



March 6, 2019

Via Electronic Submission

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

Re: Request for Input on Crypto-Asset Mechanics and Markets

Omniex Holdings, Inc. (“Omniex”) appreciates the opportunity to respond to the Commodity Futures Trading Commission’s (“Commission” or “CFTC”) *Request for Input on Crypto-Asset Mechanics and Markets* (“RFI”)¹ and provide our perspective with respect to Ether. We commend the Commission’s continued efforts to promote responsible FinTech innovation through LabCFTC and other initiatives relating to crypto-assets and we support its efforts to consider virtual currencies beyond Bitcoin. Proactive and forward-thinking efforts such as these will enable the CFTC to accomplish its mission of fostering open, transparent, resilient, competitive, and sound financial markets.

About Omniex. Omniex is a purpose-built technology company designed from the ground up to handle the unique market challenges faced by institutional investors seeking direct exposure to Ether, Bitcoin, and other crypto-assets. We have built an end-to-end technology solution addressing institutional needs for portfolio and risk management, trade execution, investment operations and regulatory compliance.

Our team possesses an unrivaled combination of financial services, fintech and crypto-asset expertise. As previous senior executives at some of the largest financial institutions in the world and founders of successful Silicon Valley startups, Omniex has the nimbleness to keep pace with crypto-asset innovation, as well as the deep experiences and connections required to create a true institutional-grade technology solution for crypto-asset investing and trading.

Our Perspective on Crypto-Asset Marketplace. Omniex believes Ether, Bitcoin and certain other crypto-assets have collectively developed into a separate and distinct asset class to which retail and institutional investors increasingly seek exposure. Currently, the primary means of gaining access to these assets is via direct investment through spot market exchanges. Due to existing infrastructure limitations and regulatory constraints, however, institutional investors find it infeasible to invest directly in crypto-assets, which means trading on spot market exchanges is left largely to retail investors. While institutional demand for exposure to crypto-assets is undeniable and continues to build,² three fundamental issues prevent wider adoption by these more sophisticated investors:

¹ See the Commission’s Request for Input on Crypto-Asset Mechanics and Markets (December 17, 2018), 83 FR 64563, available at <https://www.cftc.gov/sites/default/files/2018-12/2018-27167a.pdf>.

² See e.g., Announcement regarding Fidelity Digital Assets, a crypto trading platform with a goal of making digitally-native assets more accessible for sophisticated institutional investors. Available at https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/press-release/Fidelity-Digital-Assets-Launch-102018.pdf.

- the crypto exchange marketplace is extremely fragmented;
- the current crypto-asset infrastructure is retail-oriented; and
- there is a definite lack of institutional-quality solutions to concerns around custody, security and control.

Omniex, along with its partners, continues to innovate and further develop the broader crypto-asset ecosystem to better support the needs of institutions when directly investing in crypto-assets, as we believe increased institutional participation in these markets is key to stabilization and growth of the crypto-asset ecosystem.

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Our letter responds to selected questions posed by the CFTC in its RFI and also touches upon several related policy considerations recently raised by Commission staff.⁴

Question 5. What data sources, analyses, calculations, variables, or other factors could be used to determine Ether’s market size, liquidity, trade volume, types of traders, ownership concentration, and/or principal ways in which the Ethereum Network is currently being used by market participants?⁵

Omniex’s View. Relevant market data for determining market size and trade volume for Ether, Bitcoin and other crypto-assets is available from multiple sources, including, for example, the following vendors: CryptoCompare, CoinMarketCap, CoinMetrics, and Messari. In addition, trueDigital provides OTC reference rates for Ether and Bitcoin. Relevant information can also be obtained from public data published on the Ethereum blockchain and the CFTC can obtain trading data from underlying spot markets in the U.S. for purposes for fraud investigation or manipulation analysis.

Question 15. Are there protections or impediments that would prevent market participants or other actors from intentionally disrupting the normal function of the Ethereum Network in an attempt to distort or disrupt the Ether market?⁶

Omniex’s View. Although Omniex does not have particular view regarding Ethereum Network functioning or resistance to disruptions that may impact or distort the Ether market, we can offer insights into existing barriers to manipulation via continuous trading activity in the Ether spot market.

First, similar to Bitcoin and other crypto-assets, the trading of Ether occurs continuously across many different venues in geographically diverse locations and this fragmentation, some have argued, renders the crypto-asset markets less susceptible to manipulation than other more established markets for equity, fixed income, and commodity futures.⁷ Second, a healthy Ether OTC market exists in parallel to the Ether spot markets. Like other bi-laterally traded instruments such as spot commodities and FX, OTC market participants interact in a principal-to-principal capacity via pre-established bilateral relationships and typically negotiate trades in significantly

⁴ See CFTC Staff Advisory No. 18-14 (May 21, 2018).

⁵ See RFI, Question 5.

⁶ See RFI, Question 15.

