

May 11, 2022

VIA E-mail and Web Portal

Mr. Clark Hutchison
Director, Division of Clearing & Risk
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: FTX Request for Amended DCO Registration Order

I. Introducing GDCA

The Global Digital Asset and Cryptocurrency Association (“GDCA”) is a global, voluntary Self-Regulatory Association for the digital asset and cryptocurrency industry. It was established to guide the evolution of digital assets, cryptocurrencies, and the underlying blockchain technology within a regulatory framework designed to build public trust, foster market integrity and maximize economic opportunity for all participants. Our broad-based membership pulls from all facets of the ecosystem, and includes spot and derivative exchanges, proprietary trading firms, investors, asset managers, brokerage firms, custodians, decentralized technology organizations, banks, legal firms, audit firms, insurance professionals, academics, consultants, and others. GDCA is now made up of approximately 70 entities from around the world, most of which are based in the U.S.

To fulfill its mission, the GDCA devises standards and consensus-based solutions designed to address the major challenges facing the digital asset and cryptocurrency industry. We collaborate with stakeholders around the world, industry leaders and policymakers to support the growth of the global digital economy. We:

- Advocate for a regulatory environment that facilitates innovation and protects consumers, stakeholders, and the broader public interest;
- Provide education, training, certification, and other resources to build human and technical capacity;
- Provide thought leadership and facilitate industry engagement; and
- Oversee our members through a self-regulatory mechanism that is guided by principles of accountability, integrity, and transparency to promote the highest professional and ethical standards.

II. GDCA Response

GDCA writes to highlight the significant public policy benefits that could result from the approval of FTX's proposal to amend its DCO registration order to permit it to offer non-intermediated clearing of crypto derivatives directly for participants. We believe that approving FTX's request would signal U.S. global leadership in regulating the digital assets industry, would bring conduct that is currently happening offshore and in unregulated exchanges onshore and into the regulatory ambit, and would lead to broader market access and inclusion, among other benefits. Specifically, GDCA offers the following comments:

We applaud the process. GDCA believes that the best policy decisions are made when a clear and transparent decisionmaking process is outlined, when the public and industry partners are consulted and have a clear mechanism to provide feedback, and when the public has sufficient time to consider and discuss the issues at hand. We applaud the CFTC for voluntarily choosing to proceed under a process that ticks all of these boxes. Publicly soliciting feedback from the industry and the public, extending deadlines to ensure that the public had time to consider the proposal, and scheduling a staff roundtable that will be open to the public, are all positive examples of the CFTC's open and transparent decisionmaking process. Whatever the CFTC's ultimate decision on the proposal, we think the process undertaken will foster confidence in the outcome, and we encourage similar emphasis on transparency and industry engagement in future policy decisions and rulemakings.

Supporting Innovation. So long as core principles and other requirements of the Commodity Exchange Act ("CEA") and the regulations thereunder are met, the CFTC should work to accommodate new technologies and innovative market structures. GDCA supports innovations that can broaden Americans' adoption of crypto assets and improve liquidity and prices. FTX's narrow proposal (limited to derivatives on crypto assets) would offer a new way for U.S. customers to access derivatives directly with a DCO. If the model proves successful, it could signal a new way for more Americans to more easily access financial markets, potentially at lower costs. Innovations like real-time margining have been proven effective in offshore crypto markets even in times of marked volatility, and FTX's proposal would be a good test of whether such a system can perform in the context of the U.S. regulated markets. Section 3 of the CEA, which outlines the CEA's purposes, provides that the CFTC is to "promote responsible innovation and fair competition," and we believe that allowing the proposal to move forward subject to CFTC supervision would foster these purposes. The CFTC should work hard to make room for safe and responsible innovation in financial markets subject to its jurisdiction.

Bringing conduct onshore and under regulation. Huge volumes of crypto derivatives are traded every day in offshore, essentially unregulated markets, including on peer-to-peer DeFi platforms. While we do not have hard data, we believe that many Americans are trading in these markets today. This includes professional trading firms with offshore affiliates, retail participants with the technical know-how to VPN around geo-fence restrictions, and others who find ways to access such products. FTX's proposal would make it easier for U.S. market participants to access crypto derivatives through safe and approved channels, bringing more volume onshore and under regulatory supervision.

GDCA supports bringing crypto-related activity into regulatory frameworks, as FTX's proposal would do. American Policymakers have long claimed that our markets are the best and most liquid because they are the best regulated. FTX's proposal offers an opportunity to expand the coverage of the United States' regulatory tent, which we think is a good thing. Traders accessing crypto derivatives via a regulated DCO would have the benefit of the CFTC's full customer protection toolkit, including the ability of the CFTC to suspend trading, set temporary emergency margin levels, fixing of limits and other actions if needed to maintain or restore orderly trading. Customers utilizing DeFi platforms of offshore exchanges have none of these protections.

Defending U.S. global leadership. Similar to the point above, GDCA believes that approving FTX's proposal would help the U.S. maintain a position of global leadership on the regulation of crypto assets. Today, more than 90% of trading volumes for digital assets takes place offshore, including the vast majority of trading in crypto derivatives. This is an aberration - in most other financial products, the U.S. is where participants come to trade due to our effective regulation, liquidity, and other factors. FTX's proposal would help the U.S. maintain leadership in regulating crypto derivatives, which is important to maintaining American global financial leadership and standard-setting in this rapidly growing industry.

Supporting inclusion and access. The GDCA believes that over the long run, cryptocurrencies and blockchain technologies will help to usher in more financial inclusion and equity, will lower costs, and help bring financial services to the unbanked and underbanked. We think FTX's proposal could move the ball in this direction as well. It would give consumers more choice, potentially making it easier for them to access financial markets. Further, less intermediation could lower costs, opening the market to more participation.

One of the CFTC's goals is to promote equity and access within the financial system. We think FTX's proposal is an innovative experiment that could further these goals.

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Against these benefits, the CFTC will have to weigh the risks that a new non-intermediated model would pose to customers and the financial system. These risks must be taken seriously. Protecting market participants from the risk of default is one of the CFTC's primary duties, and fulfilling it in this circumstance is even more important given that many end-users of FTX's crypto derivative products would be retail. GDCA of course wholeheartedly supports the CFTC's mission in this regard and recognizes that the risks of a disintermediated structure must be carefully examined.

GDCA is not well suited to comment on the sufficiency of FTX's risk management proposal beyond noting that its three-part plan to employ realtime margining and forced liquidation to meet maintenance margin calls if necessary, attempt to layoff positions with backstop liquidity providers, and use its \$250 million guarantee fund of unencumbered cash is a serious proposal that should be evaluated as such. However, GDCA notes that if the CFTC is ever to consider innovative new proposals like realtime margining, doing so in the context of derivatives on bitcoin and ethereum makes sense. While growing in volume and institutional adoption, crypto assets today are not widely held by banks and SIFIs, and the size of those markets remains very

small in comparison to other parts of the U.S. financial system. Today, the risk of a contagion or cascading default that affects the broader financial system would be small with FTX's proposal. Accordingly, a non-intermediated model for crypto derivatives is an appropriate area for experimentation and measured risk taking.

GDCA appreciates the opportunity to comment on this important proposal.

Sincerely,

Michael D. Frisch

Michael D. Frisch
Chairman, Public Policy and Regulation Committee
Global Digital Asset and Cryptocurrency Association