DRW

May 11, 2022

Mr. Christopher J. Kirkpatrick
Secretary
U.S. Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

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

Dear Mr. Kirkpatrick,

DRW Holdings, LLC ("DRW") appreciates the opportunity to respond to the U.S. Commodity Futures Trading Commission's ("CFTC" or Commission") request for comment on the request of LedgerX, LLC d.b.a. FTX US Derivatives ("FTX") to amend its derivatives clearing organization ("DCO") registration order to allow it to offer margined products under its existing non-intermediated clearing model (such request, the "Proposal"). We have confined our comments on the Proposal to statements of high-level principles, as we understand that FTX and the Commission are engaged in extensive discussions on the details of the Proposal and anticipate many further changes will be made. Our ultimate support of the Proposal will be conditioned on the Commission addressing all necessary changes related to the DCO rulebook before approving the Proposal.

DRW supports competition and evolution in financial markets and related technologies, including trading and clearing infrastructures. We commend the Commission for its leadership in considering innovative clearing arrangements while thoughtfully addressing potential attendant risks.

We believe innovative aspects of the Proposal have the potential to enhance the existing clearing model in the United States if accompanied by adequate customer protection. These include 24/7, real-time recalculation and exchange of margin,[1] with such rapid collateral movement supported by blockchain technology. These features could reduce systemic risk resulting from buildups of exposures between margin cycles and unavailability of collateral during times of market stress, as compared with traditional clearing practices. The automated nature of such features also provides predictability and objectivity that is critical to market participants.[2] And the focus on risk management through enhanced margin coverage

[1] Under the Proposal, profit and loss on positions would be recalculated every 30 seconds.
[2] Subjective decision-making in margin management processes has led to significant market disruptions several times in recent years, including the March 2022 LME Nickel short squeeze, the September 2018 Nasdaq OMX clearing member default, and the March 2021 Archegos collapse. While the Archegos defaults did not involve a clearinghouse, they demonstrate prime broker failures to set and enforce appropriate margin requirements because of a fear of harming a large client relationship. *See, e.g.*, Credit Suisse Group Special Committee of the Board of Directors, *Report on Archegos Capital Management* (July 29, 2021).

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rather than futures commission merchant ("FCM") intermediation could help to address concerns of credit risk concentration resulting from the trend toward FCM consolidation.[3]

The Proposal could also properly align risk-management incentives to the extent it proposes default procedures that would not mutualize losses, such as defaulter-pays mechanisms, transfers of defaulted positions to members that have chosen to act as primary backstop liquidity providers ("BLP"), and contributions of the DCO's own capital. We believe these procedures, together with the Proposal's enhanced margin-management processes, could obviate the need for harmful forced-mutualization practices such as variation margin gains haircutting ("VMGH") and partial tear-ups ("PTU").[4]

While we believe many of the Proposal's novel aspects may promote healthy competition and improved risk management in the clearing space, we appreciate the Commission's thoughtfulness in fostering public deliberation regarding the Proposal. As part of this process, it is critical to have clarity as to the precise default-management waterfall being proposed and to ensure that the Proposal provides robust protection to all member funds and positions, during business as usual and in any recovery and/or resolution scenarios. In addition, any conflicts of interest related to the DCO's decision-making should be disclosed and mitigated to the greatest extent possible. Finally, any reservations of decision-making discretion by the DCO, in its rulebook or otherwise, should be bounded by objective criteria that give participants, regulators, and the public reasonable notice as to how the DCO will exercise such discretion. We appreciate FTX's willingness to address questions in these areas and look forward to further engagement.

DRW thanks the Commission for the opportunity to comment on these important issues. Please feel free to contact the undersigned with any questions you may have on our comments.

Sincerely,

W. Graham Harper

Head of Public Policy and Market Structure

[3] There were 171 FCMs registered with the CFTC in 2005, 76 in 2014, and 61 in 2022. We support the decision to promote user choice by accommodating but not requiring FCM intermediation, provided that *all* participant funds remain subject to segregation and other critical customer protections.
[4] The Proposal's default waterfall currently includes PTU (referred to as "secondary BLPs") and VMGH. We advocate removal of these proposed waterfall layers.