



**Public comment in support of LedgerX's DCO and SEF application
30 January 2015**

As an active participant in the digital currency market and a provider of consumer financial services built on the Bitcoin protocol, Circle Internet Financial, Inc. ("Circle") appreciates the opportunity to submit a public comment in support of LedgerX's Derivatives Clearing Organization and Swap Execution Facility application currently under consideration by the CFTC.

Circle was established in August 2013 and is located in Boston, Massachusetts. Circle was formed in order to offer a suite of services designed to make it simple and convenient for consumers to transact in digital currencies, in particular, Bitcoin. Bitcoin is a decentralized system based on open protocols that no government or corporation controls.

Just as Circle sees numerous consumer benefits associated with this protocol — including the ability to send, receive and spend money in a faster, less expensive and more secure manner, we believe LedgerX can use these new technologies to disrupt legacy financial infrastructure by eliminating frictions and intermediaries that stand between institutional market participants who need to hedge risk and the marketplaces where such risk exchanges occur.

One of Circle's core functions is to facilitate seamless, zero-cost conversions between fiat currencies and bitcoin for our customers. To provide this service to our global customer base around the clock, Circle must maintain a working inventory of fiat and bitcoin assets and continuously transact in the bitcoin market to maintain inventory levels and hedge customer flows. Pursuant to our hedging mandate, we envision using derivative products in the following ways:

First, an active derivatives market for bitcoin enhances our ability to manage market risk exposure (bitcoin delta) to stay within defined risk limits. Our net delta position naturally fluctuates as customers use our conversion service to convert from or into bitcoin. Derivatives — calls, puts and futures — afford us more precise tools to manage this delta risk.

Second, derivative products decouple the need for deliverable bitcoin inventory from our net delta position. As the derivative market matures, we expect to see listed products with delta risk profiles that differ from the quantity of underlying bitcoin required to support such a position. From our perspective, derivatives could allow us to shed bitcoin delta risk to maintain constant exposure without experiencing an outflow of the bitcoin inventory available to service our customers.

Third, we have observed that aggregate customer behavior for our continuously operating conversion service reflects a high degree of local spot price dependence, e.g. with prices at local lows, we experience greater-than-usual customer demand. Options offer a way to replicate this gamma (i.e. rate of change of delta) risk profile.

Fourth, in more developed asset markets, options provide insight into market perceptions of forward risk. The advent of bitcoin options would allow us to use implied volatility metrics to inform our hedging decisions and risk limits.

Finally, Circle constantly evaluates its tail risk exposure to extreme price movements. Out-of-the-money calls and puts are one method by which we may mitigate these tail risks.

LedgerX is aiming to create a derivatives exchange and clearing organization that is trusted, safe, transparent and regulated. Such a platform would benefit not only Circle in the applications above but also many other natural long and short hedgers in the broader Bitcoin ecosystem — from miners, merchant processors and remittance companies to consumer on-ramps and investment firms. Furthermore, U.S.-based digital currency firms will be in a better position to drive further innovation in this emerging technology with access to a liquid and transparent domestic platform operating under a clearly defined U.S regulatory framework led by the CFTC.

Thank you for considering our comments on LedgerX's application. We look forward to the launch of the first U.S.-regulated bitcoin derivatives market and clearing organization.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joshua Lim', with a stylized flourish at the end.

Joshua Lim
Head of Treasury and Trading Operations