Kalshi

October 5, 2026

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

Re: Notice of Proposed Rulemaking on Conflicts and Affiliations (RIN 3038–AF76)

Dear Mr. Kirkpatrick:

Kalshi Inc., together with its subsidiaries KalshiEX LLC, a board of trade designated by the Commodity Futures Trading Commission (the "**Commission**" or the "**CFTC**") as a designated contract market ("**DCM**"), Kalshi Klear LLC, a CFTC-registered derivatives clearing organization ("**DCO**") and Kalshi Prime LLC, a futures commission merchant ("**FCM**") registered with the CFTC and a member of the National Futures Association ("**NFA**") ("**Kalshi Prime**" and, collectively with Kalshi Inc., KalshiEX LLC and Kalshi Klear LLC, "**Kalshi**"), respectfully submits these views on the CFTC's notice of proposed rulemaking on Conflicts and Affiliations (the "**Proposed Rules**").[1]

Kalshi is a leading platform for the trading of novel derivative products in the United States. It has listed event contracts across economic indicators, financial indices, weather, politics, science, sports and culture; it has submitted a significant majority of all event contracts certified with the Commission and processed tens of billions of dollars in notional volume under the Commission's oversight. Kalshi was also the first U.S. regulated exchange to offer perpetual futures contracts on digital commodities for trading in the United States.[2]

Kalshi Prime was established in June 2026 to expand access to perpetual and other contracts offered on KalshiEX, both now and in the future. Kalshi Prime is designed to meet the needs of market participants in today's dynamic, rapidly evolving derivatives market landscape, and its goal is to build the FCM of the future.

Kalshi is committed to the principle of broadening participation in open, competitive and transparent markets and making the resulting price discovery publicly available. Our markets have broad (nationwide) participation, with prices reflecting those diverse views, and impartial rules to give participants confidence that they can compete on the merits while punishing insiders that attempt to cheat by violating our rules or CFTC regulations. All trades are public, supporting transparent price formation and price discovery. The regulatory responsibilities of DCMs and DCOs should reinforce those conditions for competition, including when an affiliated firm trades

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1 *Conflicts and Affiliations*, 91 Fed. Reg. 50926 (Aug. 6, 2026).

2 *See* Order Approving KalshiEX LLC BTCPERP Futures Contract, *In re Request for Approval by KalshiEX LLC of the BTCPERP Futures Contract* (CFTC May 29, 2026) ("BTC Perps Order").

on the DCM or uses the DCO's services. Kalshi adheres to these principles in its own markets: its own affiliated market maker, Kalshi Trading LLC, has accounted for less than 2% of trading volume on KalshiEX year to date.

Kalshi recognizes that derivatives market structure is increasingly characterized by affiliations between DCMs and DCOs, on the one hand, and FCMs and market makers, on the other. Consistent with its principles, Kalshi supports the Commission's efforts to increase regulatory clarity and address conflicts of interest arising from these arrangements. The final rules should protect the independence of self-regulation, fair access to markets, and competitive execution of transactions, while allowing affiliations that expand customer access and support liquidity for new markets. To achieve those objectives, the Commission should adopt clear rules that address the risks created by each type of affiliation. Those rules should ensure that market participants do not fear that the market is rigged against them, as well as ensure that prices are set by open and fair competition, not by the DCM acting via its affiliates.

Kalshi recommends that the Commission:

1. Establish four common safeguards required for all DCM or DCO-affiliated members (including affiliated FCMs and market makers): (i) information barriers to protect confidential self-regulatory information; (ii) annual independent testing of those controls; (iii) independent self-regulatory decision-making in affiliate-related matters; and (iv) impartial access to incentive programs.
2. Require a DCM or DCO-affiliated FCM to be subject to financial surveillance and examination by an unaffiliated designated self-regulatory organization.
3. When a DCM permits trading by an affiliated trading firm, require: (i) trading by the affiliated firm to be limited to what is reasonably necessary to participate effectively in a filed market maker or liquidity-provider program; (ii) the DCM to provide quarterly disclosures to enable market participants to assess affiliate trading participation; and (iii) the DCM to cap affiliated trading at 5% of quarterly volume in each execution method—5% of central limit order book volume and 5% of request for quote volume, measured independently, with a separate 5% cap on volume in any other execution method the DCM offers. These requirements should be adopted in place of the proposed prescriptive market making conditions, same-price order subordination and per-session customer warning requirements, which would be operationally burdensome while easily evaded through gamesmanship.
4. Adopt a bright-line test for affiliation based on voting-interest and ownership percentage, informed by the Securities and Exchange Commission's (the "**SEC**") approach to ownership and voting limitations for demutualized national securities exchanges.

