SIG
SUSQUEHANNA

July 17, 2023

VIA Electronic Submission

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

Re: CFTC Rule 40.11(c) Review and Comment Period
Proposed Congressional Control Contracts (Industry Filing 23-01)

Dear Mr. Kirkpatrick:

Susquehanna International Group, LLP ("SIG")[1] appreciates the opportunity to comment on the proposed KalshiEX futures contracts regarding control of Congress (the "Contracts") self-certified by KalshiEx, LLC (the "Exchange") on June 12, 2023 (the "Proposal"). While SIG has already submitted a letter, dated September 23, 2022, in support of the Exchange's previous proposal, Industry Filing 22-002, SIG takes this opportunity to reiterate our view that the public interest would be served by the Exchange providing a regulated market to trade the Contracts. This conclusion is underscored by the Exchange's recent revisions to the Contracts that allow larger investors to hedge against unwanted risk created by Congressional elections in a manner closely resembling commonly used financial products.

While not repeating the contents of our previous letter—filed as a public comment for Industry Filing 22-002—it is worth reemphasizing that the outcome of Congressional elections has a direct and measurable effect on the economy. Specifically, because political parties in our system often approach a myriad of issues through divergent policies, a change in control from one Congressional term to the next potentially causes a ripple effect as existing policies may be modified or reversed or new laws passed. This is because Congress has wide-ranging authority to influence, via legislation or oversight, anything from the safety requirements of an energy company to the amount of capital that a bank must hold in reserve. When these changes are implemented, businesses impacted by them—and the markets in which these businesses operate—may find themselves in a substantially different financial landscape than they had planned. For example, a legislative change of a few words in the federal laws governing overtime pay may substantially alter the labor costs of innumerable companies with few ways to offset those rising expenses.

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

Unfortunately, due to the sheer breadth of ways in which Congress may impact the American economy, there is no traditional financial tool to protect businesses against the risks created by electing a few federal candidates over some others. Indeed, there is no futures market or derivative product that would let a business hedge against Congress changing a phrase in the overtime provisions of the Fair Labor Standards Act. This void in options leaves many businesses and investors exposed to unmitigated risk. The Contracts, however, could fill this need and offer members of the Exchange the ability to lay off the uncertainty created by these biennial elections. While this was also the case under the Exchange's previous proposal, it is particularly true now that the Exchange has tailored the use of the Contracts to more closely resemble traditional financial products that institutional investors routinely use to hedge market risk.

For example, the Exchange now requires its members to purchase the Contracts in multiples of 5,000 contracts per order, whereas the Contracts previously reviewed for Industry Filing 22-002 did not require any minimum order size. This minimum is consistent with those set for more traditional futures and derivatives products typically used by institutional investors to hedge against risk. Similarly, the new terms and conditions establish revised Position Limits for the Contracts for Individuals, Entities, and Eligible Contract Participants of $125,000, $5,000,000, and $50,000,000, respectively. Such Position Limits double if a member can demonstrate to the Exchange that it possesses an "established economic hedging need." These revised limits are a substantial increase over the $25,000 limit imposed on prior iterations of the Contracts and are now specifically tailored to allow large businesses and institutions to hedge genuine financial liability arising out of a Congressional election. Indeed, under these new terms, an institutional investor could demonstrate that it stands to lose upwards of $100,000,000 dollars if a certain party were to win control of Congress—e.g., via that party's announced plans to pursue new environmental regulations or corporate taxation reform—and could actually utilize the Contracts to lay off some or all of that risk. This change will allow even the largest companies an opportunity to protect themselves against meaningful financial exposure.

In conclusion, for the reasons set forth above and in greater detail in SIG's September 23, 2022, letter, we strongly support the Commodity Futures Trading Commission's approval of the listing of the Contracts. The Contracts provide an active, competitive hedging market to the benefit of a multitude of stakeholders, and now, with the Exchange's most recent revisions, serve as an invaluable financial tool that even institutional investors may use to balance the unchecked risk that shifting federal policy.

Sincerely,

DMPollard

David Pollard,
Head of Strategic Planning