



June 8, 2018

Christopher J. Kirkpatrick  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: Cboe Futures Exchange, LLC Rule Certification  
Submission Number CFE-2018-008

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (“Commission”) under the Act, Cboe Futures Exchange, LLC (“CFE” or “Exchange”) hereby submits a CFE rule amendment (“Amendment”) to amend CFE Policy and Procedure IX which sets forth the Cboe Bitcoin (USD) Futures Lead Market Maker Program (“LMM Program”). The Amendment is set forth in a segregated confidential Appendix A to this submission. The Amendment will become effective on June 22, 2018.

Any CFE Trading Privilege Holder (“TPH”) organization may apply to the Exchange for appointment as a lead market maker (“LMM”) in the LMM Program. The Exchange may approve up to three LMMs for XBT futures. TPHs are selected by the Exchange based on the Exchange’s judgment as to which applicants are most qualified to perform the functions of an LMM for XBT futures based on specified criteria. The Amendment revises the market performance benchmarks that LMMs must satisfy in order to receive specified benefits under the LMM Program. The amended market performance benchmarks include parameters with respect to minimum two-sided quote size and maximum quote width. The market performance benchmarks are applicable during both regular trading hours and extended trading hours for XBT futures. The benefits under the LMM Program are intended to attract and retain liquidity providers in XBT futures. Exhibit 1 to this submission includes an amended description of the LMM Program which CFE will include in Policy and Procedure IX of the Policies and Procedures Section of the CFE Rulebook.

The LMM Program has been in place since December 15, 2017. Based on that experience, CFE believes that the amended LMM Program will be better suited to the characteristics of the market in XBT futures in light of, among other things, the generally prevailing size, volume, order flow, depth of market, and volatility in XBT futures. The Exchange believes that the market performance benchmarks and associated benefits under the amended LMM Program strike the appropriate balance to incentivize and retain liquidity providers in XBT futures.

The LMM Program currently expires on December 31, 2019, unless the LMM Program is extended by the Exchange. As is currently the case, CFE may determine to extend the term of the LMM Program and LMM appointments under the LMM Program, allow the LMM Program and

LMM appointments under the LMM Program to expire, terminate the LMM Program and all LMM appointments under the LMM Program at any time, or replace the LMM Program with a different market maker program at any time. In addition to the Amendment, CFE is currently considering whether to retain the amended LMM Program during its full term or to replace it with a different type of program. Any of the above actions, other than allowing the LMM Program to expire, would be done through a subsequent rule amendment submission to the Commission.

CFE believes that the Amendment is consistent with Designated Contract Market Core Principles 2 (Compliance with Rules), 4 (Prevention of Market Disruption), 9 (Execution of Transactions), and 12 (Protection of Markets and Market Participants) under Section 5 of the Act. All LMMs in the LMM Program are obligated by CFE Rule 308 to comply with Exchange rules and are required under the terms of the LMM Program to utilize Exchange match trade prevention functionality under CFE Rule 406B with respect to trading in XBT futures. The Exchange also surveils for wash trading by LMM Program participants. Exchange rules include prohibitions against fraudulent, non-competitive, unfair, and abusive trading practices, and the Exchange monitors trading in XBT futures for violative activity such as manipulative trading and market abuse. The Exchange believes that the amended LMM Program will have a positive impact on the price discovery process by fostering liquidity, market width and size, and volume in XBT futures traded on CFE's centralized market and by incentivizing market participants to devote their efforts to enhancing market quality in XBT futures. Enhanced market quality benefits all participants in the XBT futures market. Accordingly, CFE believes that the impact of the Amendment will be beneficial to the public and market participants.

CFE is not aware of any substantive opposing views to the Amendment. CFE hereby certifies that the Amendment complies with the Act and the regulations thereunder. CFE further certifies that it has posted a notice of pending certification with the Commission and a copy of this submission on CFE's Web site (<http://cfe.cboe.com/aboutcfe/rules.aspx>) concurrent with the filing of this submission with the Commission.

Questions regarding this submission may be directed to Arthur Reinstein at (312) 786-7570 or Nicole Gordon at (312) 786-8109. Please reference our submission number CFE-2018-008 in any related correspondence.