The discussion below addresses these recommendations in turn.

I. Common Safeguards for Affiliated FCMs and Market Makers

Kalshi recognizes the heightened potential for unfair discrimination when a regulated market infrastructure provider is affiliated with a participant it oversees.[3] Such affiliations can pose risks of privileged access to confidential regulatory information, influence over regulatory decisions or preferential commercial treatment. On the other hand, outright prohibitions on affiliation, like those historically imposed by the SEC, impede innovation and market competition and growth by preventing exchanges from facilitating market access and liquidity.[4] Accordingly, Kalshi supports a common set of safeguards addressing these risks, to be applied to both affiliated intermediaries and affiliated market makers, with additional role-specific requirements discussed in Sections II and III below.

Proposed Regulations 38.852(b)(1) and 39.25(d), together with the accompanying acceptable practices, would require that a DCM or DCO with an affiliated market participant (including an affiliated FCM or market maker) adopt procedures for identifying, addressing and managing conflicts of interest, including, at a minimum, procedures addressing applications and systems, personnel, office space, documentation of conflicts and disclosures.[5]

Kalshi believes that these common safeguards for affiliated market participants should be tailored to the specific risks raised by affiliate relationships and preserve participants' confidence in the impartial administration of market rules, while minimizing the compliance burdens on regulated entities. We are concerned that the Proposed Rules would, in contrast, impose prescriptive requirements lacking a clearly defined scope. For example, the Proposed Rules do not specify the scope of DCM "applications and systems" that must be separate, even though the Proposed Rules would permit shared administrative staff who presumably would need at least some common access to applications and systems (*e.g.*, for HR, finance, or technology safeguard purposes). The scope of permissibly shared "administrative" staff is also unclear, in that other functions commonly shared within the industry, such as audit or operations staff, are not addressed.[6]

Rather than dictating highly granular requirements for systems and personnel, the final rules should focus on the effectiveness of controls, preserve appropriate documentation and standing affiliation disclosures, and permit organizational arrangements that meet the substantive

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[3] *See* 91 Fed. Reg. at 50945–46 (discussing a DCM's incentives to favor affiliated market participants or disadvantage their competitors, and risks of sharing nonpublic information); *id.* at 50959 (discussing analogous conflicts arising from DCO affiliations with clearing members).

[4] The SEC has recently sought comment on revisiting its historical stance. *See* SEC, Division of Trading and Markets, *Staff Statement on Affiliations Between National Securities Exchanges and Broker-Dealers* (Sept. 30, 2026).

[5] *See* proposed 17 C.F.R. §§ 38.852(b)(1), 39.25(d), 91 Fed. Reg. at 50992, 50994; proposed Part 38, Appendix B, Core Principle 16, paragraph (b)(1), *id.* at 50993–94; proposed Part 39, Appendix D, Core Principle P, paragraph (b)(1), *id.* at 50994–95.

[6] Kalshi supports the proposed acceptable practices concerning separate office space, but believes that such separation should be limited to personnel who are not permissibly shared between the relevant entities. *See* proposed Part 38, Appendix B, Core Principle 16, paragraph (b)(1)(v), 91 Fed. Reg. at 50994; proposed Part 39, Appendix D, Core Principle P, paragraph (b)(1)(iii), *id*. at 50995.

protections described below. For DCOs, the same protections should apply to affiliated clearing members and should be implemented in terms of clearing functions and clearing-member access.

