

May 11, 2022

Via Electronic Delivery
Mr. Christopher J. Kirkpatrick
Secretary of the Commission Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: LedgerX LLC d/b/a FTX US Derivatives (“FTX US”) Request to Amend DCO Order of Registration (IF 22-001)

Dear. Mr. Kirkpatrick,

Multicoin Capital Management, LLC (“Multicoin”) appreciates the opportunity to comment on the request by the Commodity Futures Trading Commission (“CFTC”) for public comment on FTX US’ request to amend its order of registration as a derivatives clearing organization (“DCO”). The proposed amendment will allow FTX to provide an environment for efficient, continuous clearing of derivatives with a reduced reliance on futures commission merchants (“FCMs”). We believe this innovation will have a net positive impact on capital efficiency, with the added benefits of reducing and making more transparent risk in derivative markets. As a result, we believe the proposed amendment will help foster innovation in American markets and benefit participants.

Multicoin is an asset management firm focused on the digital asset ecosystem. We are a registered investment adviser and manage both venture and liquid market portfolios. We have deep familiarity with digital asset markets and are knowledgeable about FTX’s platform and the clearing model they have proposed to adopt on FTX US. Funds managed by Multicoin have invested in FTX US. Multicoin strongly supports the proposed amendment for the reasons set forth below.

1. The Proposed Amendment Promotes US Competitiveness

The US has long been the dominant force in commodities and equities markets due to proximity to capital and subject markets (be they commodity or equity). The US markets have also led on certainty and innovation. Certainty comes both from reliable market venues and active, responsible regulation. But certainty is not enough; we believe that US markets are strong because they are innovative and quick to absorb the innovation of others.

Digital asset markets have historically focused on capital access and innovation. US dominance has been disrupted in digital assets because markets can innovate faster abroad, and market participants tend not to be captive to geographic borders, particularly within spot markets. Parties such as FTX US’ sister entity FTX.com (a Bahamian digital asset trading platform) have developed and tested newer market models that adapt to a 24-7-365 reality and a retail-oriented customer base. FTX.com has also innovated with market leading risk engines and margining systems. As a result, trading volumes on overseas markets such as FTX.com have led those of US markets by nearly ten-fold.¹

¹ FTX.com is not available to US investors, who are serviced by FTX US and other US-regulated platforms.

CFTC approval of the proposed amendment would help increase US market competitiveness by allowing domestic market participants to implement appropriate market structure innovations. Of equal importance, US market dominance will allow US participants and regulators to shape the financial market structure and conduct of the new digital economy.²

The CFTC has long supported the development of new products and has been an active, productive regulator for the digital asset markets for which they have regulatory authority. In particular, the LabCFTC division has been on the forefront of market innovation issues, including those relating to bitcoin, ether and other digital assets. The CFTC has also recently launched innovation contests and hosted virtual conferences known as the Empower Innovation series. This dedication to responsible innovation and measured regulation is well rooted in the CFTC's mission.

We believe FTX US's proposal represents responsible innovation that can improve market quality, reduce risk and provide market participants with greater choice. We also believe that it will bring leadership in digital asset market innovation back to the US, and allow the CFTC to help shape the ongoing evolution of digital asset derivatives markets.

2. The Proposed Amendment Will Improve Product and Venue Choice for Investors

While not replicating overseas market developments in their entirety, the proposed amendment would allow FTX US to bring the lessons of FTX.com and other marketplaces to bear in a way that will improve the availability, form and risk profile of derivative instruments for US retail and institutional investors.

The CFTC's request for comment addresses the homogeneity and limited number of options available to US commodity interest investors. These models – both intermediated and non-intermediated – have developed in response to positive technology developments and negative market failures. The current status quo is not easy for the majority of the investing public. FTX US seeks to make these markets more accessible to both institutional and suitable retail participants.

FTX US seeks to introduce margined, non-intermediated contracts that will trade 24-7 and utilize risk engines that go to work 2-6 times per minute, every minute. These risk engines will improve market and regulator insight into exposure on a real time basis. More granular analysis and data availability can only have positive impacts on investing and regulatory results.

The proposed platform will be direct-to-investor, replacing FCM exposure with a system that eliminates mutualization of losses by (i) continuously measuring risk on an individual investor basis, (ii) developing a guaranty fund measured against the failure of the largest counterparties, and (iii) putting in place alternative liquidity providers to step up in the event of mass liquidations.

² Multicoin is a proud member of the Association for Digital Asset Markets, a standard setting body that has established a code of conduct for member organizations relating to their activities in digital asset markets. This code of conduct is available at <https://www.theadam.io/code/>. FTX US, FTX.com and many other leading institutions are members of the Association of Digital Asset Markets.

