March 15, 2022

VIA ELECTRONIC SUBMISSION

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

Re: Industry Filing 22-001, Request for Comment on FTX Request for Amended DCO
Registration Order

Dear Mr. Kirkpatrick,

I appreciate the opportunity to comment on the U.S. Commodity Future Trading Commission's
(the "Commission") request for comment regarding the FTX Request for Amended DCO
Registration Order (the "Request").

General Support for the Request

I generally support the Request as it would reduce derivatives clearing organization ("DCO")
credit risk to futures commission merchants ("FCMs") and provide customers with greater
choice with respect to how they manage their investments without assuming the risk of
mutualized losses.

First, the Request would mitigate credit risk from some FCMs. Rather than having exposure to
FCMs who guarantee the obligations of their customers, the FTX DCO can manage its risk
directly with its customers—actual traders—who are posting and maintaining margin with the
DCO. While the removal of an intermediary introduces risk vis-a-vis customer default, FTX has
proposed to automate its liquidation process, reducing this exposure. To wit, FTX proposes a
rolling 10 percent liquidation model through offsetting orders to prevent full liquidations and
efficiently monitor default risk.

Second, the Request would provide customers with greater flexibility with respect to managing
their investments without incurring mutualized risk. In addition to its tiered liquidation, FTX
proposes a "full liquidation" threshold, which includes a perk to DCO members of not imposing
mutualized losses across members. Rather than having to mutualize losses across retail traders,
FTX proposes to enter into arrangements with backstop liquidity providers and deploy $250
million of its own capital to cover losses beyond those accepted by the backstop liquidity

providers. This structure enables customers to have relationships directly with a DCO without opening themselves up to default risk of other members. It also empowers customers to choose whether they want to enter into relationships with FCMs.

Keep in mind, the FTX model is calculating risk margin on a rolling 24-7 clock, essentially every 30-seconds (and not a T+1 basis, or T+weekend basis). This means that the risk model does not allow for overnight or over weekend shocks, such as what was recently seen in nickel prices on the London Metal Exchange. A trader simply can't let losses mount for five days while hoping for a market turnaround. Instead, when actually posted collected collateral falls below the relevant threshold level, the position begins to be unwound right then, in an orderly fashion (and with being left on for another day or days, while losses mount).

FTX has deep experience running this model with FTX international, and to my knowledge it has never lost more in its default on a given day (including days that had 60% and 30% moves in bitcoin pricing) than the revenue it made in fees for that day.

To be clear, it does not appear to be the case that FTX is seeking to prohibit FCMs. Customers who prefer the FCM access model, and the broader capital efficiency that can be obtained by working with a prime broker affiliate of a, FCM, would still be welcome. It's just not the mandated model—and more importantly, FTX is not asking FCMs to put their own balance sheet or capital on risk. This is the innovation. The FCM can still layer in whichever fees it elects (execution fees, account fees, etc.), for the users who prefer the FCM access model, while still providing customers the ability to choose how they want to structure their relationship with the FTX DCO.

Of course, I encourage all innovations around real time marketing to include robust methodologies with respect to liquidations and margin and risk calculations, as I understand the application does.

Thank you for your consideration.

Sincerely,

Brandon H. Ferrick, Esq.