shall be twenty-five thousand (25,000) Standard Contract Equivalents, or such lower level as the Exchange may specify with respect to such a Perpetual SFP.

For purposes of determining the applicability of Rules 14.23(c) and 14.23(d), the Exchange shall calculate, on a monthly basis, the estimated deliverable supply and six-month total trading volume for each Underlying Security, as provided in Rule 14.23(g). Rule 14.23(g) also states that ''[t]he Exchange shall adjust position limits as appropriate based on data and shall file any changes with the CFTC pursuant to CFTC Regulation 41.24.''

Furthermore, Rule 14.23(a) specifies that, notwithstanding anything to the contrary in Rules 14.23(c) or 14.23(d), no position or positions aggregated in accordance with Rule 14.23(e) shall be permitted in excess of 200,000 Perpetual SFP Standard Contract Equivalents.

Rule 14.23 also includes provisions governing position limit exemptions and aggregation. Rule 14.23(e) generally governs how position limits adopted by the Exchange for Perpetual SFPs apply to market participants with respect to aggregation of positions they hold or control. Rule 14.23(f) provides that ''[t]he Exchange may grant exemptions from the position limits set forth in [Rule 14.23] for Perpetual SFP positions used for qualified hedging strategies,'' requires applications for such exemptions to be filed with the Exchange in such form as the Exchange may prescribe and authorizes the Exchange to condition any exemption upon such terms and conditions as the Exchange deems appropriate. Rule 14.24 governs position accountability requirements for market participants who hold positions in Perpetual SFPs in excess of applicable position accountability levels. In order to be subject to position accountability levels under Rule 14.23(d), as noted above, the Underlying Security of a Perpetual SFP must have a six-month total trading volume exceeding 2.5 billion shares and estimated deliverable supply in excess of 40 million shares, consistent with CFTC Regulation 41.25(b)(3)(i)(B).[57] Accordingly, only Perpetual SFPs on the most liquid Underlying Securities shall be subject to position accountability levels. Further, a position accountability rule may not be applied in lieu of a position limit during the last three trading days of a Perpetual SFP. Rule 14.24(b) permits the Exchange to establish higher position accountability levels for market makers in Perpetual SFPs where the market maker has quoting obligations, in accordance with the Exchange's market maker program applicable to Perpetual SFPs.

Perpetual SFP Corporate Actions, Adjustments and Accelerated Final Settlement

Kalshi proposes adopting Rulebook Chapter 14, Part VII and related new definitions in Rule 14.2 to specify the Exchange's response to events initiated by the issuer of an Underlying Security that alters the number, form, value, or economic characteristics of outstanding shares, including but not limited to stock splits, reverse stock splits, stock dividends, special or extraordinary cash dividends, rights issues, spin-offs, mergers, acquisitions, tender offers, exchange offers, delistings, and name, ISIN or CUSIP changes (''Corporate Actions''). Rule 14.26(c) provides that any cash or stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, recapitalization, reclassification, reorganization or similar event, or a merger, consolidation, tender or exchange offer, dissolution, liquidation or delisting affecting the issuer of an Underlying Security, the number of Perpetual SFP contracts, the Daily Settlement Price, the Underlying Security or any of the foregoing may be adjusted in accordance with Part VII of Chapter 14.

As a general matter, Rule 14.26(b) provides that ''[d]eterminations as to whether and how to adjust the terms of a Perpetual SFP to reflect a Corporate Action affecting the Underlying Security shall be made by the [Exchange's Chief Regulatory Officer (the ''CRO'')], or such other officer or committee as the [Exchange's] Board of Directors may designate, based on the CRO's judgment as to what is appropriate for the protection of investors and the public interest, taking into account fairness to the buyers and sellers of the affected Perpetual SFPs, the maintenance of a fair and orderly market, consistency of interpretation and practice, and the preservation, to the greatest extent practicable, of the economic equivalence of open positions immediately before and after the Corporate Action.'' Pursuant to Rule 14.26(d), ''[t]he CRO may, in addition to determining adjustments on a case-by-case basis, adopt interpretations of general application to specified types of events.'' Each such determination of the CRO will be made in the CRO's sole discretion and, in the absence of fraud or willful misconduct, be conclusive

[57] 17 CFR 41.25(b)(3)(i)(B).

and binding on all participants and not subject to review. Rule 14.26(f) provides that the Exchange shall not be liable for any failure to make, or delay in making, an adjustment to reflect a Corporate Action that it does not learn of, or does not learn of in a timely manner.

Subject to the discretion of the CRO to make exceptions in any case or group of cases as set forth above, Part VII also sets forth the following general rules regarding how the Exchange shall address Corporate Actions.

Pursuant to Rule 14.26(g), adjustments under Part VII shall, as a general rule, become effective on the ex-date, as determined by the Primary Listing Exchange.

Rule 14.27 sets forth the general rules regarding how the Exchange will address Ordinary Dividends (defined below), Extraordinary Dividends (defined below) and certain other distributions affecting Underlying Securities. Rule 14.27 provides that the economics of regularly-scheduled cash dividends paid by the issuer of an Underlying Security in accordance with the issuer's established dividend policy that do not exceed the ''Extraordinary Dividend Threshold'' established by the CRO (initially, ten percent (10%) of the cum-price of the Underlying Security) (such regularly-scheduled dividends, ''Ordinary Dividends'') shall be transferred through the Funding Rate, and no adjustment shall be made to the Contract Specifications, Daily Settlement Price, Contract Unit or number of outstanding Perpetual SFP contracts to reflect an Ordinary Dividend.[58] The rule also provides that cash distributions by the issuer of an Underlying Security that the issuer designates as ''special'', ''extraordinary'' or ''non-recurring,'' that fall outside of the issuer's established ordinary dividend policy or that exceed the Extraordinary Dividend Threshold (such distributions, ''Extraordinary Dividends'') and all other cash or property distributions that are not Ordinary Dividends for which the CRO deems an adjustment to be appropriate ''shall be reflected by a per-contract cash amount recorded against open positions and settled in cash at the Daily Settlement Time . . . by a reduction of the Daily Settlement Price by the value per share of the'' distribution. The CRO may reflect such distributions by another method upon a determination that such other method ''best preserves the economic equivalence of open positions'' and may ''halt trading in the affected Perpetual SFP in connection with an Extraordinary Dividend.''

Rule 14.28(a) sets forth the general rule that the Exchange will address forward stock splits, stock distributions and dividends or bonus issues in respect of an Underlying Security by proportionately reducing the Daily Settlement Price established immediately before the event and proportionately increasing the number of Perpetual SFP contracts comprising each open position. In the case of a reverse stock split or consolidation of shares, Rule 14.28(a) sets forth the general rule that the Daily Settlement Price of the relevant Underlying Security established immediately before the event shall be proportionately increased and the number of Perpetual SFP contracts comprising each open position shall be proportionately reduced. In each case, the Daily Settlement Price shall be multiplied by, and the number of Perpetual SFP contracts comprising each open position divided by, the ratio of the number of shares outstanding before the event to the number outstanding after the event. The Contract Unit shall remain unchanged and the notional value of each open position shall be substantially unaffected by the adjustments contemplated in Rule 14.28. The adjustment shall be implemented following the Daily Settlement Time on the last-cum trading day.

Rule 14.28(b) provides the general rule that ''[t]he Exchange shall ordinarily adjust the terms of a Perpetual SFP to reflect a rights distribution in the manner that best preserves economic equivalence, except that no adjustment shall ordinarily be made to reflect the issuance of rights that are not immediately exercisable, that trade together with the Underlying Security and that may be redeemed by the issuer (so-called ''poison pill'' rights). If such rights later become exercisable, begin to trade separately from the Underlying Security, or are redeemed, the CRO shall determine whether an adjustment is appropriate.''

Rule 14.28(c) provides that ''[a]djustments of the Daily Settlement Price shall be rounded to the nearest minimum price increment, and adjustments of the number of Perpetual SFP contracts comprising a position shall be rounded to the nearest minimum trading increment under Rule 14.9(a) and the applicable Contract Specifications in the manner the CRO determines, consistent with the methodology of [Klear] and any relevant reporting authority; any resulting difference between aggregate long and aggregate short open interest shall be resolved by the Exchange in coordination with [Klear] and shall not be allocated to [p]articipants. Where rounding would not preserve economic equivalence to the greatest extent practicable, the CRO may apply an alternative convention or a compensating cash adjustment.''

