UNITED STATES OF AMERICA

Before the

U.S. COMMODITY FUTURES TRADING COMMISSION

In the Matter of KalshiEX LLC's Notice Regarding Market Emergency Declaration and Emergency Rule Filing Pursuant to Commission Regulation 40.6(a)

ORDER STAYING EMERGENCY RULE FILED BY KALSHIEX LLC AND DIRECTING KALSHI TO FULFILL OPEN TRADES INVOLVING MICHIGAN RESIDENTS

On July 12, 2026, KalshiEX LLC ("Kalshi"), a designated contract market, submitted to the Commodity Futures Trading Commission (the "Commission") for review, pursuant to Commission Regulation 40.6(a)(6)(i),[1] notification of its adoption of an emergency rule providing for the forced liquidation of certain previously executed event contracts involving Michigan residents (the "Emergency Rule"), following the issuance of a temporary restraining order ("TRO") entered against Kalshi on June 29, 2026, by the Circuit Court for the 30th Judicial District, Ingham County, Michigan.[2] For the following reasons, and consistent with the Commission's interests in ensuring market integrity and fair, orderly, and efficient market operations, the Commission stays the Emergency Rule under Commission Regulation 40.6(c)(1)[3] and, pursuant to its authority under Section 8a(9) of the Commodity Exchange Act (the "CEA" or the "Act"), directs Kalshi to fulfill the trades in question in accordance with its normal practices.[4]

[1] 17 C.F.R. § 40.6(a)(6)(i).
[2] *Nessel v. KalshiEX LLC*, Case No. 26-1087-CZ (June 29, 2026).
[3] 17 C.F.R. § 40.6(c).
[4] 7 U.S.C. § 12a(9).

I. Background

The Act expressly confers "exclusive jurisdiction" upon the Commission to regulate, among other things, "transactions involving swaps" that are traded on designated contract markets ("DCMs").[5] Kalshi obtained designation as a CFTC-regulated contract market on November 3, 2020. Kalshi lists CFTC-regulated event contracts for trading. Event contracts are "swaps" as defined in the CEA.[6] Accordingly, the Commission has exclusive jurisdiction to regulate swaps traded on Kalshi's DCM.

On June 29, 2026, the Circuit Court for Michigan's 30th Judicial District granted the State of Michigan's motion for a TRO against Kalshi.[7] The court's order prohibits Kalshi from, among other things, "[o]ffering, listing, matching, executing, clearing, settling or otherwise facilitating any contract, instrument, or product that constitutes internet sports betting as defined by MCL 432.403(s), to any person located in Michigan or through any platform or channel accessible in Michigan."[8] The court's order also requires Kalshi to "utilize a third-party geolocation services provider licensed by the State of Michigan Gaming Control Board capable of ensuring compliance with the geofencing specifications of the Michigan Gaming Control Board Technical Bulletin No. 2024-03."[9] For every day Kalshi "does not comply with the geolocation requirements" of the order, it must pay a fine of $120,000 per day.[10]

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[5] *Id.* 2(a)(1)(A).
[6] *Id.* § 1a(47).
[7] *Nessel v. KalshiEX LLC*, Case No. 26-1087-CZ (June 29, 2026).
[8] *Id.* at 3.
[9] *Id.* at 4.
[10] *Id.*

After Kalshi filed a motion to dissolve or modify the TRO, the court issued a verbal modification requiring Kalshi to close out certain trades entered into by Kalshi traders located in Michigan. The court clarified in a July 6, 2026, correspondence to the parties that the trades must be "voided, cancelled and refunded."

In a July 6, 2026, correspondence to the Commission Kalshi provided notification of "an imminent market emergency . . . that may necessitate emergency rules pursuant to [CEA] Section 5c(c), CFTC Regulation 40.6(a), and Kalshi Rule 2.8." Kalshi stated that complying with the TRO "will require Kalshi to make immediate changes to its trading operations, including: (a) the suspension or restriction of trading in certain event contracts accessible to persons located in Michigan; (b) the implementation of geolocation-based access controls affecting market participants in the State of Michigan; (c) the potential need to address open contracts or positions held by persons located in Michigan that may be affected by the restrictions imposed by the TRO; and (d) modifications to the Exchange's operational rules and procedures to ensure compliance with the court's order while maintaining orderly markets for all other participants."