A. Protect Confidential Self-Regulatory Information

A DCM or DCO with affiliated participants should be required to maintain information barriers and related procedures reasonably designed, taking into account the registered entity's particular circumstances, to prevent such participants from accessing confidential self-regulatory information.[7] This protection should cover information regarding market surveillance, financial oversight, investigations and self-regulatory decision-making, which may reveal non-public, sensitive information about another participant's positions, financial condition, trading activity or regulatory exposure, or otherwise give the affiliate an unfair advantage relative to other participants. The particular details of a registered entity's procedures should not be dictated by regulation—as registered entities have a variety of organizational setups (*e.g.*, in terms of departmentalization, reporting lines, and integration within a broader corporate group with shared services), use of physical space (*e.g.*, on-premises versus remote work) and technological infrastructure (*e.g.*, around administration of access controls and data storage)—but the procedures should be reasonably designed, taking into account those particular circumstances, and be capable of verification through access records and testing.

In addition, the rule should expressly permit communications with an affiliated participant about information relating only to the affiliate or its customers as necessary to administer the applicable rules or carry out supervisory responsibilities. Indeed, the proposed acceptable practices recognize an exception for such information,[8] and such information generally would already be known to the affiliate. The exception should not permit disclosure of another participant's confidential information merely because the affiliate has an interest in the matter.

B. Require an Annual Independent Audit of Information Barriers and Controls

The information barriers and controls described above in Section I.A should be subject to an annual audit and report by a qualified independent third party designated by the DCM's regulatory oversight committee ("**ROC**"). The auditor should report directly to the ROC on the design and operation of the exchange's systems and controls. The auditor should be independent of the business interests being reviewed, have the technical and regulatory expertise to assess the exchange's systems, have access to necessary records and personnel, and identify deficiencies requiring remediation. The ROC should oversee remediation, consistent with its proposed mandate to assess the sufficiency, effectiveness and independence of the DCM's regulatory program.[9] A DCO should be subject to equivalent independent review of its controls through its applicable governance arrangements.

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7 *See* proposed 17 C.F.R. §§ 38.852(b)(1)(i), 39.25(d)(1), 91 Fed. Reg. at 50992, 50994.

8 *See* proposed Part 38, Appendix B, Core Principle 16, paragraph (b)(1), 91 Fed. Reg. at 50993; proposed Part 39, Appendix D, Core Principle P, paragraph (b)(1)(i), id. at 50994.

9 *See* proposed 17 C.F.R. § 38.853(c)(1), (2), 91 Fed. Reg. at 50993.

For affiliated market makers, this audit requirement should be adopted in lieu of the regulatory service provider ("**RSP**") requirements of proposed Regulation 38.852(c)(2). Those requirements impose an NFA financial surveillance regime modeled on the FCM regime (excluding customer-related requirements) on affiliated market makers. The proposed rule would also require an RSP (*i.e.,* NFA) to review and monitor exchange conflicts procedures and certify to the Commission and designated exchange leadership annually an affiliated market maker's compliance with the order-priority subordination and incentive program conditions for affiliated market making arrangements set forth in proposed Regulation 38.852(c)(1).[10] That approach would put NFA in the awkward position of effectively regulating another self-regulatory organization, which is outside of its historic role and creates significant governance complications for NFA. Rather than creating these problems by mandating a bespoke NFA supervision framework for affiliated market participants, a targeted controls audit by an independent, ROC-designated auditor would accomplish the same goals more simply.

C. Require Independent Decision-Makers for Affiliate-Related Matters

Relatedly, to ensure fair resolution of matters involving an affiliated market participant's compliance with DCM or DCO rules, the final rules should require DCMs and DCOs to permit only "independent" members of their boards and committees to participate in matters involving the affiliate. "Independent" members of a DCM's or DCO's board of directors, disciplinary panels or other governing bodies should satisfy the public-director independence standards reflected in current Appendix B to Part 38 of CFTC Regulations and proposed Regulation 38.853(b) (with appropriate conforming changes as applied to a DCO). Specifically, such personnel must be found by the DCM's or DCO's board of directors to have no "material relationship" with the DCM or DCO, as applicable, and may not (i) be an officer or employee of the DCM or DCO or any of their respective affiliates, (ii) be a member of the DCM or clearing member of the DCO, or an officer or director of such a member, or (iii) receive (or be an officer, director or partner of a firm that receives) more than $100,000 in combined annual payments from the DCM, DCO or any of their respective affiliates for legal, accounting or consulting services.[11] A DCM's or DCO's rules should also provide that all such matters involving the affiliated market participant are reported to the DCM's ROC or, for a DCO, the independent members of its board or of the board committee responsible for regulatory oversight.

