



***Submitted Electronically***

May 11, 2022

Christopher Kirkpatrick  
Secretary of the Commission  
U.S. Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, NW  
Washington, DC 20581

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

Dear Mr. Kirkpatrick:

The National Grain and Feed Association (NGFA) submits these comments in response to the Commodity Futures Trading Commission's (CFTC or Commission) request for input on the FTX US Derivatives (FTX) proposal to clear margined products while continuing with a non-intermediated model. Presently, FTX is licensed as a Derivates Clearing Organization (DCO) by CFTC, but with the stipulation that trades under its non-intermediated model are 100 percent collateralized.

The NGFA consists of more than 1,000 grain, feed, processing, exporting and other grain-related companies operating more than 8,000 facilities. Its membership includes grain elevators; feed and feed ingredient manufacturers; biofuels companies; grain and oilseed processors and millers; exporters; livestock and poultry integrators; and associated firms that provide goods and services to the nation's grain, feed, and processing industry.

The NGFA commends the CFTC for undertaking a public comment process and for facilitating a roundtable discussion for a broad group of industry experts to help in its evaluation of FTX's proposal. Further, the NGFA appreciates the additional 30 days the CFTC provided to review and comment on FTX's proposal.

FTX's proposal is for two cryptocurrency products and the NGFA understands the distinction between the marketplace for cryptocurrency products versus agricultural products and that FTX's proposal will not have an immediate impact on agricultural markets. However, if FTX's proposal is approved, NGFA is concerned that a precedent will have been set that could allow other exchanges to expand the higher-risk cryptocurrency trading model to agricultural products, potentially undermining the well-functioning futures markets that our members rely on to manage risk. The portions of the FTX proposal that are concerning to NGFA are the



elimination of futures commission merchants (FCM) from the buying and selling process and the automatic liquidation of positions when they become under margined.

FCMs enhance risk management by serving the valuable purpose of monitoring accounts' margin requirements and balances, helping customers to understand complex market regulations, identifying potential problems before they pose a risk to the market and its other participants and by stepping in and paying margin calls when their customers are slow to pay or default. In addition, NGFA believes FTX fails to consider the deep regulatory expertise that would be lost without introducing brokers and FCMs. Further, NGFA is concerned that FTX avoids the important risk management role that FCMs provide of temporarily covering margin calls and instead proposes to automatically liquidate positions that become under margined.

NGFA believes FTX's proposal to auto-liquidate positions has the potential to undermine risk management protection for commercial participants. Commercial participants use futures contracts to hedge against an underlying position and they cannot run the risk of having their hedges automatically liquidated by an exchange because of fast-moving price changes that lead to under margining. To avoid the risk of auto-liquidation, commercial participants would be forced to place inordinately large sums of money in margin accounts, and this would significantly increase their hedging costs. Inevitably these costs would be passed to the customers for whom our members are hedging – largely North American producers of grains and oilseeds.

The NGFA is concerned the FTX proposal would exacerbate market stress during periods of extreme disruption, particularly during systemic events. The NGFA also is not confident market participants could rely on FTX's proposed liquidation-based, operational model to continue functioning and providing hedging protection during prolonged periods of limit up and limit down moves. Furthermore, NGFA is concerned that volatility from auto-liquidations may lead to additional volatility in similar products on different exchanges, e.g., auto-liquidations in an FTX soybean product that could lead to volatility in CBOT soybean products. NGFA also is worried the proposal could allow FTX to tear up trades resulting in unnecessary risk exposure and loss for hedgers.

The robust risk management controls that are required under the current intermediated mode creates necessary costs to offering futures contracts. The NGFA is concerned the FTX's proposal may lead other DCOs to adopt higher-risk models with fewer risk management controls to remain cost competitive. While the NGFA is in favor finding more efficient ways to deliver services, we believe the FTX proposal creates too much risk and we recommend not approving it. If the Commission decides to continue consideration of the FTX proposal, the NGFA recommends a formal notice and comment process. Thank you for considering our comments.



Sincerely,

Michael J. Seyfert  
President and Chief Executive Officer  
National Grain and Feed Association  
mseyfert@ngfa.org  
(202) 289-0873