On July 12, 2026, Kalshi notified the Commission that "[i]mmediately after the filing of [the Emergency] Rule," Kalshi "will force-liquidate the open positions of specific users identified and directed by the Court to have their trades 'voided, cancelled and refunded.'" Under the Emergency Rule, "[p]ositions of the identified Michigan-based users will be force-liquidated on the central limit orderbook at current market value as of the date of execution of this Emergency Rule." The

Emergency Rule provides that "[w]here the liquidation value of a position is less than the user's original cost of entry, Kalshi will pay the difference to the affected user from Kalshi's operational funds" and that Kalshi "will absorb the entire shortfall." Kalshi explained that it could "bear the cost of reimbursement" because "[t]he total number of positions impacted by the specific order is limited."

II. Authority

Commission Regulation 40.6(a)(6)(i) requires registered entities to "file[] with the Commission" "[r]ules or rule amendments implemented under procedures of the governing board to respond to an emergency" "prior to the[ir] implementation" "if practicable."[11] If not practicable, the emergency rule must "be filed with the Commission at the earliest possible time after implementation, but in no event more than twenty-four hours after implementation."[12]

Commission Regulation 40.1 defines "emergency" as used in Regulation 40.6(a)(6) as "any occurrence or circumstance that, in the opinion of the governing board of a registered entity . . . requires immediate action and threatens or may threaten such things as the fair and orderly trading in, or the liquidation of or delivery pursuant to, any . . . swaps or transactions or the timely collection and payment of funds in connection with clearing and settlement by a derivatives clearing organization."[13]

Commission Regulation 40.6(c)(1) vests the Commission with the authority to "stay the certification of a new rule or rule amendment submitted pursuant to"

[11] 17 C.F.R. § 40.6(a)(6)(i).
[12] *Id.*
[13] *Id.*§ 40.1.

Regulation 40.6(a) "by issuing a notification informing the registered entity that the Commission is staying the certification of the rule or rule amendment on the grounds that the rule or rule amendment presents novel or complex issues" or if the "rule amendment is potentially inconsistent with the Act or the Commission's regulations thereunder."[14]

The Commission has 90 days to review the rule or rule amendment, during which time it shall provide a 30-day comment period.[15] The Commission's stay order "shall be presumptive evidence that the entity may not truthfully certify under this part that the same, or substantially the same, proposed rule or rule amendment complies with the Act and the Commission's regulations thereunder."[16] If "the Commission notifies the registered entity during the 90-day time period that it objects to the certification on the grounds that the proposed rule or rule amendment is inconsistent with the Act or 17 CFR chapter I," then the new rule or rule amendment shall not become effective.[17]

Section 8a(9) of the CEA provides that whenever the Commission "has reason to believe that an emergency exists," the Commission may "direct [a] registered entity . . . to take such action as in the Commission's judgment is necessary to maintain or restore orderly trading in or liquidation of any futures contract."[18] "The term 'emergency' as used [in Section 8a(9)]" includes any "major

[14] *Id.* § 40.6(c)(1).
[15] *Id.* § 40.6(c)(2).
[16] *Id.* § 40.6(c)(5)(ii).
[17] *Id.* 40.6(c)(3).
[18] 7 U.S.C. § 12a(9).

market disturbance which prevents the market from accurately reflecting the forces of supply and demand."[19]

"The merits of the Commission's emergency determination are precluded from judicial review by operation of 5 U.S.C. [§] 701(a)(2)."[20]

III. Findings

Transactions subject to the CEA "are affected with a national public interest by providing a means for managing and assuming price risks, discovering prices, or disseminating pricing information through trading in liquid, fair and financially secure trading facilities."[21]

The Commission's mission is to promote the integrity, resilience, and vibrancy of the U.S. derivatives markets through sound, principles-based regulation. As part of this mission, the Commission ensures continued public confidence in its markets by monitoring for manipulation, maintaining price transparency, and ensuring market orderliness.