⁷ See Craig Lewis, “SolidX Bitcoin Trust: A Bitcoin Exchange Traded Product” (Feb 2017).

larger size than observed on spot exchanges. This dynamic of sizeable trades and negotiability essentially buffers the OTC market against potential price manipulation via activity on individual spot exchanges. Although OTC desks may generally reference spot market pricing, they also often ignore aberrant prices and smaller potentially manipulative trading activity. In addition, most OTC trading desks will hedge a portion of their trades via spot exchanges, which creates a positive feedback loop where professional traders on OTC desks interact with retail-driven exchanges and thus keep prices and spreads in check.

In its current state, however, the relatively thin liquidity and retail-dominated nature of trading in the spot markets results in less resistance to manipulation than there otherwise would be with greater levels of institutional participation. To that end, new institutionally-focused crypto platforms, like Omniex, provide solutions for sophisticated investors, which helps increase market stability and mitigate potentially manipulative activity. Similarly, derivatives contracts on Ether would also expand institutional participation in the crypto-asset ecosystem.

Question 16. What impediments or risks exist to the reliable conversion of Ether to legal tender? How do these impediments or risks impact regulatory considerations for Commission registrants with respect to participating in any transactions in Ether, including the ability to obtain or demonstrate possession or control or otherwise hold Ether as collateral or on behalf of customers?⁸

Omniex's View. Several U.S. based exchanges offer conversion of crypto-assets, including Ether, to various forms of legal tender including US dollars. For example, Coinbase, Gemini, Kraken, and Bittrex all offer varying levels of fiat-support with respect to Ether and other crypto-assets.

Question 18. Given the evolving nature of the Ether cash markets underlying potential Ether derivative contracts, what are the commercial risk management needs for a derivative contract on Ether?⁹

Omniex's View. The commercial risk management needs for a derivative contract on Ether would be similar to the existing tools for managing risk already available for Bitcoin future contracts, which are currently listed and trading on both the CME and Cboe.

Question 19. Please list any potential impacts on Ether and the Ethereum Network that may arise from the listing or trading of derivative contracts on Ether?¹⁰

Omniex's View. It is our belief that the listing and trading of derivative contracts on Ether, such as an exchange-listed Ether futures contract, would increase institutional participation, which would positively impact the spot market as well as provide market participants with additional avenues of exposure and risk management tools. Specifically, an Ether futures contract would:

- Increase price discovery and price transparency of Ether;
- Offer market participants a new product to gain exposure to Ether in a manner that is exchange-listed, regulated and surveilled;
- Provide a new risk management tool for market participants holding Ether;
- Afford exposure to the crypto-currency sector without requiring a digital wallet; and

⁸ See RFI, Question 16.

⁹ See RFI, Question 18.

¹⁰ See RFI, Question 19.

- Expand institutional participation, which, in turn, would increase market efficiency and reduce volatility in the Ether spot market.

In our view, the importance of growing institutional participation is difficult to overstate. It is Omniex's strong belief that the ability of larger more sophisticated institutional investors accessing Ether through investment in regulated products, such as exchange-listed Ether futures, would expand the overall investor base and add much needed discipline and intellectual rigor to the pool of investors, which would drive several benefits, including: (1) improvements in liquidity, transparency and price discovery; and (2) increasing the difficulty of manipulating Ether via spot market trading activity.

We believe that a derivatives contract for Ether would allow institutions to express an investment view via a familiar, easily accessible, and secure financial product traded on a regulated securities exchange. This would eliminate complications and reduce risks institutions currently must contend with when buying and holding Ether directly, thereby expanding the investor base to include both retail customers and institutions.

Question 21. What other factors could impact the Commission's ability to properly oversee or monitor trading in derivative contracts on Ether as well as the underlying Ether cash markets?¹¹

Omniex's View. As with Bitcoin futures, the CFTC would have both regulatory and enforcement jurisdiction over Ether futures traded in the U.S. With respect to markets, platforms or participants conducting spot transactions in Ether, although the Commission does not have direct regulatory authority, it does possess enforcement authority to investigate and bring enforcement actions in the underlying spot markets, which would cover crypto exchanges, the OTC market and market participants.

The Commission already possesses adequate tools to oversee and monitor trading in derivative contracts on Ether and the underlying Ether cash markets, as evidenced by the CFTC's current oversight of trading in Bitcoin futures listed by CME and Cboe and its related monitoring of Bitcoin spot markets. There would be little, if any, functional difference in the Commission's oversight of derivatives contracts for Bitcoin and Ether or its monitoring of underlying spot markets for those assets.

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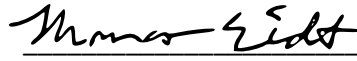
¹¹ See RFI, Question 21

Omniex greatly appreciates this opportunity to submit our views in response to the Commission’s Request for Information and would be pleased to discuss these comments in greater detail. Please contact Hu Liang (hliang@omniex.io) or Tom Eidt (teidt@omniex.io) if you have any questions regarding the comments in this submission.

Sincerely,



Hu Liang
CEO



Tom Eidt
General Counsel