Rule 14.29 sets forth general rules regarding how the Exchange will address mergers, tender offers and reorganizations affecting the issuers of Underlying Securities. For tender and exchange offers, Rule 14.29(a) provides that ''[n]o adjustment shall ordinarily be made to reflect a tender offer or exchange offer to holders of the Underlying Security . . . [but that a] Perpetual SFP shall ordinarily be adjusted or settled to reflect a merger, consolidation, or similar event that becomes effective following completion of such an offer.'' Rule 14.29(b) provides that, ''[w]hen the Underlying Security is converted in a merger or similar event into the right to receive a fixed amount of cash, the Perpetual SFP shall ordinarily be closed and subject to final cash settlement at such fixed amount of cash.'' Pursuant to Rule 14.29(c), ''[i]n the case of a merger, consolidation, reincorporation, or similar event in which shares of the Underlying Security are converted into or exchanged for shares of another company, the Perpetual SFP shall ordinarily be closed and subject to final cash settlement in accordance with Rule 14.30 at the value of the shares of the resulting or acquiring company receivable per share of the Underlying Security,'' subject to the CRO's authority to instead direct that open positions be converted into positions in Perpetual SFPs that reference the shares of the resulting or acquiring company with corresponding adjustments to the number of Perpetual SFP contracts comprising each open position.

Rule 14.29(d) provides that ''[n]o adjustment shall ordinarily be made to reflect a change in the capital structure of the issuer where the Underlying Securities held by the public are not converted into another security, cash, or other property,'' including the issuance of new debt or equity, refinancing of outstanding debt, a partial stock repurchase by the issuer or the sale of significant assets of the issuer. Corporate Events that do not ''alter the economic rights attached to the shares,'' such as name changes, likewise shall not give rise to any adjustment.

Rule 14.29(e) provides that, notwithstanding the foregoing, the CRO may, in the CRO's sole discretion, effect accelerated final cash settlement of the

[58] *See* note 52, *supra.*

affected Perpetual SFP in accordance with Rule 14.30 in lieu of any adjustments or conversion otherwise provided under Rules 14.28 or 14.29. The CRO may effect accelerated final settlement pursuant to Rule 14.29(e) upon a determination that ''continued trading following the Corporate Action would not result in a fair and orderly market, would give rise to material risk or pricing discontinuities, would result in an illiquid or unrepresentative market in the affected Perpetual SFP, or would otherwise be impracticable, inequitable or undesirable.''

Rule 14.30 sets out the Exchange's rules and procedures related to accelerated final settlement of Perpetual SFPs in connection with certain Corporate Actions affecting Underlying Securities or their issuers. Rule 14.30(a) provides that ''[t]he CRO may declare a Perpetual SFP subject to accelerated final cash settlement upon: a determination under Rule 14.29(e) or any other event that renders continued trading in the Perpetual SFP impracticable or inequitable.''

Pursuant to Rule 14.30(b), open positions in a Perpetual SFP subject to accelerated final settlement shall be closed by cash settlement at a final settlement price determined in accordance with Rule 14.7(c).

Rule 14.30(c) specifies that accelerated final settlement pursuant to Rule 14.30 ''shall occur as promptly as practicable, and ordinarily within three (3) business days, following the CRO's declaration.'' Rule 14.30(c) further provides that ''[t]he Exchange shall provide not less than two (2) business days' notice prior to accelerated final settlement, except where emergency circumstances require more immediate action, and shall not close the affected Perpetual SFP earlier than necessary to give effect to the Corporate Action, in order to minimize premature closures in the event the Corporate Action does not become effective.''

In addition to the foregoing, Part VII of Chapter 14 includes rules relating to the reliability of settlement prices and references prices used by the Exchange to determine Daily Settlement Prices and any final settlement prices in respect of Perpetual SFPs, erroneous or unavailable prices and operational provisions relating to adjustments and accelerated final settlement.

Membership Standards

SFP Broker Member Eligibility Criteria. In order to be eligible for membership to transact in or intermediate transactions in Perpetual SFPs, a person must satisfy the eligibility criteria set forth in Rule 14.37. Specifically, in addition to complying with the requirements and satisfying the conditions for membership set forth in Chapter 3 of the Exchange's rules, a member of the Exchange must satisfy the following criteria in order to be eligible for membership to trade Perpetual SFPs as an SFP Broker Member: (i) the member must not be subject to statutory disqualification under Section 3(a)(39) [59] of the Act or Section 8a(2) of the CEA; [60] (ii) the person must not be subject to any order denying, suspending or revoking registration or membership with any securities or futures regulatory authority and (iii) in the case of a FCM or introducing broker member of the Exchange seeking to intermediate Perpetual SFP transactions on behalf of its customers, (a) be registered in good standing with the CFTC and be registered with the Commission as a broker-dealer (or operate pursuant to notice registration under Section 15(b)(11) of the Act [61] and (b) be a member in good standing of the National Futures Association (''NFA'').

Intermediation of Perpetual SFP Transactions by Kalshi Prime. Subject to the requirements and conditions contained in Part X of Chapter 14, an affiliate of the Exchange, Kalshi Prime LLC (''Kalshi Prime'') will intermediate Perpetual SFP transactions on the Exchange as an FCM SFP Broker Member. Kalshi Prime will be registered in good standing with the CFTC as a FCM and notice-registered with the Commission as a broker-dealer under Section 15(b)(11) of the Act and a member of NFA. The Exchange proposes to adopt Rule 14.38 to govern the Exchange's receipt of inbound orders in Perpetual SFPs from and provision of system access and data distribution services for the purpose of intermediating Perpetual SFP transactions to Kalshi Prime.

Pursuant to Rule 14.38(e), Kalshi Prime's privileges as an FCM SFP Broker Member on the Exchange would be limited to those available to other FCM members of the Exchange under Exchange Rule 3.2(g): (i) intermediating customer transactions on Kalshi, (ii) distributing Kalshi data to its customers pursuant to any data distribution agreement with Kalshi and (iii) accessing Kalshi's trading systems electronically. Rule 14.38(e) further specifies that Kalshi Prime will have such privileges only with respect to Perpetual SFP transactions on the Exchange and will be subject to all of the Exchange's rules to the same extent and on equal terms as such rules apply to other FCM SFP Broker Members.[62]

The Exchange recognizes ''that the potential for unfair discrimination may be heightened if a national securities exchange or its affiliate owns or operates a broker dealer . . . because the financial interests of the national securities exchange may conflict with its responsibilities as [a self-regulatory organization] regarding the affiliated broker-dealer.'' [63] For the reasons described below, the Exchange does not believe that Kalshi Prime's role as an FCM SFP Broker Member permitted to intermediate Perpetual SFP transactions will impair the ability of the Exchange to carry out the purposes of the Act and to comply and enforce compliance by its members and persons associated with its members with the Act, Commission rules thereunder and the Exchange's

[59] 15 U.S.C. 78c(a)(39).

[60] 7 U.S.C. 12a(2).

[61] 15 U.S.C. 78o(b)(11).