This market structure will introduce diversity into the US commodity interest markets, allowing users to select between traditional, FCM-driven access (which remains an option for market participants on FTX US) and a direct-to-investor access point. FTX US market access is not turned off overnight, on weekends, or during bank holidays. This availability will reduce the potential for market dislocations during down periods.

3. The Proposed Amendment is a Positive Advancement Over an Intermediated System

If approved, the proposed amendment would foster market competition and efficiency by limiting intermediaries (and intermediary risk) and eliminating market downtime.

In the intermediated legacy system, FCMs play a central role in limiting the investor-side counterparty risk and the potential for socialized losses. Investors on an intermediated market are required to trade through FCMs, which guarantee the obligations of their end customers. This system shifted risk from the failure or default of an end customer to the risk of default from a small subset of FCMs.³ An FCM oriented system was a rational and effective response to the financial crisis. As markets and technology have evolved, this tradeoff may not provide protections more robust than the system proposed by FTX US, and it certainly challenges market and capital efficiency.

FTX US's proposal allows it to utilize innovations in technology and market structure to implement a better, more efficient system for bitcoin and ether derivatives markets. Importantly, through technical automation, FTX US proposes to provide an "always watching" risk management system for these two "always open" digital asset markets. In doing so, it allows US markets to compete with international venues that have enjoyed oversized market share and influence.

This risk management system will allow (i) FTX US to have real time insight into the risk for each individual investor; (ii) the CFTC to have real time insight into the risk present in the system, measured on an individual investor basis; (iii) FTX US to view risk on an individual level, rather than seeking to measure the credit-worthiness of an FCM's more opaque client registry; and (iv) FTX US to engage in an efficient liquidation system that is not subject to jarring margin calls due to overnight or weekend market activity.⁴

As a result, we encourage the CFTC to consider that the technology and new market structures for risk assessment advanced by FTX US iterate upon and improve the current intermediated and disintermediated market structures as they apply to bitcoin and ether markets.

³ While an FCM-focused system captures counterparty risk within a single, regulated counterparty, it is not clear that such a structure is beneficial or required for digital asset markets that facilitate retail and institutional access. As described in their proposed amendment, FTX US has developed a model that can use technology to continually monitor for and address risk on an individual basis while limiting the risk of socialized losses. By adapting to such a system, markets may reduce the likelihood and contagion that would result from the failure of an FCM.

⁴ A real time economy deserves real time derivatives markets and, more importantly, real time assessment and action on risk. By measuring this risk at the individual level, FTX US can act more granularly both with respect to the subject and timing of actions. Daily or even hourly risk assessments are inadequate for modern markets, particularly those that are volatile. Weekend or overnight downtime compounds the risks of this inadequacy.

4. The Amendment Will Use New Tools To Improve Risk Management

These same tools that promote availability will allow for real-time monitoring of risk both by FTX US and regulators. While derivatives market has taken great leaps in market quality and risk management since the 2008 crisis, we are not currently leveraging all tools available to us.

Instead of operating a direct-to-investor system where risk is managed on an individual basis, most current DCOs mutualize risk and centralize it with FCMs. While we do not argue that FCMs lack a role in modern derivative markets (they most certainly do), for some markets a non-intermediated market can better manage risk on an individual basis.

FTX US proposes to do this by establishing individualized risk parameters, managing them multiple times per minute, and using a tranching liquidation model that mitigates the risk of severe market movements. While FCMs were integrated into modern markets as a risk management technique (i.e., centralizing default risk with a singular party responsible for making whole on behalf of its customers), FTX US proposes to reduce systemic risk by eliminating the central point of failure inherent in the FCM structure.

The FTX US proposal also seeks to return responsibility for risk management to the body best equipped to do so: the DCO. FCMs were an adequate stop gap and will remain an effective tool for many market participants, just as financial advisers are an important tool in the current world of online, zero-commission equity brokerage. FTX US is a sophisticated organization with a proven track record – both internally and with its sister entity, FTX.com – of developing best-in class risk and trading engines.

We are encouraged by the risk monitoring system developed by FTX US. We also believe that a real time margining system with tranching liquidation systems is a material improvement on the current market practices. We also believe that FTX US's guaranty fund and liquidity provider program provide appropriate safeguards against black swan events.

For the reasons stated above, we write to express our strong support for the FTX US proposal. Should the CFTC have any questions regarding this letter, please do not hesitate to contact our General Counsel, Gregory Xethalis, at legal@multicoin.capital or 512-774-4000.

Respectfully submitted,

/s/ Tushar Jain
Tushar Jain
Co-Managing Partner

/s/ Kyle Samani
Kyle Samani
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