



December 15, 2022

Klaas Knot
Chair
Financial Stability Board
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dietrich Domanski
Secretary General
Financial Stability Board
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Consultation: Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets

Dear Sirs:

Cboe Global Markets (“Cboe”) appreciates the opportunity to provide comments on the Financial Stability Board’s (the “FSB’s”) consultation on the regulation, supervision and oversight of crypto-asset activities and markets. Cboe has spent decades growing markets safely. We strongly believe a properly tuned regulatory framework and oversight of crypto-asset activities will provide significant benefits to investors and the growing digital asset ecosystem. We applaud the FSB’s continued focus on this evolving space. Please consider the recommendations below in your analysis.

Cboe Digital

Cboe is a global exchange operator and a leading voice for the healthy development of the digital asset ecosystem.¹ Cboe Digital, a Cboe subsidiary, is a U.S. based platform providing access to crypto spot and regulated futures markets. Cboe Digital futures are offered through Cboe Digital Exchange, LLC, a Commodity Futures Trading Commission (“CFTC”) registered Designated Contract Market (“DCM”) and Cboe Clear Digital, LLC, a CFTC registered Derivatives Clearing Organization (“DCO”). The Cboe Digital spot market is subject to certain state licensing requirements, including the BitLicense of the New York State Department of Financial Services.

Cboe’s Recommendations

We support the FSB’s high-level recommendations for the regulation, supervision and oversight of crypto-asset activities and markets. Authorities should have appropriate powers and tools to oversee activities and should apply those powers effectively while cooperating and coordinating domestically and

¹ Cboe also offers trading across a diverse range of products in multiple asset classes and geographies, including options, futures, U.S., Canadian and European equities, exchange-traded products (“ETPs”), global foreign exchange (“FX”) and volatility products based on the VIX Index, recognized as the world’s premier gauge of U.S. equity market volatility.

internationally (Recommendations 1-3). Proper governance, risk management, information security, transparency and disclosures should be central to the operations of market actors (Recommendations 4-7). Finally, it is appropriate for relevant authorities to monitor interconnectedness and financial stability risk, as well as to ensure that entities serving multiple functions (e.g., custody, trading, settlement, lending, borrowing or proprietary trading) are properly regulated and segregated when necessary (Recommendations 8-9).

Local authorities rightly considering the characteristics of individual marketplaces will necessarily vary on the most effective and beneficial way to implement the FSB's recommendations. This makes it difficult to provide specific feedback on the recommendations as the practical implications of policy changes become most apparent once introduced at the local level. However, **we believe the information below should inform the FSB's work and final recommendations.**

Cboe Digital can be a model structure for crypto trading platforms. Cboe Digital offers unconflicted agency-only matching. Cboe Digital does not trade proprietarily against its own customers or have affiliated trading groups trading against its customers. Unconflicted matching is an important tenet of a true exchange operator. In addition, Cboe Digital properly segregates customer funds and reviews operations via independent financial audits and operational integrity audits. Moreover, Cboe Digital is subject to ongoing regulatory reporting and is required to report with full transparency its ultimate beneficial owners. Cboe Digital maintains regulatory required minimum capital that obligates the holding of capital to cover at least 12 months of operational expenses. Cboe Digital also maintains a market surveillance program to monitor, detect, and review for potential manipulation and other abusive practices, including as it relates to the spot market. This is a customer protection philosophy that not all crypto trading platforms share but is a central tenet to traditional financial markets. Cboe Digital also maintains policies, procedures, and controls to mitigate potential counterparty risk. In addition, Cboe Clear Digital complies with the CFTC Core Principles and is subject to regular audits and oversight. Cboe Clear Digital has received a SOC 1 type II and SOC 2 type II certification.²

These are a few of the ways Cboe Digital can serve as a model for crypto trading platforms. For additional information see [Cboe Digital's recent customer letter](#).