[62] Kalshi Prime would also be expressly prohibited, under Rule 14.38(f), from providing or performing the functions that the Commission and courts have previously found to result in exchange affiliates being ''facilities'' of such exchange—namely, Rule 14.38(f) would prohibit Kalshi Prime from providing order routing services, co-location services, market data services or any other services or functions determined by the Exchange, in its sole discretion, to constitute a system of communication from or to the Exchange for the purpose of effecting transactions on the Exchange, except to the extent such activities are encompassed by the permitted FCM SFP Broker Member functions under Rule 14.38(e) and provided or performed subject to the same terms and conditions as any other SFP Broker Member. *See Order Approving Proposed Rule Change by the Pacific Exchange, Inc., as Amended, and Notice of Filing and Order Granting Accelerated Approval to Amendment Nos. 4 and 5 Concerning the Establishment of the Archipelago Exchange as the Equities Trading Facility of PCX Equities, Inc.,* Release No. 34–44983 (Oct. 25, 2001), 66 FR 55225, 55234 (Nov. 1, 2001) (the ''PCX Order'') (finding an exchange-affiliated broker-dealer's order routing service for the exchange to constitute a facility of the exchange because it was ''uniquely linked to and endorsed by [the exchange] to provide its outbound routing functionality,'' but that the affiliated broker-dealer's introducing broker and electronic communications network functions did not constitute facilities of the exchange); *Self-Regulatory Organizations; Cboe Exchange, Inc.; Order Disapproving a Proposed Rule Change To Adopt a New Rule Regarding Order and Execution Management Systems,* Release No. 34–101491 (Oct. 31, 2024), 89 FR 88080 (Nov. 6, 2024) (finding that an exchange-affiliated order and execution management system constituted a facility of the exchange because its functions were ''more akin to an optional order routing function . . . than to an introducing broker-function.''); *Intercontinental Exch., Inc.* v. *SEC,* 23 F.4th 1013, 1022 (D.C. Cir. 2022) (holding that wireless co-location services offered by an exchange affiliate constituted facilities of the exchange because they were '''system[s] of communication . . . . maintained by or with the consent of the exchange' that [are] offered 'for the purpose of effecting or reporting transactions on the exchange.''); *Market Data Infrastructure,* 86 FR 18596, 18666 (Apr. 9, 2021) (''The Commission would expect that the activities of a competing consolidator affiliated with a national securities exchange would be likely to fall within the statutory definitions'').

[63] PCX Order at 55233.

rules consistent with Section 6(b)(1) of the Act,[64] give rise to unfair discrimination or conflicts of interest between customers, issuers and broker or dealers on the Exchange inconsistent with Section 6(b)(5) of the Act,[65] or create a burden on competition inconsistent with Section 6(b)(8) of the Act.[66]

The Commission has itself acknowledged that a national securities exchange may have subsidiaries or affiliates that are broker-dealers,[67] provided that such affiliated broker or dealer must be a member of another self-regulatory organization that is primarily responsible for examining the broker-dealer.[68] In addition, the Commission has approved exchange rule-changes permitting certain activities of affiliated broker-dealers subject to appropriate safeguards to ensure such activities are consistent with Sections 6(b)(5) and 6(b)(8) of the Act.

For example, in its order regarding rule changes of the Pacific Exchange, Inc. (''PCX'') to create a new electronic communications and trading facility, the Archipelago Exchange (''ArcaEx''), after consideration of the ''potentially unfair advantages'' associated with exchange-broker affiliation, the Commission approved PCX rules permitting ArcaEx's broker-dealer affiliate, Wave Securities LLC (''Wave''), to intermediate transactions as an introducing broker on PCX, under circumstances similar to those at issue here.[69] In so doing, the Commission emphasized that: ''[i]n its introducing broker role, Wave would be acting as a user/member of the ArcaEx on precisely the same terms as any other member. Wave would not be the sole source of sponsored access to the ArcaEx; all other [Equity Trading Permit] Holders could readily provide similar services on behalf of their customers.'' [70] The Commission further emphasized that PCX had implemented additional protections to ''limit the risk that Wave would receive an unfair advantage over other [Equity Trading Permit] Holders in operating as an introducing broker,'' including through rules provisions requiring strong information barriers between PCX and its facilities and the introducing-broker functions of Wave.[71]

Also, in the securities options context, the Commission has previously approved rule changes of Cboe C2 Exchange, Inc. (''Cboe C2''), a national securities exchange, to permit its affiliated broker-dealer, Cboe Trading, Inc. (''Cboe Trading''), to provide inbound options routing services where Cboe C2 implemented controls to ensure that an unaffiliated self-regulatory organization was primarily responsible for performing regulatory responsibilities for Cboe Trading and that Cboe Trading ''does not develop or implement changes to its systems on the basis of nonpublic information obtained as a result of its affiliation with the [e]xchange until such information is available generally to similarly situated Trading Permit Holders of the [e]xchange.'' [72]

The Exchange does not believe that Kalshi Prime's role as an FCM SFP Broker Member on the Exchange will be inconsistent with Sections 6(b)(1), 6(b)(5) or 6(b)(8) of the Act because the Exchange has implemented robust protections and safeguards to ensure that Kalshi Prime will not be operationally integrated with or have privileged access to the systems or information of the Exchange, similar in nature to those implemented by PCX in respect of Wave's introducing-broker function and Cboe C2 in respect of Cboe Trading's inbound options routing services.

Pursuant to Rule 14.38(g), the Exchange will be prohibited from permitting the entry of orders through Kalshi Prime that result in Kalshi Prime's customers receiving privileged treatment on the Exchange in any respect or being placed at a competitive advantage *vis a vis* participants of the Exchange who enter orders otherwise than through Kalshi Prime. Rule 14.38(g) also prohibits the Exchange from establishing or administering its platform or any rule, policy, fee, order routing, communication or other system, margin requirement or other functionality in a manner designed or reasonably likely to privilege Kalshi Prime relative to any other FCM SFP Broker Member. Consistent with the Exchange's regulatory obligation to ''provide its members, persons with trading privileges and independent software vendors with impartial access to its markets and services,'' [73] these rules are designed to ensure that Kalshi Prime does not receive any unfair advantage over other SFP Broker Members intermediating Perpetual SFP transactions, such that other SFP Broker Members can readily provide similar services on behalf of their customers.

Further, Rule 14.38(b) would prohibit the Exchange from permitting Kalshi Prime to intermediate Perpetual SFP transactions on the Exchange unless a third-party self-regulatory organization unaffiliated with the Exchange (a ''Third-Party DSRO'') conducts surveillance and examination of Kalshi Prime as would otherwise be required of the Exchange under CFTC Regulation 1.52(c). Kalshi Prime's Third-Party DSRO will be NFA. And Rule 14.38(i) requires, consistent with Exchange Rules 2.9 and 12.3 and CFTC Regulation 1.69,[74] that ''only Public Director members of the [Exchange's Board of Directors], Regulatory Oversight Committee, Disciplinary Panel, Outcome Review Committee or Appeals Committee may take part in matters for which [Kalshi Prime] is a named party in interest'' and that the Exchange's ''Chief Compliance Officer shall report any such matter to the Regulatory Oversight Committee.''

Accordingly, all supervision, oversight and enforcement of Kalshi Prime's compliance with applicable law and Exchange rules would occur on an independent basis: (i) NFA, as Kalshi Prime's Third-Party DSRO, would perform surveillance and examination of Kalshi Prime's compliance with CFTC regulatory requirements relating to minimum net capital and related financial matters, customer funds segregation, risk management and financial reporting (which would otherwise be performed by the Exchange itself under Regulation 1.52(c)); (ii) NFA would also surveil and examine Kalshi Prime, in its capacity as a member of NFA, for compliance with CFTC

[64] 15 U.S.C. 78f(b)(1).

[65] 15 U.S.C. 78f(b)(5).

[66] 15 U.S.C. 78f(b)(8).

[67] *Regulation of Exchanges and Alternative Trading Systems,* 63 FR 70844, 70891 (Dec. 22, 1998) (''National securities exchanges could, under the rules the Commission is adopting today, form subsidiaries or affiliates that operate alternative trading systems registered as broker-dealers. If a national securities exchange chose to form such a subsidiary or affiliate, the exchange itself could remain registered as a national securities exchange, while the subsidiary or affiliate operated as a broker-dealer'').

[68] *Id.; see also* PCX Order at note 111.

[69] *See* PCX Order at 55233–55234. In the PCX Order, the Commission also concluded that the introducing broker and electronic communications network functions of Wave did not constitute ''facilities'' of PCX as defined in Section 3(a)(2) of the Act. PCX Order at 55234. Because Kalshi Prime will not engage in any activities that the Commission has previously determined constitute ''facilities'' of an exchange and given the safeguards discussed herein to limit operational integration between Kalshi Prime and the Exchange, the Exchange shall not treat Kalshi Prime's operations as an FCM SFP Broker Member intermediating Perpetual SFP transactions as a facility of the Exchange. *See* note 62, *supra.*

[70] *Id.* at 55234.

