



AMSTERDAM ATLANTA CALGARY CHICAGO HOUSTON LONDON NEW YORK SINGAPORE WINNIPEG

Submission No. 19-307  
October 22, 2019

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

**Re: Listing of Options on Bakkt™ Bitcoin Monthly Futures Contract - New Product Certification Pursuant to Section 5c(c)(1) of the Commodity Exchange Act and Regulation 40.2**

Dear Mr. Kirkpatrick:

Pursuant to *Section 5c(c)(1)* of the Commodity Exchange Act, as amended (the “CEA”) and Commission Regulation 40.2, ICE Futures U.S., Inc. (“IFUS” or “Exchange”) hereby certifies new chapter 24C of the IFUS Rules and amendments to Rule 6.16. The new rules and amendments provide for the listing of Options on Bakkt Bitcoin Monthly Futures Contracts (the “Bitcoin Option Contract”) which will complement the Bakkt Bitcoin Monthly Futures Contract that commenced trading on the Exchange on September 23, 2019 (IFUS Submission 19-161). The Bitcoin Option Contract will be listed for trade date December 9, 2019.

As specified in the rules contained in Exhibit A, the Bitcoin Option Contract is a monthly, European style option with a contract size of 1 Bakkt Bitcoin Monthly Futures Contract that is quoted in U.S \$ per bitcoin to 2 decimal places. The minimum price fluctuation is \$2.50 per bitcoin (\$2.50 per contract). The last trading/expiration day for each option contract month is the second Exchange business day prior to the last trading day of the underlying futures contract month. The underlying monthly futures contract expires on the 3<sup>rd</sup> Friday of the month with the last trading day on the Wednesday before expiration; accordingly, the Bitcoin Option Contract will expire on Monday of that week.

The option will expire at 6:00 p.m. on the last trading day except that any option that is at least one tick in-the-money will be automatically exercised by ICE Clear U.S., Inc.

The Exchange may list up to 12 monthly option contracts and plans to have at least 3 contracts listed at all times. In addition to the at-the-money strike, the Exchange will list 10 strike prices above and below such price at \$500 increments pursuant to its discretion under the Rules, with additional strike prices in \$250 increments upon request. Trading hours (8 p.m.-6 p.m.), block trade minimum quantity (10 contracts) and the settlement window (4:58-5:00 pm) are the same as those of the underlying futures contract. The determination of settlement premiums will be subject to existing procedures applicable to all options under Rule 4.35. Rule 6.16, which sets forth Bitcoin position limits, has been amended to add references to futures equivalent contracts, to ensure that option positions are included in the calculation of a trader's net position for purposes of determining compliance with position limits.

### Certifications

The Exchange has determined that the new rules and amendments related to the listing of the Bitcoin Option Contract comply with the requirements of the CEA and the rules and regulations promulgated by the Commission thereunder, and impact the following Core Principles:

**COMPLIANCE WITH RULES (Principle 2):** The terms and conditions of the Bitcoin Option Contract are set forth in new Chapter 24C, Rule 6.16, current Rule 4.25 regarding trading hours and existing settlement procedures contained in Rule 4.35. Updated Notices regarding reasonability limits and no cancellation ranges will be revised and issued closer to the launch date. Trading is subject to all relevant Exchange rules which are enforced by the Market Regulation Department.

**CONTRACTS NOT READILY SUBJECT TO MANIPULATION (Principle 3):** The contract should not be readily subject to manipulation as it is subject to position limits as reflected in amended Rule 6.16 as well as the existing Bitcoin reportable level of 5 contracts. This will give the Exchange visibility into the identity of market participants. Daily settlement premiums will be established on the basis of existing Exchange Rule 4.35.

**PREVENTION OF MARKET DISRUPTION, PROTECTION OF MARKETS AND MARKET PARTICIPANTS (Principles 4 and 12):** All contracts listed for trading by the Exchange are subject to prohibitions against abusive and disruptive trading practices as set forth in Chapter 4 of the Rules. The Exchange's Market Regulation staff actively monitors all Exchange markets to detect and sanction abusive practices. In addition, the Bitcoin Option Contract has interval price limits which act to temper the rate of price moves during a trading session.

