



American Cotton Shippers Association
88 Union Avenue, Suite 1204
Memphis, TN 38103
United States

P +1 901 525-2272
F +1 901 527-8303
www.acsa-cotton.org

Public Comments on FTX's Amended Registration Request
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Provided by:



OVERVIEW

The following is a summary of the substantive comments on FTX's proposal to amend its DCO registration to permit it to offer margin on cryptocurrency futures products in its non-intermediated model. The proposal ignited a robust market structure debate. The proposal also prompted a [hearing](#) in the House Agriculture Committee and a [roundtable](#) at the Commodity Futures Trading Commission (CFTC).

Below is a summary of the comments prepared by Delta Strategy Group. Generally positive comments are denoted with green text and generally critical comments are denoted with red text. The comments are organized in alphabetical order.

Key Takeaways

- In addition to the substantive comment letters, there were around 1,500 comments submitted by individuals expressing general support for the FTX proposal.
- Common themes in support letters included improved competition in derivatives markets, broadened market access for retail investors, and improved risk management practices.
- In critical comments, the most repeated sentiments of the proposal included creation of greater risk for market participants, contagion into other asset classes not suited to the model, and that the model does not meet existing regulatory requirements or live up to certain Principles for Financial Market Infrastructures (PFMIs).

Comment Letters

Entity/Firm	Comments
Alliance Risk Group	<ul style="list-style-type: none"> • FTX is leveraging existing technology to innovate the traditional clearing model. • This model would reduce risks by 95 percent with shorter settlement cycles, reduce risk through updating capital requirements, and enhance market liquidity by bringing in additional market participants.
American Cotton Shippers Association	<ul style="list-style-type: none"> • This proposal would reduce the amount of risk management mechanisms present in the system and would raise the costs of holding a hedging position during volatile market conditions. • The primary function of these markets is to promote price discovery and sound risk hedging, and this proposal would make both of those more difficult. • We have concerns about several other specifics of the proposal including FTX’s tear up policy and its rules around the use of segregated customer funds.
Better Markets	<ul style="list-style-type: none"> • This proposal would increase retail participation in risky markets and increase losses. • CTFC should not be overly influenced by “self-serving claims” of those who oppose increased competition. • FTX’s application could only be approved if a framework could be established that addresses the myriad concerns it raises.
Binance	<ul style="list-style-type: none"> • We do not believe that FTX has supported its claimed or demonstrated that it can provide customer access to margined products without compromising customer protections. • FTX has not demonstrated that this model is fair to market participants, that it has considered procyclicality and cascading risks, or that it has a sufficient guarantee fund.

<p>Cboe</p>	<ul style="list-style-type: none"> • We support innovation, as proven through our investment in ErisX, but this several aspects of this proposal require more consideration. • FTX’s proposal does not appear to be real disintermediation, but instead a proposal for a DCO to intermediate itself into an existing process without being subject to regulatory requirements. • There are also concerns regarding potential conflicts of interest caused by Alameda Research’s heavy use of FTX products. • The best path forward may be a full CFTC rulemaking instead of the one-off approval of the proposal. • We cannot approve this if it is at the expense of customer safeguards and without full transparency. The CFTC should stress test this platform.
<p>CCP 12</p>	<ul style="list-style-type: none"> • This proposal would represent a radical change in the clearing landscape. • This proposal does not meet risk management standards from the PFMI. • This proposal eliminates risk management practices and customer protections for retail participants.
<p>Chamber of Progress</p>	<ul style="list-style-type: none"> • This proposal would increase customer choice and competition in the markets. • Direct market access allows retail investors to have access to hedging opportunities. • This proposal is a good step to giving the CFTC more oversight over crypto markets.
<p>CHS Hedging</p>	<ul style="list-style-type: none"> • We have concerns surrounding customer protections, market integrity, and systemic risks stemming from this proposal. The removal of intermediaries will create risk in the clearing system. • This could impact the ability of actual hedgers to mitigate the risks of holding their physical inventories.