[71] *Id.*

[72] *Self-Regulatory Organizations; Cboe C2 Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change Concerning an Affiliation between the Exchange and Cboe Trading and to Adopt Rules to Permit Inbound Routing by Cboe Trading,* Release No. 34–82952 (March 27, 2018); 83 FR 14096 (Apr. 2, 2018).

[73] 17 CFR 38.151(b).

[74] 17 CFR 1.69.

regulations and NFA rules relating to, among other things, supervision, anti-money laundering, recordkeeping, business continuity and disaster recovery, information security, fraud and related matters, frontrunning, suitability, risk disclosures, sales practices and marketing; [75] and (iii) only independent decisionmakers (*i.e.,* Public Directors that, pursuant to Rule 2.2(g), must be found by Kalshi's Board of Directors to have no ''Material Relationship,'' as defined in Rule 2.2(g), with the Exchange) of applicable Exchange committees may participate in matters involving Kalshi Prime's compliance with Exchange rules and all such matters must be reported to the Exchange's Regulatory Oversight Committee.

The Exchange is also instituting additional safeguards in Rule 14.38 similar to those approved for PCX to ensure that Kalshi Prime does not receive any informational or other competitive advantages from its affiliation with the Exchange. Specifically, Rule 14.38(h) provides that ''[t]he officers and directors of the Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the functions of any [a]ffiliated SFP Broker Member.'' Pursuant to Rule 14.38(h), the Exchange may only furnish to Kalshi Prime the same information on the same terms that the Exchange makes available in the normal course of business to any other SFP Broker Member and, as necessary to administer its rules or comply with applicable law, communicate non-public information to Kalshi Prime that relates solely to Kalshi Prime or one or more of its customers.

Finally, Rule 14.38(d) provides the Exchange with broad authority to deny or condition Kalshi Prime's application to intermediate Perpetual SFP transactions as an FCM SFP Broker Member ''so long as such action is impartial, transparent, fair and non-discriminatory.'' Accordingly, the Exchange could, at any time, upon a determination that Kalshi Prime has obtained privileged or exclusive access to the Exchange with respect to Perpetual SFPs, the information barriers contemplated in Rule 14.38(h) prove ineffective, or otherwise, suspend, condition or terminate Kalshi Prime's ability to intermediate Perpetual SFP transactions as an FCM SFP Broker Member.

The Exchange therefore believes that its addition of Rule 14.38 and admission of Kalshi Prime as an FCM SFP Broker Member on the Exchange will not grant Kalshi Prime any unfair advantage over other FCM SFP Broker Members intermediating Perpetual SFP transactions for their customers and will ensure appropriate operational segregation of Kalshi Prime's FCM SFP Broker Member functions from the operation of the Exchange and its facilities.

Trading Safeguards, Sales Practices and Market Surveillance

Kalshi proposes adopting Rulebook Chapter 14, Parts IV (Trading Safeguards), VIII (Sales Practices) and IX (Market Surveillance) and related new definitions in Rule 14.2.

Part IV of Chapter 14 governs the trading safeguards applicable to Perpetual SFPs, the parameters, procedures and methodologies of which shall be established and published by the Exchange by Exchange Notice or technical specification and may be modified by the Exchange at any time. The Exchange shall communicate material changes to trading safeguards to its members, except that the Exchange shall not be obligated to provide prior notice of any such changes upon a declaration that ''Stressed Market Conditions'' exist for one or more Perpetual SFPs. Pursuant to Rule 14.14(d), the Exchange shall provide self-match prevention functionality for Perpetual SFPs. Rule 14.14(e) sets forth the categories of persons prohibited from trading in Perpetual SFPs, which include: (i) any person who is an officer, director, or 10% or greater shareholder subject to Section 16 of the Act of an issuer of any Underlying Security of a Perpetual SFP, (ii) any person who is in possession of material non-public information regarding an issuer of an Underlying Security of a Perpetual SFP, and (iii) any family member or household member of a person in the aforementioned categories. Rule 14.15 provides that, notwithstanding any other provision of Chapter 14, ''the Exchange shall have the authority to halt, suspend, or restrict trading in any Perpetual SFP, or to modify the parameters of any trading safeguard, at any time and for any duration, if the Exchange determines, in its sole discretion, that such action is necessary or appropriate to: (i) maintain fair and orderly markets; (ii) protect market participants; (iii) address an emergency, (iv) respond to extraordinary market conditions; or (v) comply with applicable law or regulation.'' Rule 14.15(c) provides that the Exchange shall promptly report to the CFTC any trading halt, trading suspension or declaration of Stressed Market Conditions in accordance with Part 38 of CFTC Regulations.[76] The Exchange is adopting Part IV of Chapter 14 in order to more effectively protect against manipulative practices and insider trading, and to promote fair and orderly trading in Perpetual SFPs on the Exchange.

Part VIII of Chapter 14 requires that each SFP Broker Member effecting transactions in Perpetual SFPs for its customers must comply with the sales practice requirements of the NFA and, to the extent applicable, the rules of any national securities association of which such SFP Broker Member is a member, including suitability obligations and customer account approval procedures. Part VIII further provides that, before opening an account for a customer to trade Perpetual SFPs, an SFP Broker Member must deliver to the customer the Risk Disclosure Statement for Security Futures Contracts prescribed jointly by NFA and the Financial Industry Regulatory Authority (''FINRA''),[77] and must obtain written acknowledgment of receipt. Part IX of Chapter 14 governs the Exchange's market surveillance program for Perpetual SFPs, including its rules and procedures for real-time market monitoring, coordinated market surveillance and its audit trail.

Rule 14.34 provides that ''[t]he Exchange shall conduct real-time market surveillance of all trading activity in Perpetual SFPs to detect potential violations of Exchange rules, the CEA, the [Act], and other applicable laws and regulations.'' The rule further provides that ''[m]arket surveillance shall include monitoring for: manipulation of Perpetual SFP prices or the prices of Underlying Securities; insider trading; front-running; violations of position limits and reporting requirements; wash trades; self-referencing or self-matching trades; and other fraudulent or manipulative practices.'' Pursuant to Rule 14.35, ''[t]he Exchange shall maintain membership in the Intermarket Surveillance Group (''ISG'') and shall comply with all ISG requirements for

[75] *See* NFA, Compliance Rules, *https://www.nfa.futures.org/rulebooksql/rules.aspx?Section=4.* NFA's examination program includes ongoing financial surveillance, identification of high-risk firms, and on-site examinations at intervals of no less than eighteen months. *See* 17 CFR 1.52(c)(1)(iv), (d)(2)(ii)(C)(4).

[76] 17 CFR Part 38.

[77] *See* FINRA and NFA, *Security Futures Risk Disclosure Statement* (updated 2020), *available at https://www.finra.org/sites/default/files/2020-08/Security_Futures_Risk_Disclosure_Statement_2020.pdf.*

the sharing of surveillance information.'' Rule 14.35 further provides that ''[t]he Exchange shall share information with other markets on which the Underlying Securities and related securities trade, including transaction information, customer identity information, position information, and any other information necessary for coordinated surveillance'' and that ''[t]he Exchange shall coordinate with other markets in investigating potential violations involving Perpetual SFPs, and the Underlying Securities.''

Rule 14.36 provides that ''[t]he Exchange shall maintain an audit trail sufficient to facilitate coordinated surveillance among the Exchange, any market on which an Underlying Security is traded, and any market on which any related security is traded.'' Pursuant to Rule 14.36, the Exchange's audit trail shall capture, at a minimum: ''the time of order receipt and execution (to the millisecond); the identity of the [p]articipant entering the order; the identity of the customers, if applicable; the terms of the order; any modifications or cancellations; and the execution price and counterparty.'' The Exchange maintains its audit trail in accordance with DCM Core Principle 10 in Section 5(d)(10) [78] and CFTC Regulations 38.550, 38.551 and 38.552.[79] Pursuant to Rule 14.36(c), and consistent with CFTC Regulation 1.31(b),[80] the Exchange shall maintain records of all transactions in Perpetual SFPs for a period of not less than five years.

