



May 11, 2022

**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

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

Dear Mr. Kirkpatrick:

Ribbit Capital appreciates the opportunity to provide comments to the Commodity Futures Trading Commission (the “Commission”) on a request from LedgerX, LLC d/b/a FTX US Derivatives (“FTX”) to amend its order of registration as a derivatives clearing organization (“DCO”) so that it can offer clearing of margined products directly to all participants under its non-intermediated model.

Ribbit Capital is a global investment firm focused on the intersection of financial services and technology. Founded in 2012, Ribbit’s mission is to change the world of finance by providing capital and guidance to visionary financial services entrepreneurs around the world. Ribbit’s portfolio consists of more than 120 private and public company investments across six continents and a multitude of sectors within financial services, including payments, personal finance, investments and wealth, lending, insurance, cryptoassets, financial infrastructure, financial software, and home finance.<sup>1</sup>

FTX’s request exemplifies the type of groundbreaking innovation that, when met with a thoughtful and forward-looking regulatory approach, will ultimately provide all Americans access to new financial technologies and, critically, financial opportunities to make their lives better and more prosperous. FTX’s request fits squarely within Chairman Behnam’s recent observation that new technologies can break down silos and lead to more access. FTX’s non-intermediated model and related request, the first of its kind, also would enable the Commission to foster responsible financial technology (“fintech”) and to serve as a pioneer in public-private innovation and collaboration. In particular, the Commission’s approval of FTX’s request would constitute an

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<sup>1</sup> Ribbit Capital is an investor in FTX US.

important recognition that fintech innovations like FTX’s proposal here can bring greater transparency, access, and customer protection to the legacy framework.

Approval of FTX’s request would also further the President’s goal of “reinforce[ing] United States leadership in the global financial system and in technological and economic competitiveness, including through the responsible development of payment innovations and digital assets.”<sup>2</sup> Moreover, the Commission’s approval of FTX’s request would be consistent with the purpose set forth in Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which prioritizes “increase[d] transparency and promot[ion of] market integrity with regard to” transactions overseen by the Commission, as well as “lowering the levels of risk inherent to such transactions.”<sup>3</sup>

For these reasons, as well as those set forth below, Ribbit Capital urges the Commission to grant FTX’s request to amend its order of registration as a DCO.

## **I. Incentivizing Innovation and Protecting Competition in the Marketplace**

Innovations aimed at making traditional derivatives market structures more efficient and accessible – and that give consumers more choice – should be encouraged. This is particularly the case where, as here, legacy frameworks rely on incumbent intermediaries. FTX’s proposed model would not eliminate intermediated clearing, which will continue to serve important functions and may still be the optimal method for some participants. Rather, it would ensure that participants have greater choice in the marketplace and foster competition that inevitably also encourages incumbent intermediaries to improve their offerings. In this way, FTX’s request speaks to the heart of one of the CEA’s core objectives, namely to “promot[e] responsible innovation and fair competition among boards of trade, other markets and market participants.”<sup>4</sup>

In many respects, the unprecedented transparency of the blockchain enhances the ability of regulators to oversee transactions and market operations in a way that will ultimately deter and disrupt bad actors. The Commission’s approval of FTX’s request would also encourage other market innovators to pursue opportunities in a compliant and thoughtful way. Those new entrants would be able to use FTX as a model for how to work collaboratively with the Commission to bring their own innovations to market in a responsible and regulated manner.

With FTX’s proposal, the Commission has a unique opportunity to protect and enhance competition in the U.S. financial services markets, and the digital asset derivatives market in particular. The President, as part of his campaign to promote competition, observed that in the financial services sector in particular “consumers pay steep and often hidden fees because of

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<sup>2</sup> The White House, *Executive Order on Ensuring Responsible Development of Digital Assets* (Mar. 9, 2022), <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/> (“Digital Asset Executive Order”).

<sup>3</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, Title VII - Wall Street Transparency and Accountability, [https://www.law.cornell.edu/wex/dodd-frank\\_title\\_vii\\_-\\_wall\\_street\\_transparency\\_and\\_accountability](https://www.law.cornell.edu/wex/dodd-frank_title_vii_-_wall_street_transparency_and_accountability).

