



August 18, 2025

Via Electronic Submission

Christopher Kirkpatrick
Secretary, Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Request for Input on Listing of Spot Crypto Asset Contracts

Dear Mr. Kirkpatrick:

Paradigm Operations LP (“Paradigm”) appreciates the opportunity to respond to the request for input (the “RFI”) by the Commodity Futures Trading Commission (“Commission” or “CFTC”) on the listing of spot crypto assets on a designated contract market (“DCM”).¹ Paradigm is a registered investment adviser that manages funds focused on crypto and related technologies.² We support the Commission’s efforts to expand the ways that crypto assets can be trading in the United States in a well-regulated setting, which is part of the broader roadmap laid out by the President’s Working Group on Digital Asset Markets (the “PWG”) in its July 31, 2025 report (the “PWG Report”).³

The RFI’s focus, while important, is relatively narrow: allowing trading of spot crypto assets on the same centralized exchanges where futures trade, *i.e.*, DCMs. We applaud the Commission for taking steps to try and increase regulatory clarity on crypto and finding ways to reduce pointless barriers between crypto and the traditional financial system.

But blockchain technology has enabled the crypto market to evolve beyond this market structure, which dates back to the 19th century. Significant trading volume now takes

¹ *Acting Chairman Pham Launches Listed Spot Crypto Trading Initiative*, CFTC Release No. 9105-25 (Aug. 4, 2025), available at <https://www.cftc.gov/PressRoom/PressReleases/9105-25>.

² More information about Paradigm is available online at <https://www.paradigm.xyz/>.

³ STRENGTHENING AMERICAN LEADERSHIP IN DIGITAL FINANCIAL TECHNOLOGY, PRESIDENT’S WORKING GROUP ON DIGITAL ASSET MARKETS (July 30, 2025), available at <https://www.whitehouse.gov/crypto/> (“PWG REPORT”).

place over decentralized finance (“DeFi”) protocols where users retain custody of their own assets and trade on a peer-to-peer basis without any intermediaries.⁴

The PWG has welcomed this evolution, calling on the Commission to “embrace decentralized finance as an option for individuals and investors” and provide “clarity on the applicability of various CFTC registration requirements to DeFi activities.”⁵ Consistent with that vision, this letter explains why the Commission should permit retail participants to trade spot crypto assets on a leveraged, margined, or financed basis over DeFi protocols. At the very least, any approval of spot crypto assets on DCMs should not unfairly disadvantage or disallow users from trading DeFi. We also present a path for how the Commission can accomplish this objective in a manner consistent with the Commodity Exchange Act (“CEA”).

DeFi Trading Promotes the CEA’s Objectives

The Commission’s regulatory objectives are to “deter and prevent price manipulation or any other disruptions to market integrity; to ensure the financial integrity of all transactions subject to [the CEA] and the avoidance of systemic risk; to protect all market participants from fraudulent or other abusive sales practices and misuses of customer assets; and to promote responsible innovation and fair competition among boards of trade, other markets and market participants.”⁶ Trading over DeFi protocols checks every single one of these boxes:

- Users can place their orders straight through to the protocol using passive software that preserves full user control over their trading and assets. As a result, users do not face the front-running, misappropriation, and similar conduct risks present when trading through an intermediary. DeFi is one of the best technologies we have for empowering ordinary users.
- Self-custody further ensures that a user does not face the risk of losing his or her assets due to the insolvency of a broker or other custodian. We agree with the PWG Report that self-custody is a right for Americans and must be protected.⁷

⁴ CoinGecko, a cryptocurrency data platform, reported that the total twenty-four-hour trading volume of spot crypto on DeFi protocols on August 13, 2025 was approximately \$15.7 billion. *Top Decentralized Exchange Ranked by 24H Trading Volume*, (accessed as of August 13, 2025), available at <https://www.coingecko.com/en/exchanges/decentralized>. DeFiLlama, a DeFi analytics platform, estimates the total value locked—the aggregate value of assets that are currently staked or otherwise committed to a DeFi protocol—to be \$158 billion on the same date. *Total Value Locked in DeFi*, DeFiLlama (accessed on August 13, 2025), available at <https://defillama.com/>.

⁵ PWG REPORT at 6, 52.