D. Offer Incentive Programs on an Impartial Basis

Any market making, trading or other incentive program offered by a DCM should be available impartially to similarly situated participants, without preferential treatment for an affiliate. A participant's relationship with the exchange should not determine whether it can obtain a commercially valuable benefit for activity on the exchange that is not equally available to other participants.

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10 *See* proposed 17 C.F.R. § 38.852(c)(2)(i)–(iv), 91 Fed. Reg. at 50992.

11 *See* proposed 17 C.F.R. § 38.853(b)(2). A person would be disqualified from being considered "independent" for this purpose if any member of their immediate family has any of the specified relationships with the DCM or DCO. *Id.*

Proposed Regulation 38.852(b)(2) addresses incentive parity for programs applicable to affiliate principal trading firms. The Commission should extend that principle across the relevant categories of affiliated participants. Programs may distinguish among participants based on objective criteria, such as the level or nature of services provided or obligations undertaken, but eligibility criteria should not be designed to reserve a benefit for affiliates.

This recommendation extends and reinforces the existing impartial-access protections of DCM Core Principle 2. It would preserve the ability of exchanges to design useful liquidity and participation programs, while preventing affiliation from becoming a source of preferential treatment.

II. Affiliated FCMs Should Have an Unaffiliated DSRO

In addition to the common safeguards discussed above, an affiliated FCM should be subject to surveillance and examination relating to minimum net capital and related financial matters, customer funds segregation, risk management and financial reporting by an unaffiliated designated self-regulatory organization ("**DSRO**"), as would otherwise be required of the DCM under CFTC Regulation 1.52(c). This recommendation is consistent with the independent financial oversight requirements in the proposed amendments to Regulation 1.52, which Kalshi supports.[12]

A DCM serving as the regulatory examiner of its own affiliate presents obvious and significant conflicts of interest. Assigning that function to an unaffiliated organization (such as NFA) would separate the examiner's judgment from the exchange group's commercial interest in the FCM.

Taken together with the independent oversight and governance safeguards described above, all supervision, oversight and enforcement of an affiliated FCM would occur on an independent basis: (i) an unaffiliated DSRO (*e.g.,* NFA) would perform surveillance and examination of the affiliated FCM's compliance with the CFTC regulatory requirements as otherwise required by the DCM under Regulation 1.52(c); (ii) NFA would separately surveil and examine the affiliated FCM (in its capacity as an NFA member) for compliance with other CFTC 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, and sales practices;[13] and (iii) only independent decisionmakers of applicable DCM and DCO governing bodies would participate in matters involving an affiliated FCM's compliance with DCM or DCO rules.

III. Affiliated Trading Firms Should Be Subject to Additional Requirements

An affiliated firm trading for its own account presents an additional conflict: the exchange group may benefit from the affiliate's trading against participants whose access and

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12 *See* proposed 17 C.F.R. § 1.52(c)(1)(i)(C), (d)(2)(ii)(C)(1)(ii), 91 Fed. Reg. at 50989–90.

13 *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 more than eighteen months. *See* 17 C.F.R. §§ 1.52(c)(1)(iv), (d)(2)(ii)(C)(4).

conduct the exchange regulates. Kalshi therefore supports subjecting affiliated trading firms to additional safeguards beyond those applicable to an affiliated intermediary. The following conditions would preserve a limited role for affiliated liquidity provision and would supplement the common safeguards in Section I in a manner that is administrable for the Commission and preserves impartial and fair trading on the DCM.

A. Cap Affiliated Trading at 5% of Quarterly Volume in Each Execution Method

The principal justification for permitting an affiliated trading firm on a DCM is to bootstrap liquidity for new products without resorting to aggressive incentive programs that could discourage new product development and can be difficult to calibrate in a manner that promotes organic market growth. While it can be difficult to define what constitutes a truly "new" product to the market as a whole, once trading in a product reaches a significant portion of a DCM's overall volume, it should be sufficiently well-established that liquidity support from an affiliated trading firm is no longer necessary.

