March 22, 2022

Submitted electronically via CFTC.gov

Mr. Christopher Kirkpatrick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Comments Responding to Commission Publication of FTX's Request for Amended DCO Registration Order

Dear Mr. Kirkpatrick:

SkyBridge Capital II, LLC ("**SkyBridge**") appreciates the opportunity to comment on LedgerX, LLC d.b.a. FTX US Derivatives ("**FTX**")'s request to amend its order of registration as a derivatives clearing organization ("**DCO**") to allow FTX to clear margined products for retail participants through its non-intermediated model, whereby participants clear directly rather than through futures commission merchants ("**FCMs**") (the "**Proposed Model**").

SkyBridge is an alternative investment management firm that provides discretionary and non-discretionary investment management advisory services, together with investment management products, to institutions and high net worth individuals. The services and products offered and managed by SkyBridge primarily consist of investment management and advisory services, custom investment portfolios and commingled products, including funds-of-funds and direct investment funds. A number of our clients already have exposure to digital assets, including Bitcoin and Ether, either directly or indirectly through derivatives or pooled vehicles. In addition, SkyBridge serves as manager to First Trust SkyBridge Bitcoin Fund L.P., an institutional-grade fund to invest in Bitcoin, and to First Trust SkyBridge Ethereum Fund L.P., an institutional-grade fund to invest in Ether.

SkyBridge strongly supports FTX's request to amend its order as proposed, for the following reasons:

I. The Proposed Model Would Support Innovation and Increase the Competitiveness of the U.S. Digital Asset Commodities Markets

Supporting innovation and increasing the competitiveness of the U.S. digital asset commodities markets aligns with the U.S. Commodity Futures Trading Commission ("**Commission**")'s current strategic goals. In its 2020-2024 Strategic Plan ("**Strategic Plan**"), the Commission focused on encouraging innovation and enhancing the regulatory experience for market participants both within and outside the United States.[1] As stated by the Commission in its Strategic Plan, "Market regulation needs to keep pace and even lead, as our mandate to encourage responsible innovation is important to the Nation. The Commission must promote responsible innovation, avoiding rules and approaches reflective of business practices long gone." The Proposed Model would be a step toward furthering those goals outlined in the Strategic Plan.

Currently, a significant portion of the global trading volume in Bitcoin futures is occurring outside the U.S., on exchanges not regulated by the Commission. In February 2022, non-U.S. exchanges were responsible for more than 90% of the trading volume in Bitcoin futures.[2] This data is clear evidence that there is demand from global market participants for a non-intermediated exchange that allows market participants to trade on a margined basis, a model not presently available within the U.S.

We believe that reducing the appeal of regulatory arbitrage will make U.S. markets more appealing to market participants, both foreign and domestic, and pave the way for more trading volumes in digital asset commodities to return to the U.S. By allowing the Proposed Model, the Commission will provide investors with the option of transacting within the U.S. in digital asset commodities on the type of platform already popularized offshore, and to do so with the benefit of the protections afforded by Commission oversight and regulation, which we believe is likely to ultimately help stabilize and mature these markets.

II. The Proposed Model Would Make Markets More Accessible to End Users, While Ensuring Adequate Safeguards Are in Place

Another goal set forth in the Commission's Strategic Plan was to make markets more accessible to end users.[3] We believe that the Proposed Model, which will allow for margined trading on a non-intermediated basis, would reduce reliance on a concentrated number of large financial institutions as gatekeepers (*i.e.*, FCMs) and allow for direct access to markets while maintaining the protections afforded within the intermediated model.

The concentration of market power within a very small number of gatekeepers presents systemic risk.[4] The vast majority of trading volume on U.S. derivatives exchanges is brokered by a very small number of intermediaries. Giving investors the choice to access markets directly, without relying on a financial institution for access, would shift some of the market power away from those few institutions currently acting as intermediaries and toward end users. Under the

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[1] See Strategic Goal 3 in *Strategic Plan 2020-2024*, Commodity Futures Trading Commission, 7 (July 8, 2020), https://www.cftc.gov/media/3871/CFTC202024_2024StrategicPlan/download.

[2] Volume of Bitcoin Futures, The Block, https://www.theblockcrypto.com/data/crypto-markets/futures.

[3] Commodity Futures Trading Commission, *supra* note 1, at 6.

[4] See Hester Peirce, *Dwindling Numbers in the Financial Industry*, Brookings Institution (May 15, 2017) https://www.brookings.edu/research/dwindling-numbers-in-the-financial-industry/ (stating there are "several potential problems associated with concentration in the FCM industry, including difficulties in transferring customer positions and margin in times of stress or an FCM default, heightened systemic risk, impaired market function, and harm to customers reliant on the intermediation of an FCM in our mandated clearing world.") (citing J. Christopher Giancarlo, Remarks before the International Swaps and Derivatives Association 32nd Annual Meeting (Lisbon, Portugal May 10, 2017) (internal quotations omitted)).

Proposed Model, intermediaries will be allowed to access the market on their customers' behalf, but those customers will no longer depend on those intermediaries for access. Because the use of intermediaries such as FCMs necessarily involves a cost,[5] through the Proposed Model investors could choose not to engage an intermediary, ultimately reducing the costs associated with accessing the market.