**POSITION LIMITS OR ACCOUNTABILITY (Principle 5):** The Exchange has previously set the position limit at a level that takes into account the size of the

underlying spot market, as described in the confidential deliverable supply analysis that accompanied Exchange submission 12-161 for Bitcoin futures contracts. Positions in the Bitcoin Option Contract will count against the existing position limit on a net basis as futures equivalent positions. These limits can be readily adjusted to respond to changes in the value of Bitcoin.

**AVAILABILITY OF GENERAL INFORMATION/ DAILY PUBLICATION OF TRADING INFORMATION (Principle 7):** Prior to the commencement of trading, the terms and conditions of the Bitcoin Option Contract will be available on the Exchange's website. In addition, the Exchange will publish on a daily basis the settlement prices, volume, open interest and the opening and closing ranges for the contracts.

**DAILY PUBLICATION OF TRADING INFORMATION (Principle 8):** The Exchange will publish on its website and distribute through quote vendors trading volume, price and delivery information as it currently does for other Exchange futures contracts.

**EXECUTION OF TRANSACTIONS (Principle 9):** The Bitcoin Option Contract will be listed on the Exchange's electronic trading platform which provides a competitive, centralized market for transparent execution of transactions. In addition, the Exchange will permit certain noncompetitive transactions pursuant to existing Exchange Rules, including block trades. The rule amendments relating to these trades and certain other matters are contained in a separate rule submission.

**RECORDKEEPING AND TRADE INFORMATION (Principle 10):** The Exchange currently has rules and procedures in place to provide for the recording and storage of the requisite trade information sufficient for the Market Regulation Department to detect and prosecute customer and market abuses.

**FINANCIAL INTEGRITY OF CONTRACTS (Principle 11):** The Bitcoin Option Contract will be cleared by ICE Clear U.S., a registered DCO subject to Commission regulation, and all customer positions will be carried by registered futures commission merchants that are clearing members of ICUS. All customer property will be subject to segregation under the CEA, in the same manner as for other contracts

**PROTECTION OF MARKETS AND MARKET PARTICIPANTS (Principle 12):** Exchange Rules set forth numerous restrictions on conduct that preclude an intermediary from disadvantaging its customers. These are equally applicable to competitive trading in Bitcoin Contracts.

**DISCIPLINARY PROCEDURES (Principle 13):** Pursuant to Chapter 21 of the Rules setting forth the Exchange's disciplinary procedures, and Rule 4.00 setting forth the Exchange's jurisdiction over all market participants that transact on the Exchange, the Market Regulation Department and the Exchange's Business Conduct Committee have the authority to sanction, suspend or expel members and market participants that violate Exchange rules.

**DISPUTE RESOLUTION (Principle 14):** Market participants may arbitrate claims arising from trading Bitcoin Option Contracts pursuant to Chapter 20 of the

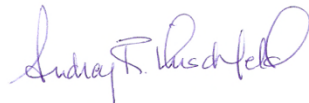
Rules, and delivery disputes in particular are subject to mandatory arbitration. Arbitration is also mandatory on the part of a member against which a customer elects to use the Exchange's arbitration forum; member to member claims are subject to mandatory arbitration to the extent related to Exchange transactions.

The Exchange is not aware of any opposing views expressed by members or others regarding the listing of the Bitcoin Option Contract and the adoption of related amendments. The Exchange further certifies that concurrent with this filing a copy of this submission was posted on the Exchange's website, which may be accessed at: (<https://www.theice.com/futures-us/regulation#rule-filings>).

The rules and amendments establishing the Bitcoin Option Contract's terms and conditions are to become effective on the second business day following the business day on which this submission is received by the Commission.

If you have any questions or need further information, please contact the undersigned at [audrey.hirschfeld@theice.com](mailto:audrey.hirschfeld@theice.com).

Sincerely,

A handwritten signature in purple ink, appearing to read "Audrey R. Hirschfeld".

