May 11, 2022

Chairman Rostin Behnam

U.S. Commodity Futures Trading Commission

1155 21st Street, NW

Washington, DC 20581

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

Dear Chairman Behnam,

Today Public Citizen comments on FTX’s proposal to automate commodity derivative market risk management. FTX seeks to disrupt the risk management status quo by allowing derivatives clearing organizations (DCOs) to provide customers with direct access to automatic marginalized clearing. Margin requirements would be calculated every 30 seconds, with FTX collecting necessary margin in real time, and automatically liquidating positions if the customer fails to clear the margin test.

FTX’s design bypasses the role typically served by Wall Street banks (as futures commission merchants, or FCMs) to hold collateral, since FTX will post it automatically or liquidate unmargined positions. As such, the FTX proposal upends established power brokers. Such technologically-driven disruption of the architecture of commodity derivative markets has potential to unlock efficiencies for commodity end-users and producers alike―but it could just as easily result in disaster.

Public Citizen therefore proposes the Commission to cautiously review the proposal, with the following recommendations:

1. **A Formal Rulemaking, Broader Stakeholder Engagement and Additional Commission Resources Are Needed Before The Proposal Can Be Approved**
   1. Given the sweeping significance of the FTX proposal, a formal rulemaking is required.
   2. In addition to the public roundtable later this month[[1]](#footnote-1), the Commission’s Market Risk Advisory Committee should be engaged to discuss the concepts raised in the proposal, and have an opportunity to issue recommendations.
   3. The Commission needs commitments of additional financial and staff resources in order to effectively provide oversight and

enforcement of the new market structures featured in the proposal―the least of which involve 24/7 trading and margin maintenance.

1. **Automated margin and position liquidation platforms running 24/7 risk exposure to market manipulation and volatility.**
   1. Trading 24 hours a day / seven days a week will expand market activities to periods where there will likely be far fewer participants in certain off-hours. This increase in stretches of illiquidity introduces new risk for the automated system, allowing nefarious actors to engage in destabilizing trading activity designed, among other things, to trigger automatic margin call-liquidations against rivals. This, in turn, could result in extreme volatility exacerbated by the automated margin calls and position liquidations.
2. **Margin should only be satisfied with cash, not volatile cryptocurrencies.**
   1. The FTX proposal offers traders to satisfy initial and maintenance margin with cryptocurrency. Relying upon highly volatile, unstable currencies to meet margin requirements will amplify volatility and undermine systemic risk.
3. **The proposal’s promise of data transparency must result in direct, unfiltered access for the Commission’s enforcement staff and enhanced levels of free data access for the general public. A goal of maximum data transparency for regulators and the public will help result in stronger market performance.**
4. **FTX must undergo significant governance and transparency reforms. The ultimate parent company of FTX US Derivatives does not feature an independent board of directors and is incorporated in an offshore jurisdiction that undermines corporate transparency and liability exposure.**

Respectfully submitted,

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*Member, CFTC Energy & Environmental Markets Advisory Committee, and*

*CFTC Market Risk Advisory Committee*

1. www.cftc.gov/PressRoom/Events/opaeventstaffroundtable052522 [↑](#footnote-ref-1)