Cboe Futures Exchange, LLC

[/s/ Matthew McFarland](#)

By: Matthew McFarland  
Managing Director

## EXHIBIT 1

(Additions are shown in underlined text and deletions are shown in ~~stricken~~ text)

### **Cboe Futures Exchange, LLC Policies and Procedures Section of Rulebook**

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#### **IX. Cboe Bitcoin (USD) Futures Lead Market Maker Program**

Trading Privilege Holder (“TPH”) organizations may apply to the Exchange for appointment as a lead market maker (“LMM”) in the CFE Bitcoin (USD) (“XBT”) Futures Lead Market Maker Program (“Program”).

The Exchange may approve up to three TPHs as LMMs in the Program. Any TPH that desires to apply for LMM status in the Program should submit an application in the form of a letter outlining the organization’s qualifications and commitments. TPHs shall be selected by the Exchange based on the Exchange’s judgment as to which applicants are most qualified to perform the functions of an LMM under the Program. Factors to be considered in making this selection may include, but are not limited to, satisfaction of the qualifications listed below as well as any one or more of the factors listed in Rule 515(b), as applied to LMM applicants instead of with respect to DPM applicants.

The following describes the qualifications, market performance benchmarks, benefits, and appointment term under the Program unless otherwise specified.

#### **Qualifications**

- Experience in trading spot bitcoin.
- Ability to automatically and systematically provide two-sided markets during extended trading hours and regular trading hours.

#### **Market Performance Benchmarks**

- Each LMM shall identify in advance to the Exchange the EFIDs through which the LMM will provide Orders or quotes to satisfy the market performance benchmarks under the Program. Each LMM is required to utilize Exchange match trade prevention functionality under Rule 406B with respect to trading in XBT futures.
- ~~• Each LMM shall provide Orders:~~
  - ~~○ in the two XBT futures contracts with the nearest expirations,~~
  - ~~○ at least 90% of the time,~~
  - ~~○ throughout each trading day during both regular trading hours and extended trading hours for XBT futures,~~

- that result in three two-sided quotes with minimum quote sizes and maximum quote widths in those contracts as set forth in the table below.

XBT Futures Contract with Nearest Expiration	
First Two Sided Quote	
Minimum Quote Size	Maximum Quote Width
5 x 5	10.00 points USD/XBT
Second Two Sided Quote	
Minimum Quote Size	Maximum Quote Width
25 x 25	20.00 points USD/XBT
Third Two Sided Quote	
Minimum Quote Size	Maximum Quote Width
25 x 25	30.00 points USD/XBT
XBT Futures Contract with Second Nearest Expiration	
First Two Sided Quote	
Minimum Quote Size	Maximum Quote Width
5 x 5	10.00 points USD/XBT
Second Two Sided Quote	
Minimum Quote Size	Maximum Quote Width
10 x 10	20.00 points USD/XBT
Third Two Sided Quote	
Minimum Quote Size	Maximum Quote Width
10 x 10	30.00 points USD/XBT

- Each LMM shall provide Orders:
  - in the XBT futures two legged spread with one leg in the XBT futures contract with the nearest expiration and one leg in the XBT futures contract with the second nearest expiration;
  - at least 90% of the time;
  - throughout each trading day during both regular trading hours and extended trading hours for XBT futures;
  - that result in competitive two-sided quotes in that spread.
- Additionally, during the last minute of regular trading hours on each Business Day (generally during the time period from 3:14 p.m. to 3:15 p.m. Chicago time), each LMM shall provide Orders that result in two-sided quotes in conformity with the above referenced two-sided quote benchmarks 100% of the time (instead of 90% of the time).
- The above market performance benchmarks shall be subject to relief in the event of unusual market conditions in XBT futures or in bitcoin in U.S. dollars traded on the Gemini Exchange or other extenuating circumstances to be determined solely by the Exchange. Under conditions as specified in the preceding sentence, each LMM shall use commercially reasonable efforts to provide Orders that result in two-sided quotes in the XBT futures expirations and spreads referenced above and to provide Orders that result in a two-sided