<sup>4</sup> 7 U.S.C. § 5(b).

industry consolidation.”<sup>5</sup> According to the National Futures Association, there are only 59 registered futures commission merchants (“FCMs”) in the United States.<sup>6</sup> Most of these FCMs are large, international banks and financial services firms.<sup>7</sup> As a result, a relatively small cadre of industry participants is largely able to dictate who is able to access margined futures products, as well as the terms of the access. FTX’s non-intermediated model would begin to shift that paradigm of concentrated influence and empower market participants, while leveraging cutting-edge technology to ensure that appropriate margin levels are maintained and markets are safeguarded. By overseeing FTX’s responsible and regulated transition to clearing of margined futures, the Commission can ensure that the derivatives markets are subject to greater competition.

American competitiveness in the global financial system is also at stake here, an objective President Biden embraced in the Digital Asset Executive Order.<sup>8</sup> If the United States does not sufficiently support innovation, digital asset markets will flourish overseas at the expense of U.S. businesses and consumers alike. Indeed, founders and software developers are increasingly moving outside the United States to innovate because they want to enhance access to a greater number of efficient products that can lead to economic empowerment and lower costs of entry. However, in the United States, many of these same innovators feel stymied by increasing enforcement and ambiguity – rather than clear guidance and authorization to operate under appropriate supervision.

For the United States to maintain a competitive advantage in these rapidly evolving markets, it must ensure that new entrant innovators and American entrepreneurs are not unnecessarily pushed abroad to the benefit of international competitors. Unfortunately, that has recently too often been the case. The Commission’s approval of FTX’s proposal would materially improve the United States’ image as a country that embraces innovation, particularly in blockchain technology. FTX’s proposed model can bring significant digital asset-based derivative trading volume into the United States, and thus into the regulatory framework set forth in the CEA and enforced by the Commission. The United States has long been viewed as a champion of financial innovation, entrepreneurship, and customer protection, and FTX’s request provides the Commission the ability to enhance this well-earned global reputation by helping to establish robust and reliable digital asset derivatives markets.

## **II. Increased and More Equitable Access to Financial Services**

Consumers are not only eager for innovation and enhanced competition, they are also ready to be empowered through access and choice. FTX’s proposal would do this by providing a safe and more efficient avenue for trading and clearing derivatives to a broader, more diverse category of Americans. This objective underlies the principles set forth in the Digital Asset Executive Order, which emphasizes that “[t]he United States has a strong interest in promoting responsible

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<sup>5</sup> The White House, *Executive Order on Promoting Competition in the American Economy* (Jul. 9, 2021), <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/>.

<sup>6</sup> National Futures Association (“NFA”), *Membership and Directories* (as of Mar. 31, 2022), <https://www.nfa.futures.org/registration-membership/membership-and-directories.html>.

<sup>7</sup> aiSource, *2021 Top FCMs* (Feb. 3, 2021), <https://www.managedfuturesinvesting.com/2021-top-fcms/>.

<sup>8</sup> Digital Asset Executive Order (Mar. 9, 2022), *supra* note 2.

innovation that expands equitable access to financial services, particularly for those Americans underserved by the traditional banking system.”<sup>9</sup> Many members of Congress have also spoken to the promise of digital assets in providing traditionally underserved communities greater access to financial services.

Moreover, broader access to derivatives markets is a core principle of the CEA and Commission regulations. Under CFTC Rule 38.151, designated contract markets must provide market participants “[a]ccess criteria that are impartial, transparent, and applied in a non-discriminatory manner.”<sup>10</sup> And the rules for DCOs call for “[f]air and open access for participation.”<sup>11</sup> FTX’s proposed model can do just this, furthering the purpose of these requirements by offering retail participants and other new entrants the ability to trade and clear margined derivatives products.

The relatively recent fintech innovation boom has already contributed to closing the gap in Americans’ access to financial markets.<sup>12</sup> This sea change in the structure of finance will inevitably result in more Americans engaging in the derivatives markets, long dominated by institutional and professional traders. The Commission’s approval of FTX’s request would only open the door wider for a broader range of Americans. At the same time, the Commission’s oversight would ensure that this broader access would be accompanied by robust participant protections and manageable, reasoned, and transparent risk-taking.

### **III. Enhanced Liquidity Means Better Price Discovery and Risk Management**

Markets operate more efficiently and effectively when they have greater participation, which results in enhanced liquidity and better informational inputs. With FTX’s proposal for broader access, the Commission can increase market liquidity and information flows in a responsible manner, thereby improving price discovery and risk management, the hallmarks of a well-regulated derivatives market.