Outside of supporting new products, permitting an affiliated trading firm to comprise a significant portion of a DCM's trading volume not only raises conflicts of interest concerns, but it also undermines the requirement in DCM Core Principle 9 for a competitive, open marketplace and undermines the price discovery objective of the Commodity Exchange Act ("**CEA**"). Indeed, taken to an extreme, a DCM in which the principal liquidity provider is an affiliate would be operating more akin to a swap dealer, when of course swap dealers are prohibited from transacting directly with retail participants.

The proposal would address these concerns indirectly through an order subordination requirement and mandatory participation in market-maker programs with specific criteria. These requirements would be operationally challenging to implement and, worse yet, easily gamed. For example, a DCM could adopt a sufficiently small tick size that its affiliate obtains priority through nominal price improvements. High fees that are formally equal across participants could discourage independent market makers while functioning principally as arbitrary intra-group transfers within the exchange's corporate group when paid by an affiliate. Market maker program requirements around maximum spread, minimum size, and uptime could be designed to make it uneconomic for third parties to participate, even as the DCM can recoup the trading costs incurred by its affiliated trading firm via the fees it charges to liquidity takers. A DCM could implement a disclosed request-for-quote protocol designed to funnel customer requests first or exclusively to an affiliated trading firm with only nominal opportunity for competition by third-party liquidity providers. Addressing these tactics, among others, on a case-by-case basis would leave the Commission continually responding to new and creative ways of favoring affiliated trading that evade the Commission's restrictions.

In lieu of attempting to police the issues posed by affiliated trading firms through micromanagement of market microstructure, the Commission should adopt hard caps on affiliated trading, measured quarterly and separately for each execution method: (i) 5% of the DCM's central limit order book ("**CLOB**") volume; (ii) independently, 5% of the DCM's request for quote ("**RFQ**") volume; and (iii) 5% of the DCM's volume in any other execution

method the DCM offers.[14] Measuring the caps separately within each execution method would prevent an affiliate from dominating a single method while remaining under an exchange-wide limit, without depending on the Commission anticipating each mechanism of avoiding a particular trading restriction. The caps would operate alongside the common safeguards in Section I and the disclosure and program requirements in Sections III.B and III.C, all of which would remain enforceable below the caps.

Method-wide caps, rather than contract-by-contract caps, would also preserve flexibility for an exchange to leverage affiliate liquidity provisioning to support new contracts. Where a newly listed contract represents a small share of a DCM's volume in the applicable execution method, an affiliate could supply a substantial share of its initial liquidity within the applicable method cap.

The same per-method caps should apply to newly-established DCMs. A blanket exemption for new products could otherwise cover an entire startup exchange, creating an incentive for market makers to establish DCMs principally to capture customer flow. Applying the per-method caps to new and established exchanges alike would encourage unaffiliated participation and help prevent an exchange from operating principally as a distribution channel for its own dealer. This would advance Core Principle 9's requirement of a competitive, open and efficient market, as well as the impartial-access requirements implementing Core Principle 2.[15]

B. Require Quarterly Contract-Level Disclosures in Place of Session Acknowledgments

The Commission should replace proposed Regulation 38.852(c)(3)'s per-session customer warning requirement with accessible quarterly disclosures identifying, for each DCM-listed contract that is traded by an affiliated trading firm, each affiliate's trading volume in the contract during the applicable quarter.[16] The DCM should prepare and make the disclosure readily available to customers accessing the exchange directly, and require each of its FCM and introducing broker ("IB") members to make this disclosure available to their respective customers as well. Showing affiliate volume alongside total contract volume would allow a customer to better understand how likely it is that the customer might be trading against an affiliate.

The proposed notice would disclose the affiliation and applicable trading conditions before the customer's first order of each session and require affirmative acknowledgment. Requiring acknowledgment of the same disclosure before every session is operationally unworkable and undermines customer experience: it would interrupt order entry even when the disclosed information has not changed, and prices may shift in the time it takes a customer to click through the disclosure and submit their first trade of the session. To avoid such friction,

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[14] See proposed 17 C.F.R. § 38.852(c)(1)(i), 91 Fed. Reg. at 50992; Question 45, *id.* at 50954 (requesting comment on replacing or supplementing subordination with a volume- or value-based cap).

[15] CEA §§ 5(d)(2)(A), 5(d)(9)(A).

[16] *See* proposed 17 C.F.R. § 38.852(c)(3), 91 Fed. Reg. at 50992.

users would likely respond to repeated acknowledgments with routine dismissal rather than meaningful consideration of the information presented.