~~quote in response to a request from the Exchange that the LMM post a market for an XBT futures expiration or expirations.~~

- Each LMM shall provide Orders in XBT futures in conformity with specified criteria relating to minimum two-sided quote size and maximum quote width. These criteria apply during both regular trading hours and extended trading hours for XBT futures.
- The Exchange may terminate, place conditions upon or otherwise limit a TPH's appointment as an LMM under the Program or not make payments to a TPH under the Program if the TPH fails to satisfy the market performance benchmarks under the Program. For example, the Exchange may reduce the applicable monthly incentive or revenue pool payment to an LMM under the Program ~~by the pro-rated amount attributable to any trading days during the relevant calendar month on~~ through a proration that takes into consideration the extent to which the LMM does TPH did not satisfy market performance benchmarks under the Program during the applicable calendar month. However, failure of a TPH to satisfy the market performance benchmarks under the Program shall not be deemed a violation of Exchange rules.

## **Benefits**

### *Transaction Fee Waiver*

- ~~There will be a transaction fee waiver for LMMs under the Program for the first full twelve calendar months following the launch of trading in XBT futures and for any initial partial calendar month of trading in XBT futures ("Waiver Period").~~
- ~~This transaction fee waiver will apply to transaction fees in XBT futures (other than any regulatory fees) for transactions resulting from proprietary Orders provided by LMMs under the Program.~~
- ~~This transaction fee waiver will apply to each TPH appointed as an LMM under the Program during the portion of the Waiver Period in which the TPH acts as an LMM under the Program.~~

### *Monthly Incentive Payment*

- ~~Each TPH appointed as an LMM under the Program shall receive a payment from the Exchange in the amount of \$25,000 per calendar month for each calendar month during which the TPH acts as an LMM under the Program ("Monthly Incentive Payment"). If a TPH acts as an LMM for XBT futures during a portion of a calendar month, the payment to that TPH for that calendar month will be pro-rated.~~
- ~~This Monthly Incentive Payment provision of the Program shall terminate if the average daily trading volume ("ADV") in all XBT futures reaches 25,000 contracts per month during three consecutive calendar months. The termination of the Monthly Incentive Payment provision of the Program will occur at the end of the third consecutive calendar month in which the 25,000 ADV threshold is reached. Once the Monthly Incentive Payment provision is terminated, the Monthly Incentive Payment provision shall remain terminated, even if ADV in all XBT futures subsequently falls below the 25,000 ADV threshold in a subsequent calendar month.~~

- ~~Monthly Incentive Payments to LMMs will be made following the end of the applicable calendar quarter. These payments will include any Monthly Incentive Payments accrued prior to the termination of the Monthly Incentive Payment provision of the Program, but not yet paid, if that termination has occurred during the applicable calendar quarter.~~

#### *Revenue Share*

- ~~The Revenue Share provision of the Program shall begin to apply after the calendar month in which the 25,000 ADV threshold is reached for three consecutive calendar months and shall not apply before the termination of the Monthly Incentive Payment provision of the Program.~~
- ~~For each calendar month during which the Revenue Share provision of the Program is applicable, the Exchange will maintain a revenue pool for any TPHs that acted as an LMM under the Program during that month. The revenue pool will be equal to 25% of the total transaction fees (excluding any regulatory fees) collected by the Exchange for transactions in XBT futures during that month.~~
- ~~The revenue pool will be allocated on a pro rata basis to the TPHs that acted as an LMM under the Program during the applicable calendar month based on the contract volume of those TPHs in XBT futures during that month resulting from proprietary Orders provided by those LMMs.~~
- ~~Payments from the revenue pool for a calendar month will be made to LMMs following the end of the applicable calendar quarter.~~
- An LMM is eligible to receive specified benefits in connection with acting as an LMM under the Program.

#### Term

- The Program and each LMM appointment under the Program will expire on November 30, 2019. The Exchange may determine to extend the term of the Program and LMM appointments under the Program, allow the Program and LMM appointments under the Program to expire, terminate the Program and all LMM appointments under the Program at any time or replace the Program with a different LMM program at any time.

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