2. Statutory Basis

The Exchange believes that proposed Chapter 14 is consistent with Section 6 of the Act and, in particular, furthers the objectives of Sections 6(b)(1) [81] and 6(b)(5) [82] of the Act insofar as it is designed to ensure the compliance of the Exchange and its members with applicable provisions of the Act and Commission and Exchange rules, to prevent fraudulent and manipulative acts and to promote just and equitable principles of trade. The Exchange further believes that the proposed rule change is consistent with Section 6(h)(3) [83] of the Act which contains detailed requirements for listing standards and conditions for trading security futures products.

The Exchange believes that its adoption of Chapter 14 is consistent with Section 6(h)(3), and that they are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general to protect investors and the public interest, because:

- The Exchange has established and shall monitor and enforce compliance with the rules of the Perpetual SFPs, including the initial and maintenance listing standards for Perpetual SFPs;
- The listing standards for Perpetual SFPs described above require a liquid underlying market for any Perpetual SFP the Exchange will list for trading, and therefore the proposed Perpetual SFPs will not be readily susceptible to manipulation. In particular, the Exchange's proposed initial listing standards for Perpetual SFPs require that the Underlying Security for each Perpetual SFP must exceed 20 million shares in estimated deliverable supply (Rule 14.3(f)), have a minimum market capitalization of at least $100 billion (Rule 14.3(b)) and have had a minimum ADTV of at least $450 million over the prior six months (with a higher ADTV requirement for securities with less than six months trading history) (Rule 14.3(c)). Pursuant to Rule 14.4, the Exchange shall not list any Perpetual SFPs, notwithstanding satisfaction of the initial listing criteria in Rule 14.3, on securities within one of the categories enumerated in Rule 14.4, including securities subject to a trading halt, suspension or revocation of listing by its principal listing exchange or by the Commission pursuant to Section 12(k) of the Act.[84] Further, pursuant to Rule 14.6, the Exchange shall delist Perpetual SFPs that fail to satisfy the maintenance listing standard requirements established under the rule following the ninety (90) day cure period specified therein or that are subject to any Immediate Delisting Event. Under the maintenance standards in Rule 14.6(a), the minimum ADTV is at least $200 million for the prior calendar quarter (with a higher ADTV requirement for securities with less than one quarter trading history, the estimated deliverable supply maintenance standard is the same as in Rule 14.3(f) and the maintenance market capitalization standard is $50 billion. The proposed listing standards assure a robust market for the Underlying Security to protect against manipulation. In this regard, Kalshi has carefully structured the initial listing standards to assure that the contracts it will list at a minimum meet the more stringent requirements for Kalshi to have the flexibility permitted under CFTC Regulation 41.25(b)(3)(i)(A) [85] to set position limits as a percentage of the Underlying Security's estimated deliverable supply.
- Trading in the Perpetual SFPs will be subject to the Exchange rules, which include prohibitions on manipulative or disruptive trading practices prohibited by the CEA or by the CFTC, fraudulent or abusive trading, trading with access to material non-public information that is the subject of an underlying of a contract, and several other harmful or potentially manipulative trading practices. Further, pursuant to Rule 14.8, the NPC shall specifically consider whether a proposed underlying security for a proposed Perpetual SFP has been the subject of, or is reasonably susceptible to, manipulation and, where the NPC identifies elevated manipulation risk, it may impose enhanced position limits, margin requirements or other risk controls as a condition of listing, or may decline to list, the Perpetual SFP. Further, as with any new product listed for trading on the Exchange, trading activity in the Perpetual SFPs will be subject to monitoring and surveillance by the Exchange (*see* Rule 14.34).
- Pursuant to Part VI of Chapter 14, the Exchange will establish speculative position limits and/or accountability levels for any Perpetual SFP it lists as required by and consistent with CFTC Regulation 41.25(b)(3) and Appendix A to Subpart C of Part 41 of CFTC Regulations (*Guidance on and Acceptable Practices for Position Limits and Position Accountability for Security Futures Products*).
- Transactions in Perpetual SFPs will be cleared by Klear in Klear's capacity as a CFTC-registered DCO and are subject to all CFTC regulations related to the clearing of futures.
- The Perpetual SFPs will be listed for trading on the Exchange's electronic trade execution system (the ''Platform''), which provides for competitive and open execution of transactions.[86] Eligible participants may also execute and submit block trades in Perpetual SFPs, subject to and in accordance with Rule 5.3(e).

[78] 7 U.S.C. 7(d)(10).

[79] 17 CFR 38.550, 38.551, 38.552.

[80] 17 CFR 1.31(b).

[81] 15 U.S.C. 78f(b)(1).

[82] 15 U.S.C. 78f(b)(5).

[83] 15 U.S.C. 78f(h)(3).

[84] 15 U.S.C. 78l(k).

[85] 17 CFR 41.25(b)(3)(i)(A).

[86] Exchange participants may also use the Exchange's Request for Quote (''RFQ'') pre-execution communications system to solicit interest in a market, subject to placement of resulting orders in the order book on a price-time priority basis as though they were placed manually (at a lower time priority than existing resting orders) and in accordance with Rule 5.3(b).

• The Platform and related Kalshi systems will capture requisite trade information for Perpetual SFPs, which will ensure that the audit trail and the audit trail data for trading of Perpetual SFPs will be sufficient for the Exchange to monitor for potential market abuse.

• The Exchange's existing rules contain prohibitions precluding intermediaries from disadvantaging their customers, including but not limited to prohibitions on front running and entering orders for their own proprietary accounts when the intermediary has in hand an order to buy or sell the same contract for a customer at the same price or at the market price. These rules apply to transactions in Perpetual SFPs on the Exchange.

• Chapter 9 of the Exchange rules contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate any applicable rules of the Exchange. Trading in the Perpetual SFPs will be subject to Chapter 9, and the Exchange's Disciplinary Panel or any Oversight Panel established by Kalshi with requisite authority may exercise its enforcement power in the event rule violations in Perpetual SFPs are identified.

• Market participants may use the arbitration provisions set forth in Chapter 10 of the Exchange rules to settle disputes with respect to trading of Perpetual SFPs.

• The Exchange will publish information regarding trading volume, open interest and price information daily on its website for Perpetual SFPs.

• The Exchange will amend the Exchange rules accordingly on the effective date, which will be publicly available on the Kalshi website, to reflect the addition of Chapter 14 regarding Perpetual SFPs.

• The requirements and conditions applicable to Kalshi Prime's intermediation of Perpetual SFP transactions in Rule 14.38 are designed to eliminate any unfair discrimination between customers, issuers, brokers or dealers arising from Kalshi Prime's affiliation with the Exchange and ensure that the Exchange retains the ability to carry out the purposes of the Act and to comply and impartially enforce compliance by its members and persons associated with its members with the Act, Commission rules and the rules of the Exchange.

Below is a summary of each requirement or condition under Section 6(h)(3) of the Act, followed by a brief explanation of how Kalshi will comply with it, whether by particular provisions in Chapter 14 or otherwise.

Clause (A) of Section 6(h)(3) of the Act [87] requires that any security underlying a security futures product be registered pursuant to Section 12 of the Act.[88] This requirement is addressed by Exchange Rules 14.3(a), 14.4(b) and 14.6(c).

Clause (B) of Section 6(h)(3) of the Act [89] is applicable only to physically delivered security futures products and is therefore not germane to the proposed products.

Clause (C) of Section 6(h)(3) of the Act [90] provides that listing standards for SFPs must be no less restrictive than comparable listing standards for options traded on a national securities exchange or national securities association registered pursuant to Section 15A(a) of the Act.[91] For the reasons discussed above, Kalshi believes that the listing standards proposed by Kalshi for Perpetual SFPs are no less restrictive than comparable listing standards for exchange-traded options. The Exchange expects that all Underlying Securities to be eligible to underlie exchange-traded options.

Clause (D) of Section 6(h)(3) of the Act [92] requires that each security futures product be based on common stock or such other equity securities as the Commission and CFTC jointly determine are appropriate. This requirement is addressed by Rule 14.3(h).

Clause (E) of Section 6(h)(3) of the Act [93] imposes requirements with respect to linkages and coordinated clearing across clearing agencies that clear security futures products. This provision is inapplicable. Pursuant to Section 6(h)(7) of the Act,[94] this requirement is deferred until the ''compliance date'' (as defined therein) and is currently inapplicable to Klear's clearing of the Perpetual SFPs. Further, no other clearing house currently clears the Perpetual SFPs that Kalshi proposes to list.

