May 9, 2022

SUBMITTED ELECTRONICALLY VIA CFTC.GOV
Mr. Christopher J. Kirkpatrick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: CFTC Release Number 8499-22 (CFTC Seeks Public Comment on FTX Request for Amended DCO Registration Order)

Dear Mr. Kirkpatrick,

Signature Bank ("Signature") appreciates the opportunity to comment on the formal request (the "FTX Request") submitted to the Commodity Futures Trading Commission (the "CFTC") by LedgerX, LLC d.b.a. FTX US Derivatives' ("FTX") to modify its existing order of registration (the "FTX Order") as a derivatives clearing organization ("DCO") in order to allow FTX to clear products on margin for direct participants through its proposed optionally-intermediated model (the "Proposed Model").

For the reasons specified below, Signature supports FTX's request to amend the FTX Order as proposed in the FTX Request.

About Signature Bank

Signature is a New York-chartered full-service commercial bank, insured by the Federal Deposit Insurance Corporation (the "FDIC"), with 38 private client offices throughout the metropolitan New York area, as well as in Connecticut, California and North Carolina. Signature's growing network of private client banking teams serves the needs of privately owned businesses, their owners and senior managers. Signature recently placed 19th on S&P Global's list of the largest banks in the U.S., based on deposits.

Signature invests in financial technologies and digital asset settlement and payment systems. The bank recently introduced its revolutionary, blockchain-based digital payments platform, Signet™, a tokenized representation of the U.S. dollar that facilitates instant settlement and enables real-time payments for its commercial clients. Signet allows Signature's clients to make payments in U.S. dollars, 24/7/365, safely and securely, without incurring transaction fees. Signature is the first FDIC-insured bank to launch a blockchain-based digital payments platform, and Signet is the first such platform to be approved for use by the New York State Department of Financial Services.

Signet features application program interfaces ("APIs") that allow Signature's clients and developers to directly integrate their proprietary systems in a single platform to access full transactional capabilities and enhance real-time, 24/7/365 benefits and transactional security. Signet APIs increase clients' abilities to immediately settle their transactions securely and enhance their capabilities when transacting with Signet.

The FTX Request

The FTX Request asks the CFTC to modify the FTX Order to allow it to clear products on margin for direct participants using the Proposed Model. Under the Proposed Model, among other things, FTX clearing customers would be able to access the DCO directly, *i.e.*, on a non-intermediated basis. Traditionally, customers wishing to clear futures and swaps centrally on U.S. DCOs needed to do so via the services of a clearing member, or futures commission merchant. Although self-clearing has also been available for some time, only market participants who cleared large volumes were traditionally likely to achieve the economies of scale sufficient to justify the operational demands of engaging directly with a DCO.

FTX's DCO already operates on an optionally-intermediated basis that allows participants to clear futures and options on futures contracts on a fully-collateralized basis. In its request for an amended order of registration, FTX proposes to clear products for direct participants on margin on an optionally-intermediated basis. A margined product is one for which a DCO collects only a portion of the possible losses the participant could incur while holding the position. Therefore, a DCO that offers products on margin is exposed to the risk that a counterparty will default, leaving the DCO to cover its obligations to the counterparty holding the other side of the cleared position.

More Access Options for Digital Asset Commodities Markets

More options for trading in commodity markets would likely encourage broader access to markets for customers and potentially alleviate market concentration concerns. Although, as discussed above, customers already have the option of fully-collateralized trading in crypto-currency futures, the addition of another model, one that frees up valuable customer capital, should offer much-needed choice and flexibility, and that may in turn broaden the appeal of, and encourage greater popular participation, in markets.

New Approaches to Market Creation and Regulation Appropriate for Digital Assets

One of the CFTC's current strategic goals is to "encourage innovation and enhance the regulatory experience for market participants". These goals expressly recognize the transformations brought about by digital assets, among other new technologies, and the accompanying opportunities and risks. One of the strengths of digital assets is that they lend themselves to prompt verification, and transactions in digital assets have come to be based in verification of actual assets in accounts. Digital asset markets compute market positions on a near-real-time basis, which itself may serve to minimize market volatility. Nearly instant marking to market of participant positions, review and reconciliation may likewise reduce market risk and disruption.

Help Reduce Capital Inefficiencies

The Proposed Model should help reduce some of the capital inefficiency associated with the existing full-collateralization trading model. Full collateralization of positions ties down a significant amount of a participant's cash that could be put to work. Trading on margin helps free up some of that cash. Currently, market participants trading crypto-currency futures in the U.S. can only choose between a fully-collateralized optionally-intermediated model like FTX's current model, or a mandatory-intermediation model that allows them to trade margined products. As discussed above, however, direct participants are less likely to find the mandatory-intermediation model conducive to their trading needs, and the added flexibility offered by the Proposed Model will enable them to select the option that best suits their particular trading goals and risk tolerance.

Signature also takes the view that permitting market participants to post margin in certain crypto-currencies, as contemplated in FTX's proposed revised rulebook, can be a powerful innovation that may greatly benefit market participants, as their assets may no longer need to be converted into fiat currency in order to meet their margin requirements.

Benefits without Compromising Risk Management or Customer Protections

According to the FTX Request, the Proposed Model will feature a tiered risk management approach. The Proposed Model has two margin requirements applicable to participants: initial margin and maintenance margin. Initial margin is the amount of margin the participant must post to open a position. Maintenance margin is a set minimum percentage of the notional value of the portfolio that the margin on deposit must exceed. A participant's margin level will be recalculated approximately every 30 seconds as its positions are marked to market, and if the collateral in its account falls below the required level, FTX's automated system will begin to liquidate its portfolio. The automated system will liquidate 10 percent of a portfolio at a time by placing offsetting orders on FTX's central limit order book, until the participant has sufficient margin to meet the margin requirements for its remaining portfolio. Because liquidation will be automatic and positions will be marked to market so frequently, these liquidations can occur at any time, 24 hours a day, 7 days a week, 365 days a year. FTX asserts that this constant de-risking will enable it to react immediately to market changes and avoid major risks to clearinghouse stability. Below the maintenance margin threshold, FTX will also set a full liquidation threshold based on a set percentage of the notional value of the positions. If the collateral in a market participant's account falls below that threshold, FTX will liquidate the remainder of the portfolio. Liquidation would involve committed backstop providers who would accept a set proportion of positions in a liquidated portfolio. FTX also intends to fund a $250 million guaranty fund with its own unencumbered equity capital.

Signature is not in a position to opine on the sufficiency of the proposed risk management measures, customer protections and systemic risk protections. However, these protections clearly represent a good faith attempt to address the risks inherent to any margined trading model. In our view, the Proposed Model aims to strike a very careful balance between the enormous benefits of broadening and deepening access to trading markets and protecting customers and the integrity of the financial system itself. We are confident that the CFTC's comment process will elucidate a diverse array of opinions from market participants, many of whom stand to benefit from additional competition and optionality in U.S. commodity futures trading and clearing.

In conclusion, for the foregoing reasons, Signature is supportive of FTX's request to amend the FTX Order as proposed in FTX Request.

We thank the CFTC for undertaking a deliberative public process with regard to the FTX Request. We are confident that the CFTC will continue to be a leader in encouraging well-regulated responsible innovation in our financial markets.

Sincerely,

Seth William Stern
Senior Vice President & General Counsel