



July 25, 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-2018-015

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 (“CFTC” or “Commission”) under the Act, Cboe Futures Exchange, LLC (“CFE” or “Exchange”) hereby submits a CFE rule amendment (“Amendment”) to change the position limits for Cboe Bitcoin (USD) (“XBT”) futures and to make two clarifications to the contract specification rules for XBT futures. The Amendment will become effective on August 8, 2018.

CFE Rule 1302 (Contract Specifications) sets forth various contract specifications for XBT futures. Rule 1302(d) (Position Limits) provides that XBT futures are subject to position limits. In particular, Rule 1302(d) currently provides that a person (i) may not own or control more than 5,000 contracts net long or net short in all XBT futures expirations combined and (ii) may not own or control more than 1,000 contracts net long or net short in the expiring XBT futures contract, commencing at the start of trading hours 5 business days prior to the final settlement date of the expiring contract. CFE is amending Rule 1302(d) to change the position limits for XBT futures so that a person (i) may not own or control more than 25,000 contracts net long or net short in all XBT futures expirations combined; (ii) may not own or control more than 5,000 contracts net long or net short in the expiring XBT futures contract, commencing at the start of trading hours 5 business days prior to the final settlement date of the expiring XBT futures contract; and (iii) may not own or control more than 2,500 contracts net long or net short in the expiring XBT futures contract, commencing at the start of trading hours on the business day of the final settlement date of the expiring XBT futures contract. The final settlement date for an XBT futures contract is normally on a Wednesday and the business day of the final settlement date normally starts on the preceding Tuesday at 5:00 p.m. Chicago time when trading hours commence in XBT futures for that business day.

The current position limit levels for XBT futures have been in place since trading in XBT futures first began on CFE on December 10, 2017. During the course of the more than seven months that XBT futures have been available for trading, CFE has evaluated the position limits that are in place for XBT futures. Based on that evaluation and CFE’s experience in offering trading in XBT futures during this time period, CFE believes that the changes to the position limit levels for XBT futures provided for in the Amendment are appropriate and will have a positive impact on the market in XBT futures. Among other things, CFE took the following into consideration in connection with these

position limit level changes.

Since the launch of XBT futures, the monthly average daily trading volume and open interest in XBT futures have increased. The monthly average daily trading volume in XBT futures during December 2017 was 4,006 contracts while the monthly average daily trading volume in XBT futures has been an average of 6,115 contracts during the subsequent calendar months. CFE has had 15 trading days on which trading volume in XBT futures exceeded 10,000 contracts per day. On April 25, 2018, CFE's experienced its highest daily trading volume in XBT futures with 19,000 XBT futures contracts traded. Similarly, the average daily open interest in XBT futures during December 2017 was 2,859 contracts and the average daily open interest in XBT futures was 5,610 contracts during June 2018.

The final settlement value for an XBT future is the official auction price (rounded to the nearest penny) for bitcoin in U.S. dollars determined at 4:00 p.m. Eastern time on the final settlement date for that future by the Gemini Exchange. The average quantity of bitcoin traded during the Gemini Exchange auctions that have been used to determine an XBT futures final settlement price is 493 bitcoins.

The Gemini Exchange auction is automatically canceled if the final auction price deviates from the value of the Winklevoss Blended Bitcoin Index ("WBBI") by more than 5% at the time of the auction. The WBBI is a ten minute volume weighted average price of bitcoin transactions in U.S. dollars on the Gemini Exchange and other bitcoin trading venues. CFE believes that the Gemini Exchange auction has sufficient liquidity to handle increased auction volume. In each of the 7 XBT futures settlements to date, the settlement price has been well within the 5% collar established by the WBBI. In particular, the difference between the XBT settlement price and the WBBI at the time of settlement has been an average of .51%. The average size of the open interest in the expiring XBT futures contract going into the 7 settlements to date was 1,168 contracts and only a portion of open interest typically goes into the Gemini Exchange Auction, as shown by the fact that the average quantity that traded in the Gemini Exchange auction over the 7 settlements was 489 bitcoins. On average across these 7 settlements, the excess liquidity inside the auction price collar has been more than five times the quantity traded or 2,150 contracts on the buy-side. On the sell-side, excess liquidity inside the auction collar has been almost four times greater than the quantity traded or 1,784 contracts demonstrating that there has been ample liquidity on both sides of the market.

