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*Via Electronic Submission*

Christopher J. Kirkpatrick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, NW  
Washington, DC 20581

May 10, 2022

**Re: FTX Request for Amended DCO Registration Order**

Dear Mr. Kirkpatrick:

Coinbase Global, Inc. (“Coinbase”) appreciates the opportunity to provide comments to the Commodity Futures Trading Commission (the “Commission” or “CFTC”) on the formal request by LedgerX, LLC d/b/a FTX US Derivatives (“FTX”) to amend its order of registration as a derivatives clearing organization (“DCO”) to offer clearing of margined products directly to all participants under its non-intermediated model.

Launched in 2012 as an easily accessible platform to trade bitcoin, Coinbase is a pioneer in the digital asset industry. Today, Coinbase is the largest cryptocurrency exchange by volume in the United States. We offer a variety of services to both institutional and retail customers with an eye towards ensuring an entirely transparent and trustworthy user experience. A staple of the cryptoeconomy, Coinbase supports continued innovation that broadens access to the digital asset markets. As part of our continued efforts to develop a more diversified offering of digital asset-related products to a broader base of customers in a safe and effective manner, Coinbase recently acquired Coinbase Derivatives (f/k/a FairX), a designated contract market, and has been working to launch Coinbase Financial Markets, a futures commission merchant (“FCM”). Accordingly, Coinbase is invested in the future of listed derivatives and its market structure.

The Commission has long been at the forefront of thinking about listed derivatives market structure, central counterparty (“CCP”) clearing and risk. The Commission’s current request for comment is only the most recent example of the Commission’s ongoing commitment to thoughtful consideration of innovations to U.S. financial markets. When speaking to this issue, Chairman Behnam observed that new technologies can break down silos, leading to more access

and making markets more efficient.<sup>1</sup> Coinbase agrees and we offer this comment letter in support of the Commission as it continues to evaluate non-intermediated clearing.

## **I. Coinbase Supports the Benefits of Exploring Innovation, and its Potential Stimulative Effects on Competition, in the Listed Derivatives Markets.**

Coinbase supports the Commission’s willingness to entertain innovative and novel solutions in the derivatives markets. In the Commodity Exchange Act’s (“CEA”) principles-based regime of regulation, Congress has aided the Commission in this type of evaluation. Under this flexible regime, derivatives markets can adapt to technological changes that usher in new participants offering different structures and processes. As long as these participants’ offerings are consistent with the core principles, including having adequate financial resources and risk management, the Commission’s approval and oversight of their novel proposals advances the CEA’s purpose to “promote responsible innovation.” And for those proposals consistent with the core principles, Congress intended that competitive market forces sort out the value of any innovation.

Innovation is essential to thriving financial markets, so too is a deliberative and inclusive approach to regulatory change. Under the Commission’s effective oversight, the intermediated clearing system has been a longstanding source of stability, confidence, and efficiency for U.S. financial markets.

At the same time, we acknowledge that non-intermediated clearing models have periodically presented the Commission with an opportunity to further build upon its role as a leader among regulators in fostering responsible innovation.<sup>2</sup> By their very nature, however, non-intermediated models would constitute a substantial departure from the existing clearing system by removing the credit intermediation function performed by FCMs interposed between clearinghouses and market participants.

In the current proposal, FTX puts forth a novel structure that would employ nearly constant margin monitoring and rapid, automatic liquidations as an alternative means of addressing the key risks of the clearing ecosystem. The key features of the proposal are designed to accommodate retail customers, enabling them to obtain clearing services for margined products directly from a Commission registered derivatives clearing organization (“DCO”). In doing so, the proposed model would introduce competition in the structure of clearing services, with aspirations of improving competition on price and service. While still a proposal, the FTX model has already succeeded in stimulating a broad market dialogue about non-intermediated clearing. We encourage the Commission to continue this dialogue with market participants to

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<sup>1</sup> Jesse Hamilton, *CFTC Chief Says FTX Plan Could Make Crypto Markets 'More Efficient,'* CoinDesk (Mar. 31, 2022),

<https://www.coindesk.com/policy/2022/03/31/cftc-chief-says-ftx-plan-could-make-crypto-markets-more-efficient/>.