Also, a standing statement that an affiliate may trade in a market does not distinguish incidental activity from cases where the affiliate accounts for a substantial share of volume. By contrast, quarterly contract-level information would provide a richer set of data and show customers the extent of affiliated trading in each contract. Customers could use that information to compare products and venues and identify concentrations even where the affiliate remains within the applicable per-method cap.

C. Limit Trading to Participation in a Filed Liquidity Program

An affiliated trading firm's participation on its DCM affiliate should be limited to what is reasonably necessary to participate effectively in a market maker or liquidity-provider program submitted to the Commission under Regulation 40.5 or 40.6, as applicable. That exception should not authorize proprietary trading outside of or at volumes beyond that which is necessary to participate effectively in the filed program. The program and the affiliate's participation should remain subject to the generally applicable requirements governing exchange rules and impartial access.[17]

A program-based limitation would allow affiliated firms to support liquidity on terms tailored to particular markets and subject to Commission review and oversight. This approach would give exchanges flexibility to design effective liquidity arrangements while providing the Commission with a concrete basis for evaluating the purpose and scope of affiliated trading.

By contrast, the specific program requirements in proposed Regulation 38.852(c)(1)(ii) would unduly constrain that flexibility. Although the proposal permits DCMs to determine numerical parameters, it would require programs to include continuous two-sided quoting obligations, minimum quoting hours and bid-ask spread limitations.[18] Those requirements do not adequately account for differences in liquidity needs across products and trading methods. For example, a program designed to encourage larger resting limit orders in a newly listed product may warrant different performance measures than one encouraging timely responses to requests for quotes. Requiring each program to conform to the same quoting framework could restrict useful liquidity arrangements without providing commensurate protections against affiliate conflicts.

The Part 40 process already permits the Commission to assess each program's terms against applicable statutory and regulatory requirements. Under Regulation 40.5, a DCM may seek Commission approval of a program by submitting its terms and an analysis of its operation, purpose, effect and compliance with the CEA and Commission regulations.[19] Under Regulation 40.6, a DCM may instead self-certify compliance with comparable supporting analysis, subject to a ten-business-day Commission review period and the Commission's authority to stay

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17 *See* 17 C.F.R. § 40.5(a) (voluntary submission of rules for approval); 17 C.F.R. § 40.6(a) (self-certification of rules).

18 *See* proposed 17 C.F.R. § 38.852(c)(1)(ii), 91 Fed. Reg. at 50992.

19 *See* 17 C.F.R. § 40.5(a)(3), (5), (b).

certification for further review or object on grounds of inconsistency with the Act or Commission regulations.[20] Part 40 review and the impartial-access safeguards discussed above would address program-specific compliance concerns, while the proposed caps would independently limit affiliated trading to 5% of quarterly volume in each execution method regardless of program design. Together, these protections should be sufficient without prescribing the design of every qualifying program.

IV. The Commission Should Adopt a Bright-Line Test for Affiliation

The Commission should adopt a bright-line, quantitative voting-interest and ownership threshold to define DCM and DCO "affiliates" subject to the new requirements adopted by the Commission in its final rules regarding affiliations and conflicts. An objective, quantitative threshold would give DCMs, DCOs and their participants a clear, predictable basis for structuring commercial relationships, and would allow the Commission to administer the same standard consistently across different affiliated FCM and market maker arrangements.

The Proposed Rules note that "[w]hether an exchange has an affiliate market participant is an objective inquiry."[21] We agree. However, the "control"-based formulation of affiliation described in the Proposed Rules and used in several of the proposed affiliation definitions therein conditions affiliate status on the power to direct management and policies through voting securities, contract or otherwise,[22] which in many cases is a subjective, qualitative inquiry. For minority investments in particular, that formulation may require fact-intensive judgments regarding governance rights and commercial arrangements, making it difficult for market participants to determine *ex ante* whether a contemplated relationship would trigger the Proposed Rules' affiliate-related requirements. This is especially the case to the extent that a DCM is owned directly or indirectly by investment firms that in turn have investments in other market participants operated independently from the DCM.