⁶ 7 U.S.C. § 5(b) (listing the purposes of the CEA).

⁷ See PWG REPORT at 54, 108.

- Atomic, instant settlement and transparent, automated position management and margining mechanics all individually and collectively reduce risk of counterparty default or other sources of financial integrity or systemic risk.
- Protocols typically operate on a permissionless and autonomous basis. No person or group of commonly controlled persons can block or censor access or trading or otherwise exercise discretion over how the protocol operates. These characteristics natively ensure impartial access and mitigate conflicts of interest. They also create new forms of competition for existing markets and are a hotbed of innovation in trading.
- Protocols deployed on public ledgers provide users and the general public with freely available information about prices and trading, which promotes price discovery and more efficient and transparent markets. Such transparency helps confirm the sanctity and honesty of our markets and increases trust in our financial markets among users and the American people.
- The immutability and auditability of blockchain provides timely, trustworthy information about markets to support ongoing surveillance, investigation and, as necessary, enforcement. These records support the goals and mission of the Commission to ensure orderly operation of the commodities markets and ward off market manipulation and fraud.
- The distributed and scalable nature of public blockchains enhances operational resilience and supports business continuity.

Together, these features enable DeFi protocols natively to achieve the CEA’s objectives. In contrast, forcing parties to trade through intermediaries—whether DCMs, futures commission merchants, or others—would expose them to the very risks the CEA is designed to address.

Supporting DeFi Is a Core Administration Objective

President Donald J. Trump vested the PWG with the authority to recommend regulatory proposals that advance the Administration’s policies.⁸ The PWG has been unambiguous in its support of DeFi innovation in the digital asset markets.⁹ The PWG urges agencies

⁸ *Strengthening American Leadership in Digital Financial Technology* (Jan. 23, 2025), available at <https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/> (“PWG EO”).

⁹ *See, e.g.*, PWG EO (advocating for the support of “responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy, including by... providing regulatory clarity and certainty built on technology-neutral regulations [and] frameworks that account for emerging technologies”) (emphases added); PWG REPORT at 51-52, 106-07, 138, 141-42, 146 (encouraging Congress and agencies, including the Commission, to

to embrace DeFi to “help position the United States as a leader in the global crypto economy.”¹⁰ The PWG Report also argues that DeFi solutions will “unlock new economic opportunities and drive significant advancements across various industries and sectors.”¹¹ This perspective is shared more broadly by other personnel within the Administration, including Acting Chairman Caroline Pham.¹²

So the Commission should not—and need not—wait for legislative initiatives to clarify the treatment of spot market DeFi activities. The Commission should heed the calls by the Administration and expeditiously embrace DeFi in crypto trading using its existing authority. Offering a clear and reliable regulatory path for DeFi trading today would meet clear market demand and prevent the offshoring of next-generation markets.

The CEA Authorizes the CFTC to Facilitate DeFi

Critics of DeFi have argued that the CEA presupposes the presence of registered intermediaries.¹³ It is true that the Commission’s regulatory framework has historically relied on the presence of registered intermediaries, such as DCMs, to further statutory objectives.¹⁴ However, this trend is not one required by Congress but is merely an effect of happenstance. Congress does not and has never required intermediation in the CEA, and we should not read such a mandate into what is little more than an accident of history.