CFE has also observed in this regard that many XBT futures participants either roll their expiring XBT futures positions into the next XBT futures expiration or allow their positions to expire at final settlement rather than attempting to convert their XBT futures positions into physical bitcoin by placing orders into the Gemini Exchange auction on the final settlement date. Therefore, CFE believes that a significant portion of that open interest in XBT futures does not generate volume in the Gemini Exchange auction.

At that same time, CFE expects that the number and total size of the orders in the Gemini auctions used to determine XBT futures final settlement prices as well as the quantities of bitcoin traded in those auctions will increase as a result of the change in position limits provided for in the Amendment. CFE believes that this expected increase in participation in these Gemini auctions will in turn cause the buy-side and sell-side quantities in these auctions that would result in an auction being canceled due to the WBBI being more than 5% on either side of the auction price to increase as well.

In addition to these market factors, CFE believes that its robust market surveillance program for XBT futures provides a further basis for the increased XBT futures position limit levels provided for in the Amendment. CFE affiliate Cboe Exchange, Inc. has an information sharing agreement in place with Gemini that provides CFE with the ability to access Gemini Exchange trade data for

regulatory purposes, including in connection with the surveillance and regulation of trading in XBT futures on CFE's market. Pursuant to this information sharing agreement, CFE Regulation ("CFER") receives on a regular basis from Gemini order and trade detail information from the Gemini Exchange market for bitcoin in U.S. dollars which CFER utilizes to conduct cross market surveillance of the Gemini Exchange bitcoin auction and the CFE XBT futures settlements. CFE has separately provided to the Commission on a confidential basis further information regarding its market surveillance program for XBT futures.

CFE also believes that the Amendment will enhance the market in XBT futures and bitcoin futures generally and promote competition between markets in bitcoin futures by enabling CFE to implement position limit levels in XBT futures that are closer on a notional basis to the levels that are applicable to bitcoin futures traded on Chicago Mercantile Exchange, Inc. ("CME").

The contract size of a bitcoin future traded on CME is 5 bitcoins whereas the contract multiplier for an XBT future traded on CFE is 1 bitcoin. Accordingly, a CME bitcoin future has a notional size that is five times larger than the notional size of an XBT future. CME has a spot month bitcoin futures position limit level of 1,000 contracts during the expiring contract month and has a position accountability level in bitcoin futures of 5,000 contracts in single months outside the spot month and in all months combined.¹ The 5,000 contract position limit level in the expiring XBT futures contract from the beginning of trading hours on the fifth business day prior to its final settlement date until the beginning of trading hours on the business day of its final settlement date and the 25,000 contract position limit level for all XBT futures expirations combined provided for in the Amendment are equivalent to the corresponding notional levels in place for CME bitcoin futures given that a CME bitcoin future is five times larger than an XBT future. Additionally, the 2,500 contract position limit level in the expiring XBT futures contract commencing at the start of trading hours on the business day of its final settlement date is half of the corollary CME position limit level. Currently, the corresponding levels in place on CFE are five times smaller than the levels in place on CME on a notional basis. The Amendment equalizes these levels until the business day of the XBT futures final settlement date and provides for a lower level on CFE on the business day of the XBT futures final settlement date.

CFE believes that making the position limit levels in XBT futures traded on CFE more equivalent to the corresponding levels in bitcoin futures traded on CME will enhance the market in XBT futures and in bitcoin futures generally by better enabling market participants to trade between the two products. CFE understands that there are market participants that either trade in or would like to trade in both products. For example, a market participant may wish to hedge a position in one product by holding a position in the other product. Similarly, a market participant may wish to engage in arbitrage trading between the two products. Additional arbitrage contributes to improving the market width in both products. In either situation, a market participant is inhibited from doing so if the market participant is precluded from holding an equivalent position in one product that it can hold in the other product as is currently the case. Thus, CFE believes that the Amendment will better enable market participants to hedge and arbitrage with and among the two products.