Having reviewed the complete record in this matter, the Commission makes the following findings:

The Commission finds that the Emergency Rule, adopted in response to a Michigan circuit court's unprecedented order requiring Kalshi to unwind open, previously executed trades constitutes an emergency because it is a "major market

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[19] *Id.*
[20] *Board of Trade of City of Chicago v. Commodity Futures Trading Comm'n*, 605 F.2d 1016, 1025 (7th Cir. 1979).
[21] 7 U.S.C. § 5(a).

disturbance which prevents the market from accurately reflecting the forces of supply and demand" with respect to event contracts.[22]

If the Commission were to allow the Emergency Rule to take effect immediately, it would risk shattering public confidence by giving traders cause to worry that the trades they execute today may be unwound a week—or a year—later. Certainty in contracting is a necessary component of a functioning market, and "the rule of law . . . does not allow a contract fairly made to be annulled."[23]

State courts cannot order the unwinding of executed swap transactions, whether it be a single contract or an entire class of trades. If they could, it would imply that they could also force the liquidation of executed trades involving forward contracts, futures, and options, not just certain kinds of event contracts. State court orders that unwind already executed trades on certain event contracts create uncertainty in other derivatives products that would potentially be vulnerable to the same kind of interference. The Act neither contemplates nor permits a state of affairs in which particular subsets of executed CFTC-regulated derivatives transactions are subject to unwinding on the whim of a state court.

Forced unwinding of previously settled contracts risks financially damaging market participants—including the retail participants that make up a large portion of Kalshi's trading population—who may have made budgeting and risk management decisions based on the expected or likely outcome of their trades. Even if Kalshi absorbs traders' losses in this circumstance, market participants risk uncertainty if other settled contracts may be unwound and whether a DCM can or will absorb the

[22] 7 U.S.C. § 12a(9).
[23] *Dermott v. Jones*, 69 U.S. 1, 8 (1864).

losses. Further, market participants may have exposure in contracts that are related to or corollary to the canceled trades. Those contracts may experience significant price volatility resulting from the changes mandated by Kalshi's proposed rule change, thereby risking a more systemic market issue affecting multiple exchanges.

In general, forced liquidation of trades will cause distortions that could give rise to a marketplace that does not directly represent the forces of supply and demand. If contracts on DCMs—and potentially other derivatives products—must price in the possibility of being unwound by judicial order, then the market's core price discovery function will be undermined. Other distortions may include additional trading to counteract unexpected exposure; unnatural trading activity based on assumptions that future trades may be unwound; and a spectrum of different, and competing, assumptions about the fair prices of contracts. These distortions would, among other things, violate CEA Core Principle 4, which requires DCMs to prevent manipulation, price distortion, and disruption of the cash-settlement process.[24]

Simply staying the Emergency Rule under Commission Regulation 40.6(c) will not necessarily remedy the emergency affecting the markets. And the fact that the Court's order applies to a limited number of trades such that Kalshi can absorb the associated costs of liquidation does not obviate the market emergency. The unprecedented forced liquidation of even one executed trade risks market distortions. The nature of the emergency requires that all executed trades be fulfilled in the normal course to preserve market stability.

[24] Core Principle 4, CEA 5(d)(4), 7 U.S.C. § 7(d)(4).

Under the Commission's statutory emergency powers, it may direct Kalshi and its affiliates to fulfill trades that have been executed. This exercise of the Commission's emergency authority will give market participants the necessary assurances that the trades they execute will be duly cleared and fulfilled.

NOW THEREFORE:

IT IS HEREBY ORDERED that, pursuant to Commission Regulation § 40.6(c), the Emergency Rule is stayed on the grounds that it presents novel or complex issues that require additional time to analyze; and, pursuant to Section 8a(9) of the CEA, the Commission having reason to believe that an emergency exists, Kalshi shall fulfill the open trades in question as it would in the ordinary course of business.

Issued in Washington, DC, on this 14th day of July, 2026.

By the Commission,

Christopher J. Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission

Date: July 14, 2026