Prudential requirements matter and must be implemented in a manner that is technology neutral and supports risk management practices such as hedging and clearing. In our experience, whether prudential requirements are properly calibrated will help determine whether markets can function properly. If authorities want to reduce systemic risk, market participants must be incentivized and encouraged to provide liquidity and support traditional, centrally cleared markets via trusted intermediaries and providers that are subject to robust regulation and risk management frameworks. With respect to the Basel Committee on Banking Supervision's ("BCBS's" or "Committee's") second consultation on the prudential requirements for crypto-asset exposures this means the requirements should be designed in a way that allows banks to support crypto-asset activities. This will allow market-makers, custodial services, and traditional intermediaries to meaningfully deploy their risk management expertise to the crypto-asset

² <https://ir.cboe.com/news-and-events/2022/12-05-2022/cboe-digital-continues-demonstrate-commitment-highest-levels-financial-and-operational-controls-crypto-industry-soc-1-completion>

ecosystem. We believe the below recommendations to the BCBS consultation would help achieve these goals.

- Group 2 Exposure Limit: In order to allow banks to support the crypto-asset ecosystem, especially as it relates to clearing, we encourage the Committee to: exclude exchange-traded, centrally cleared exposures from the exposure limit; allow banks to recognize economically offsetting exposures when calculating the limit (or at a minimum apply the limit to a bank's max long or short positions); and raise the 1% exposure limit.
- Group 2a Hedging: In order to promote risk management practices, we encourage the Committee to expand the hedging criteria applicable to Group 2a assets to include, among other things, physically-settled derivatives.
- Permissioned vs. Permissionless Blockchains: In order to remain more technology neutral, we encourage the Committee to: eliminate the blanket declaration against permissionless blockchains being considered Group 1 assets; explicitly declare that permissioned applications utilizing permissionless blockchains may satisfy the classification criteria for Group 1; articulate the specific prudential risks that lead to Group 1 treatment; endorse the ability of local supervisors and regulators to determine whether a crypto-asset utilizing a permissionless blockchain may receive Group 1 treatment.
- DLT Add-On: In order to remain more technology neutral, we encourage the Committee to eliminate the distributed ledger technology ("DLT") add-on or endorse the ability of local supervisors and regulators to determine whether a DLT add-on is appropriate.

See [Cboe's letter in response to the BCBS consultation](#).

Coordination between authorities is vital. As the prudential considerations demonstrate, capital requirements are not simply about maintaining adequate safeguards. They also impact the ability of traditional, regulated finance to participate in and support the crypto-asset ecosystem. We strongly encourage the FSB, central banks and banking regulators to coordinate closely with market regulators to monitor and understand the implications prudential requirements have on the smooth operation of markets. The impact of prudential requirements on markets is but one example where special care and cooperation amongst regulators is needed.

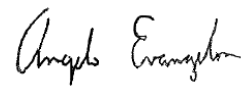
Authorities should take concrete steps to reduce uncertainty, increase transparency and promote investor protection. Crypto-asset activities touch many different products and services, as well as regulators with varying jurisdictions. This means there is unlikely to be a single regulatory panacea that will solve all issues in the ecosystem. In light of this, we believe investors would benefit from policymakers pursuing initiatives that are actionable in the near-term and that reduce uncertainty, increase transparency and promote investor protection. For example, in the US, we believe legislative action to provide the CFTC with direct oversight of the spot trading market for digital asset commodities would benefit investors. In addition, we are encouraged that the SEC is considering ways regulated venues can support the digital asset ecosystem. Ensuring that investors get exposure to crypto-assets via trusted, transparent, regulated venues would be a significant accomplishment. With respect to the FSB, it may be beneficial for the recommendations to encourage authorities to support concrete, practical, near-term

initiatives rather than solely focusing on implementing an omnibus salve. See [Cboe's path forward for digital asset trading regulation in the US](#).

Authorities should articulate how crypto-asset issuers and providers can navigate the path from unregulated to regulated. Many investors have exposure to assets that would be negatively impacted from overnight cessation of activities. We believe the FSB recommendations should encourage authorities to provide an efficient onboarding mechanism that will mitigate investor harm by allowing crypto-asset issuers and services providers to come into the regulatory fold in a managed and productive manner.

Our objective is a regulatory framework that supports the healthy maturation of the digital asset ecosystem. Cboe appreciates the opportunity to share its views and welcomes the opportunity to discuss these comments further.

Sincerely,



Angelo Evangelou
Chief Policy Officer
Cboe Global Markets, Inc.