As set forth in the CEA’s “Findings” section, the Commission oversees transactions that serve as “a means for managing and assuming price risks, discovering prices, or disseminating pricing information through trading in liquid, fair and financially secure trading facilities.”<sup>13</sup> By promoting innovation and competition, FTX’s proposal would increase the number of participants in the digital asset derivatives markets. That greater participation will result in better, more informed price discovery and risk management opportunities.

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<sup>9</sup> *Id.*

<sup>10</sup> 17 C.F.R. § 38.151.

<sup>11</sup> *Id.* § 39.12(a)(1).

<sup>12</sup> Financial Technology Association (“FTA”), *Fintech: Creating a More Inclusive and Equitable Financial System* (Feb. 23, 2022), <https://www.ftassociation.org/wp-content/uploads/2022/02/FTA-Fintech-Financial-Inclusion-Overview-3.pdf>.

<sup>13</sup> 7 U.S.C. § 5(a).

While Chairman Behnam recently observed that volatility in the unregulated digital asset spot markets could be partly attributed to leveraged trading by speculators,<sup>14</sup> the significant hedging and risk management utility of margined products should not be overlooked, especially when brought under the oversight of an experienced regulator like the Commission. In fact, margined products can provide a useful tool for businesses and individuals seeking to protect against losses associated with volatility in the digital asset markets or asymmetrical trends in those or other, more traditional markets and products.

In sum, FTX's non-intermediated model, if implemented with the safeguards FTX proposes and the appropriate level of review, input, and oversight of the Commission, could greatly contribute to the long-term value and sustainability of digital assets and cryptocurrency derivatives markets in particular. The enhanced liquidity that would likely result from FTX's proposed model can help achieve such important goals.

#### **IV. Critical Focus on Market Integrity and Customer Protections**

The Commission should use the tools that Congress provided in the CEA for the specific purposes that Congress intended. More specifically, clearing rules and customer protection provisions should be viewed as separate tools with distinct purposes. Clearing rules aim to ensure that account defaults and liquidations are minimized to avoid systemic risk and adverse impacts on other market participants. Customer protection provisions, on the other hand, are designed to safeguard traders. Accordingly, concerns that the Commission might have with retail participants accessing margined products, including the risk of losses to which retail participants could be exposed, should be addressed through the customer protection rules. By the same token, concerns about the market impact of increased liquidations due to the participation by retail traders who might be more prone to default, should be addressed through the clearing rules. On both scores, FTX has gone to significant lengths to ensure participant protections and mitigation of systemic risk to the market, as delineated in its submissions to the Commission.

The market-changing innovation and promise of FTX's proposal is reflected in the risk monitoring metrics and risk mitigation tools that it has developed and proposed as part of its non-intermediated model. This is where American innovation meets a resolute commitment to customer protection and market integrity. As FTX has informed the Commission, under its proposed model, rather than traditional weekly margin calculations, FTX would assess customers' ability to meet margin requirements almost every second, seven days per week, 365 days per year.

FTX's proposed model also includes initial margin and maintenance margin requirements, with margin levels recalculated every thirty seconds as they are marked to market. Under this innovative approach, FTX constantly monitors customers' collateral positions to determine if they ever fall below the maintenance margin, at which point FTX's system would automatically begin to liquidate those deficient positions. FTX promises to address the "gap" risk present under the current model that assesses margin levels not on a real-time basis, but, at times, multiple hour or day interludes. The novel automated nature of FTX's model also has the potential to mitigate some

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<sup>14</sup> CFTC, Public Statements & Remarks, *Testimony of Chairman Rostin Behnam Regarding "Examining Digital Assets: Risks, Regulation, and Innovation"* (Feb. 9, 2022), <https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehnam20>.

of the operational complexities present under the legacy model, thus providing a more streamlined way to manage systemic risk. These real-time market monitoring tools would allow FTX to act immediately on market changes and provide the Commission, retail customers, and the market with far better risk-related information than is currently available.

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FTX's request provides a vehicle for the Commission to support American innovation and fortify the United States' competitive edge in financial services and technology developments in the face of stiff global competition. The Commission should seize this opportunity guided by the CEA's purposes to promote responsible innovation and competition, provide open and accessible derivatives markets, and enhance liquidity to ensure that the digital asset derivatives markets serve their fundamental price discovery and risk management functions.

Sincerely,

Ribbit Capital

/s/ Sigal Mandelker  
**Sigal Mandelker**

/s/ Jessi Brooks  
**Jessi Brooks**