CFE believes that the Amendment will promote competition between CFE's market for XBT futures and CME's market for bitcoin futures by providing for more of a level playing field in terms of the position levels that can be held in both products. CFE has market participants that have requested the ability to hold positions in XBT futures that are equivalent in size to the positions that they can hold in bitcoin futures traded on CME. Accordingly, CFE believes that the Amendment is appropriate as an

¹ See CME Notification Regarding the Initial Listing of the Bitcoin Futures Contract, CME Submission No. 17-417 to the Commission, dated December 1, 2017.

equitable matter and because it will contribute to further facilitating competition between the two markets.

In addition to the XBT futures position limit level changes, the Amendment makes two clarifications to contract specification rules for XBT futures.

First, the Amendment revises Rule 1302(i)(ii) (Consideration of Halts on the Gemini Exchange) to correct a rule cross-reference in Rule 1302(i)(ii). Rule 1302(i)(ii) provides that CFE shall take into consideration any trading halt in bitcoin in U.S. dollars traded on the Gemini Exchange in determining whether or not to halt trading under CFE Rule 418 (Emergencies). CFE is amending Rule 1302(i)(ii) to cross-reference the applicable subsection of Rule 418 in place of the subsection of Rule 418 that is currently cross-referenced. The amended cross-reference will be to Rule 418(a)(ix) (which permits CFE to suspend, curtail, halt, or delay the opening of trading in any contract as an Emergency action).

Second, the Amendment clarifies that the reportable position level for large trader reporting requirements that is applicable to XBT futures under Rule 1302(n)(i) (Reportable Position) is a CFE requirement and not a Commission requirement. The reportable position level for XBT futures is 5 contracts, and the Amendment is not changing that reportable position level. Instead, the Amendment further clarifies that this position reporting level shall be applicable notwithstanding that it is a lower reporting level than may be provided for under Commission Regulation 15.03.

CFE believes that the Amendment is consistent with Designated Contract Market Core Principles 5 (Position Limitations or Accountability), 7 (Availability of General Information), and 9 (Execution of Transactions) under Section 5 of the Act in that CFE believes that the Amendment (i) provides for position limit levels that are set at appropriate levels to reduce the potential threat of market manipulation; (ii) clarifies the halt provisions applicable to XBT futures and the application of large trader reporting requirements to XBT futures; and (iii) will contribute to a competitive, open, and efficient market and mechanism for executing transactions in XBT futures and other bitcoin futures.

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 CFE 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.

The Amendment, marked to show additions in underlined text and deletions in [bracketed] text, consists of the following:

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**Cboe Futures Exchange, LLC
Rulebook**

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1302. Contract Specifications

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(d) *Position Limits.* XBT futures are subject to position limits under Rule 412.

A person: (i) may not own or control more than [5,000] 25,000 contracts net long or net short in all XBT futures contract expirations combined; [and] (ii) may not own or control more than [1,000] 5,000 contracts net long or net short in the expiring XBT futures contract, commencing at the start of trading hours 5 business days prior to the final settlement date of the expiring XBT futures contract; and (iii) may not own or control more than 2,500 contracts net long or net short in the expiring XBT futures contract, commencing at the start of trading hours on the business day of final settlement date of the expiring XBT futures contract.

For the purposes of this rule, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding shall be cumulated.

The foregoing position limits shall not apply to positions that are subject to a position limit exemption meeting the requirements of Commission Regulations and CFE Rules.

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(i) *Price Limits and Halts.*

(i) No change.

(ii) *Consideration of Halts on the Gemini Exchange.* The Exchange shall take into consideration any trading halt in bitcoin in U.S. dollars traded on the Gemini Exchange in determining whether or not to halt trading in XBT futures under Rule [418(a)(x)] 418(a)(ix).

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(n) *Reportable Position and Trading Volume.*

(i) *Reportable Position.* Pursuant to [Commission Regulation §15.03 and Commission Regulation Part 17] and for purposes of Rules 412B(a)(ii), 412B(b)(ii), and 412B(c)(ii), [The] the position level that is required to be reported to the [Commission] Exchange is any open position in XBT futures contracts at the close of trading on any trading day equal to or in excess of 5 contracts on either side of the market. This position reporting level shall be applicable notwithstanding that it is a lower reporting level than may be provided for under Commission Regulation 15.03.

(ii) No Change.

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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-2018-015 in any related correspondence.

Cboe Futures Exchange, LLC

/s/ Matthew McFarland

By: Matthew McFarland
Managing Director