



Kari Larsen  
152 Madison Ave.  
21<sup>st</sup> Floor  
New York, NY 10016  
e: kari@ledgerx.com  
o: (914) 214-2195  
w: ledgerx.com

January 30, 2015

Mr. Christopher Kirkpatrick  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C.

Re: Public Comment on Related Applications Submitted by LedgerX LLC for Registration as a Derivatives Clearing Organization and Swap Execution Facility; Industry Filing IF 14-006

Dear Mr. Kirkpatrick:

I am pleased to submit this letter on behalf of LedgerX LLC (“LedgerX”) to support LedgerX’s applications for registration as a derivatives clearing organization (“DCO”) and a swap execution facility (“SEF”) and to respond to comments that have been submitted to the Commodity Futures Trading Commission (“CFTC”) regarding LedgerX’s DCO and SEF applications.

Below we provide an overview of LedgerX and responses to questions with respect to LedgerX’s fully-collateralized model, market surveillance tools, products and liquidity provider programs.

I. Description of LedgerX

LedgerX is a new derivatives exchange and clearinghouse that will serve the digital currency market by offering physically-settled swaps and options contracts. The core team has extensive experience in the securities and derivatives markets that they will leverage to provide innovative contracts to a market lacking physically-settled derivatives contracts that may be used to hedge risk or to speculate on the value of digital currencies. LedgerX initially intends to offer physically-settled bitcoin options contracts with terms from one to three months.

LedgerX’s clearinghouse will be based on a fully-collateralized, non-intermediated clearing model. All transactions effected on the LedgerX Platform and cleared by LedgerX will be fully collateralized. Market participants will not be subject to the risk of a default by another market participant or broker as they would be in a traditionally margined clearinghouse. All collateral that LedgerX Participants (“Participants”) post to LedgerX is segregated from LedgerX’s proprietary funds.

Security is also a critical clearinghouse concern that LedgerX has addressed in its operations. LedgerX uses a multi-signature wallet to hold bitcoin and has instituted extensive security measures to protect Participants and their funds from theft, fraud or hacking attempts.

## II. LedgerX's Responses to Comments

LedgerX has received a number of questions about its fully-collateralized model, products, available liquidity provider programs and the market surveillance program. We provide more information related to these topics below.

### A. *LedgerX's Fully-Collateralized DCO Model Prevents Default Risk and Ensures Orderly Trading*

LedgerX's DCO is fully-collateralized, as described above. Before a Participant will be permitted to enter most types of orders on the Platform, the Participant will be required to transfer funds to LedgerX's settlement bank account or transfer collateral (in the form of the digital currency underlying the contract) to a designated account under the control of LedgerX. LedgerX collects the maximum loss or the physically-deliverable underlying, but will not charge variation margin. All Participants are subject to the same collateralization rules, regardless of whether the Participants are hedgers or speculators.

LedgerX's contracts are not leveraged and, as such, the risk of a Participant default would not cause loss to other Participants. LedgerX would not have the need to liquidate positions in the event of a Participant default because the full collateral of a defaulting Participant's orders would have been already posted to LedgerX. Accordingly, LedgerX does not charge a "winner's tax" on orders. Currently, LedgerX does not offer a netting model but may do so in the future.

Participants that transfer cash to LedgerX's settlement bank account must do so by wire transfer from a deposit account established in their name at a commercial bank on file with LedgerX. At this time, LedgerX will not accept deposits of U.S. government securities, foreign currency or monetary instruments as collateral in its settlement bank account, but reserves the right to do so in the future.

### B. *LedgerX Will Offer the First Regulated Physically-Settled Bitcoin Derivatives Contract Available in the U.S. and a Liquidity Provider Program to Promote Liquidity*

LedgerX initially will offer European-style, physically-settled vanilla put and call option contracts. LedgerX's contracts will have monthly expirations with tenors suited to Participant demand. Initially, LedgerX intends to offer option contracts with expirations of one to three months.

LedgerX settlement prices are not based on an index, forward price or other benchmark. Rather, pricing is provided by Participants and liquidity providers. Participants may choose to exercise an option contract based on the Participants' own underlying benchmarks and may choose to hedge exposure in the digital currency spot markets. LedgerX does not employ automatic exercise of its initial contracts.

LedgerX will offer a liquidity provider program to which Participants must apply and be approved to ensure that the program promotes liquidity. LedgerX will publish the terms and approval process of its liquidity provider program when finalized.

*C. LedgerX's Market Surveillance Program Will Help Prevent Manipulation and Monitor the Spot Market*

LedgerX conducts market surveillance to detect and prevent manipulation and disruptive trading. LedgerX's surveillance tools monitor the underlying spot markets to detect potential fraud and manipulation. LedgerX's market surveillance tools and personnel identify market anomalies that could affect LedgerX markets.

In conjunction with LedgerX's market surveillance program and to prevent a single Participant from establishing a large position that could be viewed as excessive speculation, LedgerX has implemented a position limits program. LedgerX's position limits will provide the flexibility to promote robust trading and hedging while preventing abusive trading practices. LedgerX views position limits as a tool to help prevent delivery squeezes and other types of manipulation. Each contract's position limits will be publicly available on LedgerX's website.

III. LedgerX Respectfully Requests that the CFTC Approve LedgerX's DCO and SEF Applications

LedgerX supports the CFTC's willingness to regulate bitcoin derivatives. LedgerX is excited about the growth of the bitcoin market and its potential. We believe the entrance of a CFTC-regulated digital currency derivatives exchange and clearinghouse will only further the market's growth by providing a secure regulated platform to market participants.

Currently there is no physically-settled bitcoin derivatives contract available in the U.S. Bitcoin has made headlines recently because of its volatility, and market participants have expressed enthusiastic interest in using LedgerX's bitcoin derivatives contracts to hedge against such volatility. Now more than ever, the digital currency market needs a bitcoin derivatives contract to help mitigate the risk of volatility, add liquidity to the market and increase transparency.

It is possible that LedgerX's SEF application will be completed before the DCO application because of the ability of the CFTC to offer temporary SEF registration pursuant to CFTC Regulation 37.3(c). However, even with SEF registration, LedgerX will not be able to operate until regulatory approval is issued for the DCO. LedgerX respectfully requests that both the DCO and SEF applications be reviewed in a timely manner.

Thank you for the opportunity to comment on LedgerX's DCO and SEF applications. Please contact me at +1 (914) 214-9215 or at Kari@LedgerX.com if you have any questions regarding this matter.

Sincerely,



Kari S. Larsen

General Counsel and Chief Regulatory Officer