The Proposed Model is designed to ensure that providing investors with direct access to the market does not come at the expense of investor protection. By working with the Commission, FTX has developed a method to provide key, legally required protections directly to investors which are normally afforded by FCMs. These protections include risk disclosures, Anti-Money Laundering and Know Your Customer compliance, and market integrity through rigorous compliance.[6]

The Proposed Model would also make markets more accessible to end users by providing an expanded choice among trading venues, particularly in the markets for Bitcoin futures. Existing U.S. derivatives clearinghouses have concentrated market and pricing power given their small number. By increasing the range of trading venues that investors could use, trading venues will face increased competition, which we expect would reduce costs ultimately borne by investors.

III. The Proposed Model Would Reduce the Capital Inefficiency Associated with Current Available Models While Ensuring Adequate Protection

The Proposed Model would reduce the capital inefficiency associated with the currently available model of full collateralization, while ensuring adequate risk measures are in place.

Currently, market participants trading in the U.S. in the Bitcoin futures markets have to choose between a non-intermediated model like FTX, which currently requires full collateralization, or an intermediated model that allows them to trade margined products, like the model currently offered by CME.[7] There is currently no option to trade margined products directly on an exchange.

In addition, CME does not allow market participants to post margin using Bitcoin—instead, participants must post margin in cash, even where the participant has sufficient Bitcoin to cover the margin.[8] In contrast, the Proposed Model allows market participants to post their margin

[5] See J. McCrank, "Ranks of commodities brokers dwindle as U.S. futures industry evolves," Reuters (July 1, 2015), *available at* https://www.reuters.com/article/us-cme-landmark-brokers/ranks-of-commodities-brokers-dwindle-as-u-s-futures-industry-evolves-idUSKCN0PB5OT20150702.
[6] See Rules 3.3(K)(11)(a) and 3.3(C) of FTX's proposed rulebook.
[7] See Request for Comment on FTX Request for Amended DCO Registration Order, Commodity Futures Trading Commission, 4 (March 10, 2022).
[8] CME Bitcoin Futures Frequently Asked Questions (April 1, 2020), https://www.cmegroup.com/education/bitcoin/cme-bitcoin-futures-frequently-asked-questions.html.

in Bitcoin, which SkyBridge believes would be more efficient for market participants as their holdings need not be converted to cash to post margin.[9]

Providing a direct, Commission-regulated, margined digital asset exchange would provide significant benefits over current options. As noted above, the Proposed Model includes protections such as fulsome risk disclosure, more robust anti-money laundering and know your counterparty protections, as well as enhanced surveillance of derivative transactions. Importantly, the Proposed Model's nearly continuous margin framework would allow traders to trade on margin without needing trades to be fully collateralized or intermediated by an FCM. Unlike an intermediated model, these protections for market participants would be provided directly by FTX when an investor accesses the platform.[10] SkyBridge believes the protections afforded to market participants and the direct structure of the exchange would encourage market participants to use FTX's exchange.

IV. Expanding Direct Access to Digital Asset Commodities Markets Would Have a Positive Impact on Price Discovery and Efficiency

Among other goals in the Strategic Plan, the Commission seeks to adopt policies that deepen liquidity and allow for open and competitive markets so that price discovery reflects the forces of supply and demand.[11] Specifically, SkyBridge believes that approving the Proposed Model would advance the Commission's Strategic Plan and Strategic Goal 1 by increasing market transparency and attracting certain trades from largely unregulated exchanges to Commission-regulated exchanges.

Finally, an important benefit of the Proposed Model is that it makes access to markets much easier, which should have the effect of allowing more participants to trade on the marketplace for a specific product. Absent external factors, increasing the number of participants in a particular market could reasonably be expected to increase that market's liquidity. Increased liquidity would likely also improve price discovery and efficiency with respect to trading in the Bitcoin and Ether derivatives markets. Many studies have drawn the connection between market access, or lack thereof, and the liquidity characteristics of that market.[12] Accordingly, the Proposed Model aligns with the Commission's strategic goals to deepen market liquidity, improve price discovery and make markets more accessible to end users.

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[9] See Rule 7.2 of FTX's proposed rulebook.
[10] See Rules 3.2, 3.3(K)(11)(a) and 3.3(C) of FTX's proposed rulebook and the December 6, 2021 draft Participant Agreement provided by FTX to the Commission.
[11] Commodity Futures Trading Commission, *supra* note 1, at 5.
[12] See e.g., "Factors Influencing Liquidity in Emerging Markets," OICV-IOSCO (Dec. 2007), *available at* https://www.iosco.org/library/pubdocs/pdf/IOSCOPD258.pdf.

In conclusion, for the foregoing reasons, SkyBridge strongly supports the grant of the amendment sought by FTX.

Sincerely,

Anthony Scaramucci
Founder and Managing Partner
SkyBridge Capital

cc: The Honorable Rostin Benham, Commissioner
The Honorable Dawn DeBerry Stump, Commissioner
Clark Hutchison, Director, Division of Clearing & Risk
Robert Schwartz, General Counsel, Commodity Futures Trading Commission