<p>CME Group</p>	<ul style="list-style-type: none"> • FTX is removing risk management layers that will reduce costs but increase the potential for participants to be hurt and larger systemic issues to occur. • CFTC should handle this through a rulemaking procedure, not through a one-off approval. The CFTC cannot cure FTX’s attempt to circumvent FCM requirements by grafting conditions onto an Amended DCO Order to fill regulatory gaps. • There is a lack of sufficient information in the FTX proposal that makes it impossible to approve the application at this time.
<p>Coinbase</p>	<ul style="list-style-type: none"> • The CFTC should approve this as a part of its goal of promoting innovation. • This would increase fair competition and promote new market models.
<p>CoinFund</p>	<ul style="list-style-type: none"> • The FTX proposal would reduce systemic risk, offer increased abilities to hedge digital asset risk, introduce incremental market competition and choice, and revitalize digital asset derivative markets as innovation has migrated overseas.
<p>Commodity Markets Council</p>	<ul style="list-style-type: none"> • This would represent a major market structure change, not just the approval of two digital asset products. We are concerned that this would lead to other exchanges offering these lower-cost, more risky products. • We have concerns that this could increase risk for participants, remove risk management controls, lead to more frequent account liquidations, torn up trades, and insufficient financial reserves.
<p>Crypto.com</p>	<ul style="list-style-type: none"> • Non-intermediated models will advance the CFTC’s goal of increasing innovation, but there is a need for continuing industry dialogue on such models. • This should be handled through a provisional approval process for permitting non-intermediated models that will encourage fair competition. This will allow the CFTC to

	<p>approve these processes without choosing a market winner.</p>
<p>Demand Derivatives</p>	<ul style="list-style-type: none"> • FTX will provide much-needed competition in the U.S. futures industry, and this may be a better clearing model than traditional models. • It would be an overreach by the CFTC to categorically deny the FTX amendment.
<p>DRW Holdings</p>	<ul style="list-style-type: none"> • “Our ultimate support of the proposal will be conditioned on the Commission addressing all necessary changes related to the DCO rulebook.” • This proposal would enhance the existing clearing model if it has appropriate customer protections. • We need clarity and communication with FTX, and we appreciate their willingness to address questions.
<p>Eversheds Sutherland on behalf of the Commercial Energy Working Group</p>	<ul style="list-style-type: none"> • Supports the comments made in the Commodity Markets Council letter.
<p>FIA</p>	<ul style="list-style-type: none"> • We support FTX’s efforts to advance real-time risk management in clearing and bring greater competition to our markets. • Concerns over segregated funds, conflicts of interest of those entrusted with market operations, capitalization of market operators, and default resources. • This proposal eliminates risk management functions and customer protections. • We strongly believe that this should be handled with the regulatory principle: same business, same risks, same rules. • This could represent significant market innovation.
<p>FIA PTG</p>	<ul style="list-style-type: none"> • The derivatives industry should welcome improved competition and innovation, but innovation does not obviate the value of existing standards and requirements. • We do not currently have the information necessary to support the FTX proposal, but we

	<p>appreciate FTX working with us to get this information.</p> <ul style="list-style-type: none"> We continue to work through concerns with the default waterfall, backstop, and secondary liquidity provider roles and processes, auto-liquidation methodology specifics, and management of potential conflicts of interest.
Fidelity Investments	<ul style="list-style-type: none"> This proposal increases market access and reduces market risk
Financial Technology Association	<ul style="list-style-type: none"> This proposal would modernize markets, promote responsible innovation, increase investor choice, and promote market safety and integrity. The CFTC should approve this market model in a controlled environment with appropriate safeguards.
Gemini	<ul style="list-style-type: none"> This proposal is consistent with customer protection principles, increases competition, and market access.
Global Digital Asset and Cryptocurrency Association	<ul style="list-style-type: none"> This process is being held properly by the CFTC. This proposal would promote innovation and bring cryptocurrency conduct onshore under our regulations.
ICE	<ul style="list-style-type: none"> FTX's request would undermine the internationally agreed upon regulatory and market structure framework and be in violation of CFTC regulations. We have concerns about the following areas that we believe that CFTC should consider: participant standards and credit risk, insufficient financial resources of the cover 3 standard, liquidity risks, management of defaults, customer protections, and governance.
Institute for Agriculture & Trade Policy	<ul style="list-style-type: none"> CFTC should consider this market change through a formal rulemaking process instead of through a single proposal. Concerns over KYC/AML risks Concerns that FTX is using political pressure to influence the approval of its proposal.