<sup>2</sup> We note that the Commission has seen other earlier proposed variations of non-intermediated clearing models. See e.g., <https://www.cmegroup.com/content/dam/cmegroup/market-regulation/rule-filings/2016/07/16-301.pdf>. The Commission also has received more recent inquiries about non-intermediated clearing models. See <https://www.cftc.gov/PressRoom/PressReleases/8519-22> (“Recently, however, a number of registered entities have discussed with CFTC staff proposals to offer “non-intermediated” or direct trading and clearing of margined products to retail customers”).

develop a full picture of the opportunities and considerations attendant to disintermediated clearing.

## **II. Coinbase Supports the Commission’s Deliberative Process and Urges Regulatory Outcomes that Ensure a Level Playing Field.**

We celebrate the Commission’s ready willingness to find interpretations of the DCO core principles that would facilitate innovative new market structures. The Commission’s request for comment about FTX’s particular model is an important step in its overall process of evaluating the dis-intermediated clearing models generally against the CEA’s core principles. The Commission’s questions pinpoint numerous key risks, highlight the magnitude of the structural changes in FTX’s request and show an appreciation for the number and range of market participants that could be affected. The dialogue facilitated by the Commission’s request for comments and as supplemented by the input from the Commission’s scheduled roundtable on non-intermediated clearing models, are all signs of an effective and healthy regulatory process.

Coinbase recognizes that it will be equally important for the Commission to chart an appropriate procedural path forward. The changes being proposed are a significant departure from the familiar intermediated clearing system that is contemplated, if not expressly assumed, by many of the Commission’s existing rules implementing the core principles. Moreover, the conversation instigated by FTX’s proposal has, within a matter of weeks, rapidly expanded from its focus on a single entity’s request to amend its DCO order to a widely attended roundtable to explore non-intermediation models more generally. With these dynamics, the Commission will be well-served to continue with processes that are similarly deliberative and inclusive.

In this regard, we note that the Commission has very recently made use of notice-and-comment rulemaking to codify particular aspects of non-intermediated clearing models in which positions are fully collateralized (*i.e.*, no margin or leverage is permitted).<sup>3</sup> While less familiar avenues may be available to the Commission, we recognize the dynamics of the ongoing dialogue may also align most strongly with procedural safeguards to the rulemaking process. Rulemaking would provide a transparent process in which the Commission shares *ex ante* the terms of a non-intermediated clearing model equally available to all market participants, a formalized period for considering public comments, an opportunity for the Commission to respond and adjust and ultimately, a more durable result in the form of an adopted regulation. Coinbase believes the Commission would be on stronger footing if it were to adopt a new set of rules that would apply the core principles to a non-intermediated model for clearing margined products.

The ultimate outcome of the Commission’s deliberation on non-intermediated clearing will be shaped by the process and robust input from industry and market participants. Given the

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<sup>3</sup> See “Derivatives Clearing Organization General Provisions and Core Principles,” 85 Fed. Reg. 4800 (Jan. 27, 2020). Prior to the Commission’s 2020 rulemaking, staff had issued bespoke no-action relief to DCOs from certain requirements of Part 39. See CFTC Letter No. 17–35 (July 24, 2017) (granting exemptive relief to LedgerX), CFTC Letter No. 19–15 (July 1, 2019) (granting exemptive relief to ErisX). That particular process - issuing bespoke no-action relief in advance of rulemaking - was appropriate where the DCOs in question pursued models that minimized or eliminated most of the key financial risks associated with clearing.

risks at play and the novelty of the structures proposed, incrementalism may be an appropriate theme for any rulemaking (or alternative procedure chosen by the Commission). Coinbase believes that innovative market structures can flourish subject to carefully tailored regulations, and within those constraints, market participants can determine the relative value of those innovations.

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The current dialogue about non-intermediated clearing systems presents the Commission with a unique and timely opportunity to facilitate a transition to a more dynamic fintech market and digital asset derivatives market in particular. To ensure that transition is smooth, successful, and adequately protects participants and mitigates systemic risk, the Commission should proceed cautiously, transparently, and comprehensively. Coinbase stands ready to support the Commission in accomplishing these objectives.

Please do not hesitate to contact the undersigned at [christine.parker@coinbase.com](mailto:christine.parker@coinbase.com) with any questions regarding these comments.

Sincerely,



Christine Parker  
Vice President, Deputy General Counsel, U.S. Regulatory  
Coinbase, Inc.

cc: The Honorable Rostin Behnam, Chairman  
The Honorable Kristin N. Johnson, Commissioner  
The Honorable Christy Goldsmith Romero, Commissioner  
The Honorable Summer K. Mersinger, Commissioner  
The Honorable Caroline D. Pham, Commissioner  
Clark Hutchison, Director, Division of Clearing & Risk