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- provide relief for DeFi service providers from certain requirements, to revise existing regulations to support DeFi protocols, and to provide clarity on the applicability of existing requirements).
- ¹⁰ PWG REPORT at 57.
- ¹¹ *Id.*
- ¹² Hon. Caroline D. Pham, *Single Market? A Simple Market is the Key to US Markets’ Success*, Int’l Banker (Mar. 3, 2025), available at <https://internationalbanker.com/finance/single-market-a-simple-market-is-the-key-to-us-markets-success/> (advocating that the Commission extend its exemptive authority to cover spot crypto, a “simple approach [that would also] work[] for DeFi because it is the trading activity that is regulated, not the decentralized protocol that is akin to software”).
- ¹³ “Enforcement by Enforcement:” *The CFTC’s Actions in the Derivatives Markets for Digital Assets*,” PLI White Collar Crime 2023 Keynote Speech of Enforcement Director Ian McGinley (Sept. 11, 2023), available at <https://www.cftc.gov/PressRoom/SpeechesTestimony/opamcginley1> (describing DeFi as “an obvious threat to the markets regulated and customers protected by the CFTC” because of the absence of a regulated exchange).
- ¹⁴ See, e.g., 17 C.F.R. Part 38; see also *CFTC Announces Staff Roundtable Discussion of Non-Intermediation*, CFTC Release No. 8519-22 (Apr. 27, 2022), available at <https://www.cftc.gov/PressRoom/PressReleases/8519-22> (“With limited exceptions, derivatives trading today is conducted through regulated intermediaries who perform many important functions, including providing customers with access to exchanges and clearinghouses, processing transactions, ensuring compliance with federal regulations, and guaranteeing performance of the derivatives contract to the clearinghouse.”); *Remarks of Commissioner Rostin Behnam at the BFI Summit “Fostering Open, Transparent, Competitive, and Financially Sound Markets,”* CFTC Public Statements & Remarks (June 4, 2018), available at <https://www.cftc.gov/PressRoom/SpeechesTestimony/opabehtnam7> (“Traditionally, there has been a need for a trusted intermediary... to serve as a gatekeeper for transactions and many economic activities.”).

The CEA’s requirements for centralized trading do not represent an inherent preference for intermediaries relative to peer-to-peer trading. To the contrary, these requirements date back to an early 20th century drive to combat a particular type of intermediary: unregulated “bucket shops,” which often engaged in manipulative and predatory practices.¹⁵ To combat those practices, the CEA and its predecessor statutes mandated trading over a different type of intermediary, *i.e.*, DCMs. Notably, that mandate did not require the use of intermediaries *per se*. Instead, in an era where disintermediation was technologically infeasible, this mandate merely stated the type of intermediary to be used, namely, DCMs. This distinction, though minute, is critical.

That mandate originated in an era many decades ago when technology did not permit trading with no intermediary at all. That era is now behind us. As laid out above, distributed ledgers and DeFi protocols now enable peer-to-peer trading in a manner that promotes relevant policy objectives without depending on an intermediary.

Congress also wisely recognized that innovation could outpace the need for exchange-trading requirements. We have often heard how the CEA is a flexible statute that is meant to evolve with the times, to allow the Commission to change with the times and not become ensnared by the past. Not only is promoting innovation an express purpose of the CEA,¹⁶ but Congress armed the Commission with authority, in Section 4(c) of the CEA, to adopt exemptions from exchange-trading and other requirements “[i]n order to promote responsible economic or financial innovation and fair competition.”¹⁷ It is therefore not only legally acceptable but in furtherance of the goals of the CEA to allow disintermediation and thus DeFi trading of spot crypto assets.

The Commission should exercise this authority to permit retail users to enter into leveraged, margined, or financed transactions in spot crypto assets—as well as derivatives, such as perpetual contracts—over DeFi protocols that exhibit the beneficial characteristics described above. By taking this step alongside permitting such trading over DCMs, the Commission can better promote innovation and competition, as the CEA envisages.

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¹⁵ In 1922, in response to the manipulation of grain prices—including through the use of bucket shops—Congress enacted the Grain Futures Act, a predecessor to the CFTC’s modern DCM infrastructure. Pub. L. No. 67-331, 42 Stat. 998 (1922). After the Supreme Court held that the Grain Futures Act (and a similar following statute) did not supersede applicable state gambling law, Congress enacted the Commodity Futures Trading Commission Act in 1974, creating the Commission and vesting it with authority to oversee the futures trading industry. Pub. L. No. 93-463, 88 Stat. 1389 (1975). *See also* McGinley, *supra* note 13 (“The [CEA] has deep roots in protecting individuals from fraud and abuse. The original impetus for the [a]ct is found, in part, in the bucket shops of the 19th and early 20th centuries.... [I]n unregulated markets, unsavory operators took advantage of naïve individuals hungry for riches.”).

¹⁶ *See* note 6, *supra*.

¹⁷ 7 U.S.C. § 6(c)(1).

Paradigm appreciates the Commission's consideration of our comments. If you have questions or would like to discuss these comments further, please reach out to jslaughter@paradigm.xyz.

Sincerely,

/s/ Justin Slaughter

Justin Slaughter

VP of Regulatory
Affairs

Paradigm