<p><u>International Center for Law and Economics</u></p>	<ul style="list-style-type: none"> • This proposal would increase competition and create a new mechanism for counterparty risk mitigation.
<p><u>James Angel (Professor of Finance at Georgetown University)</u></p>	<ul style="list-style-type: none"> • There is no need to separate FCMs from DCOs, real-time margining reduces risks, and the CFTC should approve this application to promote innovation. • Modern time has reduced reaction time for margin liquidations.
<p><u>John Donahue (Professor of Law at Stanford), Todd Henderson (Professor of Law and University of Chicago), Robert Jackson</u></p>	<ul style="list-style-type: none"> • The current market structure only favors the two incumbent exchanges, and we should work to innovate and increase competition in the market.
<p><u>Jones Day</u></p>	<ul style="list-style-type: none"> • The Commission should consider implementing clear guidance and a provisional permitting process to promote competitive and procedural fairness. There are sound reasons for the Commission to approve the proposal, but the Commission should do so thoughtfully with principles of procedural fairness. • This proposal would increase customer options and competitiveness.
<p><u>Kevin Haeberle (Professor at William and Mary and Columbia Law Schools)</u></p>	<ul style="list-style-type: none"> • This proposal would increase competition, improve liquidity, improve price discovery, and create a fairer value for society.
<p><u>Latigo Energy Group</u></p>	<ul style="list-style-type: none"> • This is a natural evolution of market structure, and the CFTC should approve it to fulfill its mandates and improve conditions for market participants. • This proposal drastically reduces risk exposure and increases liquidity.
<p><u>Marc Nagel (Attorney at CBOT)</u></p>	<ul style="list-style-type: none"> • The FTX proposal is a serious threat to customer protections. This proposal is a way for FTX to avoid regulations and operate as an FCM while registered as a DCO. • The risks of default in FTX's business model pose a serious threat to the futures and derivatives industry.
<p><u>Multicoin Capital</u></p>	<ul style="list-style-type: none"> • Increases competition.

	<ul style="list-style-type: none"> • Improves risk management.
National Introducing Brokers Association	<ul style="list-style-type: none"> • FTX’s proposal does not comport with current industry market structure or the Congressionally-established regulatory framework for the derivatives industry. • These offerings would upsend market structure. • Congress must take action first before the CFTC can deliberate on this issue.
NFA	<ul style="list-style-type: none"> • This proposal seems to be lacking important details such as information about contract specifications, permitted leverage, and details regarding market makers and BLPs. • This proposal is inconsistent with congressionally established regulatory structure. DCOs are not suited to serve as a substitute for FCMs.
NGFA	<ul style="list-style-type: none"> • We recognize that this proposal is currently only for two cryptocurrency products, but we believe that a precedent could be set that would allow other exchanges to expand this model to ag products that we rely on to manage risk.
Nodal Clear	<ul style="list-style-type: none"> • Concerns over tear-up policy, automated liquidation, and insufficient default waterfall • Concerns over meeting PFMI standards, cross-border equivalence, AML/KYC concerns.
Options Clearing Corporation	<ul style="list-style-type: none"> • This proposal can be characterized as a petition for exemption from DCO Core Principles, CFTC Regulations, international PFMIs, and regulations from CPMI and IOSCO. • FTX’s proposal lacks sufficient information for meaningful comment and poses systemic risks.
Paradigm Operations	<ul style="list-style-type: none"> • This proposal increases customer choice, increased competition. • It would reduce systemic risk.
Public Citizen	<ul style="list-style-type: none"> • This would constitute market disruption that could unlock efficiencies for end-users and producers, but it could just as easily result in disaster. • The CFTC should handle this through a formal rulemaking process.

	<ul style="list-style-type: none"> • Margin should only be satisfied with cash, not cryptocurrencies. • FTX should go through significant governance and transparency reforms to establish an independent board of directors and be incorporated in an onshore jurisdiction.
Ribbit Capital	<ul style="list-style-type: none"> • This would increase competition and market access for all Americans. • This would improve risk management and price discovery.
RJ O'Brien	<ul style="list-style-type: none"> • This Proposal contradicts stated CFTC regulatory goals and will lead to a degradation of customer protections and increase risk to the overall marketplace. • There are significant concerns surrounding customer fund segregation. • This proposal eliminates risk management layers typically carried out by FCMs. • The proposal does not have clear rules in the event of an FTX bankruptcy. • Auto-liquidation and real-time margining may lead to increased market risk. • We echo CMC's comments about eliminating intermediaries and FTX's tear-up policy.
Sequoia Capital	<ul style="list-style-type: none"> • This will increase competition, improve market access, and improve risk management by making it 24/7.
Susquehanna Investment Group	<ul style="list-style-type: none"> • The LME crisis demonstrate the necessity of modernizing the existing model of mutualizing losses. This proposal would improve risk management for cryptocurrency investors. • This would smooth out inefficiencies that occur as a result of overnight volatility and weekend credit risk.
The Heritage Foundation	<ul style="list-style-type: none"> • This proposal increases economic freedom for investors, supports innovation, and levels the market access playing field.
Virtu Financial	<ul style="list-style-type: none"> • Promotes competition, expands market access, and innovates risk management.

World Federation of
Exchanges

- FTX does not adhere to several PFMI regarding general organization, credit and liquidity risk management, and default management at this time.