Clause (F) of Section 6(h)(3) of the Act [95] requires that only a broker or dealer subject to suitability rules comparable to those of a national securities association registered pursuant to Section 15A(a) of the Act effect transactions in a security futures product. This requirement is addressed by Part VIII of Chapter 14 (Sales Practices), which requires an SFP Broker Member effecting Perpetual SFP transactions of its customers to comply with the sales practices requirements, including suitability obligations and customer account approval procedures, of the NFA and, to the extent applicable, the rules of any national securities association of which such SFP Broker Member is a member. Pursuant to Section 15A(k) of the Act,[96] NFA is a national securities association for the limited purpose of regulating the activities of NFA members who are registered as brokers or dealers in security futures products under Section 15(b)(11) of the Act.[97]

Clause (G) of Section 6(h)(3) of the Act [98] requires that each SFP be subject to the prohibition against dual trading in Section 4j of CEA.[99] The Exchange does not have a rule prohibiting dual trading as this provision is inapplicable to our circumstances. ''Dual trading'' is defined in Section 4j of the CEA as ''the execution of customer orders by a floor broker during the same trading session in which the floor broker executes any trade in the same contract market or registered derivatives transaction execution facility'' for the account of such floor broker, an account for which such floor broker has trading discretion or an account controlled by a person with whom such floor broker has a relationship through membership in a broker association.[100]

Trading of Perpetual SFPs will occur on the Platform, an electronic trading system, and not on a trading floor. Accordingly, Kalshi does not have floor brokers. Further, CFTC Regulation 41.27, adopted pursuant to Section 4j(a) of the CEA,[101] only requires a DCM operating an electronic trading system to include in its rules a dual trading prohibition for security futures products only if their electronic trading system ''provides market participants with a time or place advantage or the ability to override a predetermined algorithm.'' [102] These features are not present on the Platform. Accordingly, the Exchange is not required to and does not intend to include a specific dual trading provision in its Rules. However, the Exchange's current rules include, in Rule 5.17, a similar prohibition on any FCM or introducing broker member from entering into an order to buy or sell a contract for their own account or any account in which they have a

[87] 15 U.S.C. 78f(h)(3)(A).
[88] 15 U.S.C. 78l.
[89] 15 U.S.C. 78f(h)(3)(B).
[90] 15 U.S.C. 78f(h)(3)©.
[91] 15 U.S.C. 78o–3(a).
[92] 15 U.S.C. 78f(h)(3)(D).
[93] 15 U.S.C. 78f(h)(3)(E).
[94] 15 U.S.C. 78f(h)(7).
[95] 15 U.S.C. 78f(h)(3)(F).
[96] 15 U.S.C. 78o–3(k).
[97] 15 U.S.C. 78o(b)(11).
[98] 15 U.S.C. 78f(h)(3)(G).
[99] 7 U.S.C. 6j.
[100] 7 U.S.C. 6j(b).
[101] 7 U.S.C. 6j(a).
[102] 17 CFR 41.27(b)(2).

proprietary interest when the intermediary has in hand an order to buy or sell the same contract for a customer at the same price or at the market price.

Clause (H) of Section 6(h)(3) of the Act [103] provides that trading in a security futures product must not be readily susceptible to manipulation of the price of such security futures product, nor to causing or being used in the manipulation of the price of any underlying security, option on such security, or option on a group or index including such securities.

As discussed above, the Exchange believes that its listing standards are designed to ensure that Perpetual SFPs and their Underlying Securities will not be readily susceptible to price manipulation. In particular, Part II of Chapter 14 includes several initial and maintenance listing criteria that are significantly more stringent than the listing standards in SLB 15. Specifically, the Exchange's initial listing standards require that the Underlying Security for a Perpetual SFP have an estimated deliverable supply in excess of 20 million shares (Rule 14.3(f)), a minimum market capitalization of $100 billion (Rule 14.3(b)) and an ADTV of at least $450 million over the prior six months or higher for securities with less than six months trading history (Rule 14.3(c)).

Pursuant to Rule 14.6, the Exchange will delist a Perpetual SFP on an Underlying Security that fails to meet its maintenance standards following the expiration of a ninety (90) day cure period or that is subject to an Immediate Delisting Event. Several of the Rule 14.6 maintenance standards proposed by the Exchange are more stringent than the corresponding standards in SLB 15, requiring the Underlying Security to maintain an estimated deliverable supply in excess of 20 million shares, a market capitalization of at least $50 billion and a minimum ADTV of at least $200 million for the prior calendar quarter or higher for securities that have been listed for trading for less than a quarter. In addition, Rule 14.4 categorically excludes, among other securities, any security that is subject to a trading halt, suspension or revocation of listing by its principal listing exchange, ensuring that securities with cash markets experiencing significant disruption, including due to potential manipulation, may not become Underlying Securities of Perpetual SFPs. And, in addition to these minimum criteria, the NPC shall, pursuant to Rule 14.8 specifically consider the susceptibility to manipulation of a security when determining whether to permit the listing of a Perpetual SFP on such security, and retains discretion to decline to list a Perpetual SFP on any security regardless of whether the security satisfies the aforementioned criteria.

Further, the Funding Rate calculation methodology for Perpetual SFPs is carefully designed to ensure that periodic funding obligations of holders of Perpetual SFPs are resilient to disruptive or anomalous trading behavior affecting both Perpetual SFPs and their Underlying Securities. First, each of the inputs to the Funding Rate calculation is independently resistant to manipulation: the Reference Price reflects real-time consolidated equity cash market data, thereby incorporating the depth, liquidity and competitive price discovery of U.S. cash equity markets, while the Mark Price (which equals the Settlement Price as of the Periodic Transfer Time) is calculated through an objective, tiered methodology designed to prevent isolated or anomalous activity from materially affecting the calculation. Further, the Funding Rate calculation is the product of hundreds (390 during a regular 9:30 a.m.—4:00 p.m. trading day) of sequential Premium calculations, each equally-weighted and incorporating the Reference Price and Mark Price observed during the applicable respective Computation Interval. Averaging observations across the full trading day substantially dilutes the effect of any isolated distortion and would require a person seeking to manipulate the Funding Rate to sustain a material market influence across numerous Computation Intervals. Such conduct would require repeated exposure to execution risk and transaction costs and would generate an observable pattern of order and trading activity detectable by the Exchange's real-time monitoring and trade surveillance controls.

The Exchange will also maintain several controls external to the Funding Rate calculation methodology to ensure the integrity of daily funding settlements and their resistance to manipulation. As provided in Rule 14.10(i), the Exchange will monitor the performance of the funding mechanism in maintaining economic correspondence between the price of each Perpetual SFP and its corresponding Underlying Price Index, including through surveillance of Premium behavior around the Daily Settlement Time to identify any unusual, potentially manipulative or disruptive trading behavior occurring near a daily settlement period. The Exchange may amend the Funding Rate methodology and related parameters (*e.g.,* the Deadband Threshold and Maximum Funding Magnitude) in accordance with applicable Exchange Rules and applicable law. Funding Rates and associated periodic funding payment transfers will also be subject to the Exchange's Market Outcome Review Process, set forth in Exchange Rule 7.1, whereby the Exchange's Outcome Review Committee may determine the final settlement outcome of the Perpetual SFP for the applicable daily settlement period. The Exchange may initiate the Market Outcome Review Process at its sole discretion and by taking into account circumstances that may have a material impact on the reliability or transparency of the underlying related to a contract (*i.e.,* the Underlying Price Index of a Perpetual SFP). Additionally, pursuant to Rule 14.10(g), the Exchange may initiate the Market Outcome Review Process for any daily settlement for which the Daily Settlement Price cannot be determined under Rule 14.12(a), a Perpetual SFP's terms and conditions or the Underlying Price Index (because it is unavailable or unreliable). Finally, Rule 14.10(j) provides that the Exchange may take such actions as it deems necessary and appropriate in accordance with the procedures set forth in Exchange Rule 2.8—including, but not limited to, temporarily adjusting the Maximum Funding Magnitude, modifying margin requirements or imposing additional risk controls—in the event of an ''Emergency'' as defined in Exchange Rule 2.8. Collectively, these controls supplement the already manipulation-resistant funding calculation methodology by ensuring the availability of controls within the discretion of the Exchange to detect, remedy and deter manipulation.

