

coinbase DERIVATIVES

August 13, 2024

VIA CFTC Electronic Portal

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

**Re: CFTC Regulation 40.6(a) Certification: Modification to Rule 533
Coinbase Derivatives Submission #2024-43**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), Coinbase Derivatives, LLC (the “Exchange”) hereby submits for self-certification modifications to the Exchange Rule 533 (the “Rule Amendments”). The purpose of the modification is to amend position limits for the Bitcoin and nano Bitcoin Futures Contracts (collectively, the “Contracts”). The modification to the Contracts will become effective on August 27, 2024, commencing with the September Contracts month and going forward.

Compliance with Core Principles

The Exchange has reviewed the designated contract market (“DCM”) core principles (“Core Principles”) set forth in the Commodity Exchange Act and the CFTC rules thereunder and has identified the following Core Principles that may be directly implicated by Rule Amendments:

Core Principle 2 – Compliance with Rules and Core Principle 4 – Prevention of Market Disruption

All trading on the Exchange is subject to the Exchange’s Rulebook (the “**Rulebook**”) including Chapter 5, which prohibits fraud, non-competitive trading, market manipulation and abusive and disruptive trade practices. Capitalized terms not otherwise defined herein are defined in the Rulebook. Additionally, as with all trading on the Exchange, trading is subject to monitoring and surveillance by the Market Regulation Department, which has the authority to investigate and enforce Exchange rules, as described in Chapter 7.

Core Principle 3 - Contracts Not Readily Subject to Manipulation

The Exchange continues to believe that the Contracts are not subject to manipulation.

Core Principle 7 - Availability of General Information

The Exchange shall continue to publish on its website and in its Rulebook the specifications, terms, and conditions of the Contracts.

Core Principle 8 - Daily Publication of Trading Information

The Exchange shall continue to publish on its website, on a daily basis, the trading volumes, open interest, and price information for the Contracts.

Core Principle 9 – Execution of Transactions

The Contracts will continue to be listed for trading on the Exchange’s trading system, which provides for efficient, competitive, and open execution of transactions pursuant to the Exchange Rulebook.

Core Principle 11 - Financial Integrity of Transactions

The Contracts will be cleared by Nodal Clear, LLC, a CFTC registered derivatives clearing organization subject to the CFTC regulations related thereto.

Core Principle 12 – Protection of Markets and Market Participants

Chapters 4 and 5 of the Rulebook require all market participants to observe high standards of integrity, market conduct, commercial honor, fair dealing, and just and equitable principles of trade and prohibits, among other things, fraud, non-competitive trading, market manipulation, and abusive and disruptive trade practices. As with all contracts traded on the Exchange, the Contracts will be subject to monitoring and surveillance by the Market Regulation Department.

Certification

The Exchange is not aware of any substantive opposing views to the Rule Amendments. The Exchange certifies that the Rule Amendments comply with the Commodity Exchange Act and the rules and regulations promulgated thereunder.

The Exchange certifies that this submission has been concurrently posted on the Exchange’s website at: <https://www.coinbase.com/derivatives/filings>.

If you have any questions or require further information, please contact the undersigned at Jane.Downey@coinbase.com.

Sincerely,

/s/ Jane Downey
Chief Regulatory Officer

Attachment: Appendix A: Rulebook
Appendix B: Deliverable Supply Analysis

Appendix A

Rulebook

(additions underlined; deletions ~~stricken through~~)

CHAPTER 5: TRADING PRACTICES AND BUSINESS CONDUCT

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RULE 533. Position Limit, Position Accountability, Reportable Level, and Volume Threshold Level Table

The reportable levels for all Contracts covering Position Limit, Position Accountability, Reportable Level, and Volume Thresholds will be made available to Market Participants.

Product	CDE Code	Contract Size	Aggregate Into Futures	Aggregate Ratio	Exchange Reporting Level	Position Limit
nano Bitcoin Futures	BIT	0.01	BTI	100 BIT = 1 BTI	25	20,000 (BTI Aggregate) <u>three (3) Business Days prior to the contract's expiration.</u>
Bitcoin Futures	BTI	1	BTI	N/A	25	
nano Ether Futures	ET	0.1	ETI	100 ET = 1 ETI	25	40,000 (ETI Aggregate)
Ether Futures	ETI	10	ETI	N/A	25	
Bitcoin Cash Futures	BCH	1	BCH	N/A	25	14,000
Litecoin Futures	LC	5	LC	N/A	25	10,000
Dogecoin Futures	DOG	5,000	DOG	N/A	25	20,000
Stellar Futures	XLM	5,000	XLM	N/A	25	3,000
Avalanche Futures	AVA	10	AVA	N/A	25	20,000
Chainlink Futures	LNK	50	LNK	N/A	25	6,000
Polkadot Futures	DOT	100	DOT	N/A	25	7,500
1k Shib Futures	SHB	10,000,000	SHB	N/A	25	30,000
Gold Futures	GOL	1	GOL	N/A	200	600,000
nano Crude Oil Futures	NOL	10	OIL	10 NOL = 1 OIL	350	40,000 three (3) days prior to the end of trading in the spot month
Micro Crude Oil Futures	OIL	100	OIL	N/A	350	40,000 three (3) days prior to the end of trading in the spot month

Rulebook

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Appendix B

Deliverable Supply Analysis

Market Overview

Bitcoin was created in 2008 by the pseudonymous individual(s) operating under the name of Satoshi Nakamoto. The technology behind the cryptocurrency was detailed in a white paper, which described an open ledger called the blockchain that occupies a network accessible to all. Bitcoin was launched in 2009 implementing this technology and is used as a mode of financial exchange wherein one can process financial transactions without the intervention of a central bank. Bitcoin has since become the most widely traded cryptocurrency in the markets.

Bitcoin is created by miners who perform complex mathematical calculations to create a new block in the chain. The Bitcoin blockchain has a limit of 21 million Bitcoin that can be mined. As of August 2024¹, 19.7 million Bitcoin have already been mined. When Bitcoin was first created, each block represented 50 Bitcoin. As more blocks in the chain are created, the number of Bitcoin per block is reduced. Currently, each block mined represents 6.25 Bitcoin. This number is expected to reduce further with the ultimate expectation that the 21 million limit will be reached around sometime in 2140².

Analysis of Deliverable Supply

As stated above, Bitcoin was created with a limited supply of 21 million Bitcoin, with 19.7 million currently mined. The current number of Bitcoin mined would not equal the number in circulation, as there are Bitcoins that are permanently unavailable, or “burned” due to lost wallet keys and other factors. It is estimated that up to 20% of Bitcoin is burned. Therefore, the deliverable supply of Bitcoin would be closer to 15.7 million Bitcoin. Given that each Coinbase Derivatives Bitcoin cash-settled contract represents 1 Bitcoin, a single contract is <0.01% of the deliverable supply. A common practice is to set the position limit so that a market participant holds no more than 25% of the deliverable supply of a commodity. Following this practice would result in a position limit of 3.9 million Bitcoin. Rather than following this practice the exchange will be setting a position limit that is consistent with position limits of Bitcoin products listed by other exchanges. The exchange proposes a position limit of 20,000 contracts (BTI aggregate) 3 business days prior to the contract expiration.

¹ <https://coinmarketcap.com/currencies/bitcoin/>

² <https://www.coindesk.com/learn/what-happens-when-all-bitcoin-are-mined/>