This uncertainty and lack of predictability have practical consequences: a registered entity must know whether an investment or other transaction will trigger a separate set of organizational, oversight and trading restrictions; likewise, market participants must similarly be aware of any such restrictions to their trading activity on a venue (such as those in the Proposed Rules) in order to design and execute their business strategies effectively. Accordingly, we believe that a bright-line test for affiliate status would afford greater clarity and ease of administrability than the control-based definition in the Proposed Rules. Kalshi agrees with the Commission that "consistency across the parallel definitions will promote clarity and ease of compliance for corporate groups with multiple CFTC-registered entities," and recommends applying the same bright-line test uniformly across those definitions.[23]

We do not support the outright ownership cap imposed by the SEC and believe quantitative ownership and voting thresholds should trigger additional safeguards rather than

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20 *See* 17 C.F.R. § 40.6(a)(7)(ii), (iv)–(v), (b)–(c).

21 91 Fed. Reg. at 50946.

22 *See* proposed 17 C.F.R. §§ 1.52(a)(3), 38.852(a), 39.2, 91 Fed. Reg. at 50988–89, 50991–92, 50994.

23 91 Fed. Reg. at 50946.

limit permissible ownership. Nevertheless, the SEC's experience provides a useful basis for a more objective and predictable approach. As securities exchanges demutualized, exchange membership and ownership became separate, which potentially misaligned interests and created a need to address the influence of investors—broker-dealer members and others—over an exchange's regulatory functions. Many of the SEC's demutualization approval orders addressed that concern through governing-document restrictions on ownership and voting by members, including a 20% cap on beneficial ownership and voting-interest in the exchange or its parent for members and their related persons.[24] These restrictions allowed the exchange to seek outside capital while limiting the ability of a particular member to dominate the institution responsible for regulating it.

Such numerical limitations remain a feature of more recent exchange approvals. In approving 24X National Exchange in 2024, the SEC reviewed a structure with a 20% ownership limit for exchange members and their related persons and a separate 20% voting limitation generally applicable to persons and their related persons, imposed at the relevant holding-company level.[25] The SEC's 2025 Texas Stock Exchange order likewise addressed 20% member ownership and voting limitations.[26]

Although we do not agree with the outright ownership cap imposed by the SEC, which is overly restrictive when the other conflicts of interest measures discussed above would suffice, we believe that the SEC's numerical voting-interest and ownership threshold provides an administrable means of determining when a participant's potential influence over an exchange might merit those additional measures. This voting-interest threshold would reduce uncertainty without relieving exchanges or clearing organizations of their obligations to address conflicts, protect confidential information and treat participants impartially. Those obligations always apply, even when an investment falls below such an affiliation threshold. The final rule should therefore distinguish the objective trigger for its additional affiliation requirements from the generally applicable standards governing DCM and DCO impartiality and conflicted decision-making, such as those under DCM Core Principles 2 and 16, DCO Core Principle P and respective Commission regulations and guidance thereunder. This distinction would permit below-threshold minority investments and commercial relationships to proceed on predictable terms while preserving the Commission's ability to enforce substantive market protections when they are most necessary.

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[24] *See, e.g.,* Exchange Act Release No. 34-45803, 67 Fed. Reg. 21306 (Apr. 30, 2002) (order approving the restructuring of the International Securities Exchange LLC from a limited liability company into a corporation); Exchange Act Release No. 34-49718, 69 Fed. Reg. 29611 (May 24, 2004) (order approving the demutualization of the Pacific Exchange, Inc.); Exchange Act Release No. 34-49098, 69 Fed. Reg. 3974 (Jan. 27, 2004) (order approving the demutualization of the Philadelphia Stock Exchange, Inc.).

[25] *See In the Matter of the Application of 24X National Exchange LLC for Registration as a National Securities Exchange*, SEC Release No. 34-101777, at 13–17 (Nov. 27, 2024).

[26] *See In the Matter of the Application of Texas Stock Exchange LLC for Registration as a National Securities Exchange*, 90 Fed. Reg. 47880, 47883–84 (Oct. 2, 2025).

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Kalshi stands ready to assist the Commission and its staff in developing frameworks for addressing conflicts arising from affiliated market structures and would welcome the opportunity to discuss these views further.

Respectfully submitted,

Sudhir Jain

Chief Compliance Officer & Head of Regulatory Affairs
Kalshi Inc.