The Exchange's proposed position limits for Perpetual SFPs are also designed to most effectively protect against manipulation. Not only are the speculative position limits and position accountability provisions described in Part VI of Chapter 14 consistent with CFTC Regulation 41.25(b)(3)(i), but the position limits proposed by the Exchange in many respects exceed regulatory requirements in their stringency because they apply regulatory position limits across the life of a Perpetual SFP, rather than only during the last three trading days of a contract.

In addition, the Exchange is adopting, pursuant to Part IV of Chapter 14, rules regarding trading safeguards applicable

[103] 15 U.S.C. 78f(h)(3)(H).

to Perpetual SFPs, including pre-trade and intra-trade safeguards, and will have the authority to establish and amend the parameters, procedures and methodologies for such safeguards at its discretion. The Exchange shall also provide self-match prevention functionality for Perpetual SFPs and prohibit insiders and persons in possession of material non-public information in respect of issuers of Underlying Securities from trading Perpetual SFPs.

More generally, Exchange Rule 5.17 imposes prohibitions on any person ''engag[ing] in conduct or practices inconsistent with just and equitable principles of trade'' or ''engag[ing] in any activity that is intended to, or has the effect of, manipulating the market in violation of Sections 6(c) and 9(a)(2) of the CEA,'' in addition to prohibitions on various other manipulative or deceptive trade practices. These provisions will apply to transactions in Perpetual SFPs on the Exchange. Chapter 9 of the Exchange rules spells out the disciplinary capabilities and processes of the Exchange and Rule 9.5 describes the various penalties that the Exchange may impose on persons violating its rules, which include: fines or penalty fees, disgorgement of profits resulting from the violation plus the cost of damages to counterparties, suspension of trading or member status or privileges and revocation of trading or member status or privileges.

Clause (I) of Section 6(h)(3) of the Act [104] requires that procedures be in place for coordinated surveillance among the market on which a security futures product is traded, any market on which any security underlying the security futures product is traded, and other markets on which any related security is traded to detect manipulation and insider trading. The Exchange has procedures in place for coordinated surveillance consistent with these requirements. In particular, pursuant to Rule 14.35, the Exchange shall maintain membership in the Intermarket Surveillance Group (''ISG'') and shall comply with all ISG requirements for the sharing of surveillance information. Rule 14.35 also provides that the Exchange shall coordinate with other markets in investigating potential violations involving Perpetual SFPs and their Underlying Securities, and Exchange Rule 2.15 permits the Exchange to enter into information-sharing agreements with any person or body, including with domestic or foreign regulatory or self-regulatory organizations, associations and boards of trade.

Clause (J) of Section 6(h)(3) of the Act [105] requires that the market on which a security futures product is traded has in place audit trails necessary or appropriate to facilitate the coordinated surveillance required in subparagraph (I), as discussed above.

The Exchange relies on its Surveillance Department to perform surveillance of listed contracts. The Surveillance Department maintains a comprehensive suite of proprietary and vendor surveillance systems that leverage high-performance, multi-availability zone, cloud-hosted datastores to process, store, and analyze the audit trail records described below, together with cleared trades and allocations, positions, and referential data including instrument metadata. The Exchange's logging system will capture audit trail data for trading of Perpetual SFPs. The Exchange's audit trail is maintained in accordance with Core Principle 10 in CEA Section 5(d)(10) and CFTC Regulations § 38.550, § 38.551 and § 38.552. The Exchange retains the audit trail for a minimum of 5 years, as required by CFTC Regulation § 1.31(b).

The Surveillance Department makes use of the proprietary Investigative Dashboard in order to reconstruct historical trading conditions. The Investigative Dashboard allows analysts to view the historical state of an order book at any moment in time together with the order, participant, and execution details recorded in the audit trail described below. Coupled together, this empowers officers to replay the exact sequence of events that preceded and succeeded the investigated activity. Anomalous and potentially fraudulent or disruptive activity is automatically flagged for review by the surveillance team: flags are introduced by both proprietary surveillance systems and by Solidus Labs' trade surveillance technology, which ingests a real time data feed from the Exchange.

The Exchange maintains a complete audit trail of participant and Exchange activity. Records are generated in real time, at the moment the Exchange acts, and are created whenever a participant performs an operation that changes the state of the Exchange, including the entry, modification, and cancellation of orders, the execution of trades, requests for quotes and responses to them, participant access to the platform, and the movement of funds. For each order-related operation, the Exchange records at least the following:

- A unique order identifier.
- The identity of the participant, and where the activity is conducted for a customer account, house account, or sub-account, the identity of that account and its relationship to the member.
- The date and time the instruction was received, recorded to microsecond precision in Coordinated Universal Time.
- The market to which the order relates, identified by market ticker or internal market identifier, and the related event and series.
- The price and size of the order, and the price and size at which it was filled.
- The order's duration or expiration instruction, including any specific expiration time.
- The outcome of the order—whether it rested on the book, was filled in whole or in part, was cancelled, or expired—and, for cancellations and modifications, the reason recorded for the change.
- The risk controls applied to the order, including any maximum execution cost, post-only, and reduce-only, as submitted by the participant.
- The means by which the order was submitted, whether by application programming interface, FIX connection, web platform, or mobile application.
- The originating network address of the participant's session and the outcome of the authentication for that session, including whether multi-factor authentication was used.
- The Exchange's processing time for the instruction, measured from receipt to response.
- The fees assessed to each side of the resulting trade.

Each record also identifies the Exchange system and software version that processed the instruction, so that any entry in the audit trail can be attributed to a specific operation of a specific version of the Exchange.

The Exchange's logging system is operated on the Datadog platform. For ease of retrieval and long-term retention, the details of these operations are also stored in relational databases operated on Amazon Web Services (''AWS''). The Exchange maintains the following databases:

- *Query Exchange (Historical)*—the record of orders and executed trades, including each trade's identifier, market, price, size, time, the identifiers of the orders on both sides, the participants and sub-accounts on both sides, fees, and the Exchange clock value at execution. The Query Exchange database is held on the Exchange's query-exchange historical cluster.
- *Users*—the record of members and accounts, including account type,

[104] 15 U.S.C. 78f(h)(3)(I).

[105] 15 U.S.C. 78f(h)(3)(J).

verification status, account creation and update history. The Users database is held on the Exchange's users cluster.

In addition, Klear maintains its own record of each cleared trade in its Trades and Users databases. These records carry identifiers in common with the Exchange's own records, so that any trade can be traced between the Exchange's internal record and the clearinghouse record.

AWS supports a managed relational database service that separates computing from storage and replicates each write across multiple independent data-center facilities. The stored record therefore does not depend on any individual server or storage device. Daily snapshots of each database are produced and retained as backups of historical database state.

Records are retrievable by order identifier, trade identifier, participant, account, market, and time period. Because the Exchange's trade record carries the identifiers used by both Klear and the Exchange's own operational logs, a single trade or order can be reconstructed across all three records—the operational log of the instruction as received and processed, the Exchange's database record of the resulting order and trade, and Klear's record of the cleared trade.

The Exchange shall cooperate and share information with the Commission required by the Act, including to facilitate the Commission's assessment of market data relating to the trading of Perpetual SFPs.

Clause (K) of Section 6(h)(3) of the Act [106] requires that a market on which a security futures product is traded have in place procedures to coordinate trading halts between such market and any market on which any security underlying the security futures product is traded and other markets on which any related security is traded. This requirement is addressed by Rule 14.13.

Clause (L) of Section 6(h)(3) of the Act [107] requires that the margin requirements for a security futures product comply with the regulations prescribed pursuant to Section 7(c)(2)(B) of the Act.[108] To implement Section 7(c)(2)(B) of the Act, the Commission and the CFTC have adopted parallel rules establishing a fifteen (15) percent minimum initial and maintenance customer margin requirement for long or short security future positions and permitting exchanges to prescribe lower margin requirements for permitted offsetting positions involving security futures and related positions.[109] The Perpetual SFP Margin Rules in Part V of Chapter 14 impose a minimum customer margin requirement of 15.50% of the Current Market Value of a Perpetual SFP position and do not allow for the lower margin requirements for permitted offsetting strategies or exemptions for exempted persons and market makers permitted under the Customer Margin Rules. The Exchange has chosen to adopt customer margin rules for Perpetual SFPs more stringent than those required by the Customer Margin Rules in order to protect investors and the public interest by reducing the risk of participants incurring margin obligations that they do not have the financial resources to satisfy. Thus, the Exchange believes that its Perpetual SFP Margin Rules are consistent with the requirements of the Act.

For the reasons described above, the Exchange believes that the listing standards, margin levels and trading rules submitted herewith satisfy the requirements set forth in Section 6(h)(3) of the Act. Kalshi also believes that its proposed rule changes are consistent with Section 6(b) of the Act, in general, and further the objectives of Section 6(b)(5) of the Act, in particular, in that they are designed to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest

B. Self-Regulatory Organization's Statement on Burden on Competition

Kalshi does not believe that the proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Currently, no other exchange lists security futures products with no predefined final settlement date for trading. Nothing in the filing restricts or impedes another exchange from offering such security futures products for trading subject to its compliance with applicable regulatory requirements under the Act, CEA and respective rules of the Commission and CFTC governing security futures products.

Further, for the reasons described above, the Exchange does not believe that admission of Kalshi Prime as an FCM SFP Broker Member will impose any burden on intramarket or intermarket competition that is not necessary or appropriate in furtherance of the Act as the requirements of Rule 14.38—the requirement of an unaffiliated Third-Party DSRO, the prohibition on privileged or competitively advantageous treatment of Kalshi Prime, the establishment of information barriers between the Exchange and Kalshi Prime and the requirement that only Public Directors on relevant committees and panels of the Exchange governing matters involving Kalshi Prime—help to prevent an unfair burden on competition and unfair discrimination between customers, issuers, brokers, or dealers.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The proposed rule change will become effective on November 2, 2026, or such later date as it may be approved pursuant to CFTC Regulations.

Within 60 days of the date of effectiveness of the proposed rule change, the Commission, after consultation with the CFTC, may summarily abrogate the proposed rule change and require that the proposed rule change be refiled in accordance with the provisions of Section 19(b)(1) of the Act.[110]

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (*http://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov.* Please include File Number SR–KALSHIEX–2026–02 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549–1090.

All submissions should refer to File Number SR–KALSHIEX–2026–02. This file number should be included on the

[106] 15 U.S.C. 78f(h)(3)(K).

[107] 15 U.S.C. 78f(h)(3)(L).

[108] 15 U.S.C. 78g(c)(2)(B).

[109] 17 CFR 242.403(b); 41.45(b).

[110] 15 U.S.C. 78s(b)(1).

subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (*http://www.sec.gov/rules/sro.shtml*). Copies of the filing will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR–KALSHIEX–2026–02 and should be submitted on or before October 14, 2026.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[111]

Sherry R. Haywood,

Assistant Secretary.

[FR Doc. 2026–19409 Filed 9–22–26; 8:45 am]

BILLING CODE 8011–01–P

[111] 17 CFR 200.30–3(a)(73).

SMALL BUSINESS ADMINISTRATION

[Disaster Declaration #21900; CALIFORNIA Disaster Number CA–20047 Declaration of Economic Injury]

Administrative Declaration of an Economic Injury Disaster for the State of California

AGENCY: U.S. Small Business Administration.

ACTION: Notice.

SUMMARY: This is notice of an Economic Injury Disaster Loan (EIDL) declaration for the state of California dated September 18, 2026.

Incident: 2026 Plains Oil Spill.

DATES: Issued on September 18, 2026.

Incident Period: May 22, 2026 through May 28, 2026.

Economic Injury (EIDL) Loan Application Deadline Date: June 21, 2027.

ADDRESSES: *Visit the MySBA Loan Portal at https://lending.sba.gov* to apply for a disaster assistance loan.

FOR FURTHER INFORMATION CONTACT: Shaquille Lewis, Office of Disaster Recovery and Resilience, U.S. Small Business Administration, 409 3rd Street SW, Suite 6050, Washington, DC 20416, (202) 205–6734.

SUPPLEMENTARY INFORMATION: Notice is hereby given as a result of the Administrator's EIDL declaration, applications for disaster loans may be submitted online using the MySBA Loan Portal *https://lending.sba.gov* or in person at other locally announced locations. For further assistance please contact the SBA disaster assistance customer service center by email at *disastercustomerservice@sba.gov* or by phone at 1–800–659–2955. If you are deaf, hard of hearing, or have a speech disability, please dial 7–1–1 to access telecommunications relay services.

The following areas have been determined to be adversely affected by the disaster:

Primary County: Los Angeles.

Contiguous Counties:

California: Kern, Orange, San Bernardino, Ventura.

The Interest Rates are:

	Percent
Business and Small Agricultural Cooperatives without Credit Available Elsewhere	4.000
Private Non-Profit Organizations without Credit Available Elsewhere	3.625

The number assigned to this disaster for economic injury is 219000.

(Catalog of Federal Domestic Assistance Number 59008)

(Authority: 13 CFR 123.3(b).)

James Stallings,

Associate Administrator, Office of Disaster Recovery & Resilience.

[FR Doc. 2026–19426 Filed 9–22–26; 8:45 am]

BILLING CODE 8026–09–P

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Fiscal Year 2027 Tariff-Rate Quota Allocations for Raw Cane Sugar

AGENCY: Office of the United States Trade Representative.

ACTION: Notice.

SUMMARY: The Office of the United States Trade Representative is providing notice of allocations of the Fiscal Year (FY) 2027 (October 1, 2026 through September 30, 2027) in-quota quantities of the tariff-rate quota (TRQ) for imported raw cane sugar.

DATES: The changes made by this notice are applicable as of September 23, 2026.

FOR FURTHER INFORMATION CONTACT: Erin Nicholson, Office of Agricultural Affairs, at 202–395–9419, or *Erin.H.Nicholson@ustr.eop.gov.*

SUPPLEMENTARY INFORMATION: Pursuant to Additional U.S. Note 5 to Chapter 17 of the Harmonized Tariff Schedule of the United States (HTSUS), the United States maintains TRQs for imports of raw cane sugar and refined sugar. Section 404(d)(3) of the Uruguay Round Agreements Act (19 U.S.C. 3601(d)(3)) authorizes the President to allocate the in-quota quantity of a TRQ for any agricultural product among supplying countries or customs areas. The President delegated this authority to the U.S. Trade Representative under Presidential Proclamations 6763 (60 FR 1007) and 7235 (64 FR 55611).

On July 14, 2026, the Administrator of the Foreign Agricultural Service of the U.S. Department of Agriculture (Administrator) announced the sugar program provisions for FY 2027. The Administrator announced an in-quota quantity of the TRQ for raw cane sugar for FY 2027 of 1,117,195 metric tons raw value (MTRV) (conversion factor: 1 metric ton raw value = 1.10231125 short tons raw value), which is the minimum amount to which the United States is committed under the World Trade Organization (WTO) Agreement. On July 24, 2026, USTR provided notice of country-by-country allocations for 1,061,202 MTRV of the FY 2027 in-quota quantity of the WTO TRQ for imported raw cane sugar. *See* 91 FR 46822. The U.S. Trade Representative is allocating the remaining quantity of 55,993 MTRV to the following countries in the amounts specified below. These amounts are in addition to the amounts allocated in 91 FR 46822.

Country	FY 2027 TRQ allocations (metric tons raw value)
Argentina	2,915
Australia	5,626
Barbados	475
Belize	746
Bolivia	542
Colombia	1,627
Costa Rica	1,017
Dominican Republic	11,931
Ecuador	746
El Salvador	1,763
Eswatini	1,085
Fiji	610
Guatemala	3,254
Guyana	813
Honduras	678
India	542
Jamaica	746
Malawi	678
Mauritius	813
Mozambique	881
Panama	1,966
Peru	2,779
Philippines	9,151
South Africa	1,559
Taiwan	813
Thailand	949
Trinidad-Tobago	475
Zimbabwe	813