Audrey R. Hirschfeld  
SVP and General Counsel  
ICE Futures U.S., Inc.

## EXHIBIT A

(In the text of the amendments below, additions are underscored and deletions are struck through.)

### DIGITAL CURRENCY FUTURES CONTRACTS

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## **BAKKT™ BITCOIN (USD) MONTHLY OPTION CONTRACT RULES**

### **Rule 24.C.01. Scope**

Rules 24.C.01 through 24C.10 shall apply to the trading of Options on Bakkt Bitcoin (USD) Monthly Futures Contracts.

### **Rule 24.C.02. Obligations of Option Purchasers**

(a) The Purchaser of an Option shall cause such Option to be submitted by a Clearing Member to the Clearing Organization for clearance in accordance with the Clearing Organization Rules.

(b) The Purchaser which clears an Option shall pay in full the Premium to the Clearing Organization in accordance with the Clearing Organization Rules, and shall collect from the Person for whom it clears such Option the full amount of the Premium in accordance with the Rules and the Clearing Organization Rules.

(c) The Purchaser of an Option shall, upon exercising such Option in accordance with the Rules, enter into a long position (in the case of a Call Option) or a short position (in the case of a Put Option) in the Underlying Futures Contract deliverable in the Option Month, at the Strike Price specified in such Option; provided, however, that any such contract entered into upon exercise shall be entered into for the account of the Person having purchased the Option.

### **Rule 24.C.03. Obligations of Option Grantors**

(a) The Grantor which grants an Option shall cause such Option to be submitted by a Clearing Member to the Clearing Organization for clearance in accordance with Clearing Organization Rules.

(b) The Grantor which clears an Option shall make such Margin deposits as the Clearing Organization may require.

(c) The Grantor of an Option shall, upon being assigned an Exercise Notice, enter into a short position (in the case of a Call Option) or a long position (in the case of a Put Option) in the Underlying Futures Contract deliverable in the Option Month, at the Strike Price specified in such Option; provided, however, that any such contract entered into upon assignment of an Exercise Notice shall be entered into for the account of the Person having granted the Option.

### **Rule 24.C.04. Months Traded**

The number of Option Contract Months listed for trading at any time shall be as determined by the Exchange, and the Underlying Futures Contract for each Option Month shall be the named Futures Contract Month.

### **Rule 24.C.05. Last Trading Day**

The Last Trading Day shall be the second (2<sup>nd</sup>) Business Day prior to the Last Trading Day of the Underlying Futures Contract month.

### **Rule 24.C.06. Strike Prices**

(a) Strike Prices for Options shall be quoted in dollars per bitcoin, and trading shall only be conducted in Options having Strike Prices determined in accordance with this Rule.

(b) Strike Prices shall be at levels (the “prescribed levels”) set at intervals of \$250.00.

(i) On the day Options for any Option Month are first listed for trading pursuant to these Rules, the Exchange will establish Strike Prices as follows:

(A) one (1) Strike Price that is a prescribed level that is closest to the Settlement Price of the Underlying Futures Contract on the previous day; provided that, if two (2) such prescribed levels are equally close to the Settlement Price, the smaller prescribed level shall be used; and

(B) additional Strike Prices that are at prescribed levels may be listed at the discretion of the Exchange on any trading day.

#### **Rule 24.C.07. Premium Quotations**

(a) Premiums for Options shall be quoted in dollars per bitcoin, to two decimal places. The minimum price fluctuation in Premiums shall be \$2.50 per bitcoin (\$2.50 per contract), except that trades may occur at a price of \$1.00 per contract if such trades result in the liquidation of Positions for both parties to the trade.

#### **Rule 24.C.08. Exercise of Options**

Options on Bakkt Bitcoin (USD) Monthly Futures Contracts are European style options and may only be exercised on the Last Trading Day of the Option Month.

#### **Rule 24.C.09. Expiration**

Options on Bakkt Bitcoin (USD) Monthly Futures Contracts shall expire at 6:00 pm on the Last Trading Day, provided however that any Option which is at least one (1) tick in-the-money at that time shall be automatically exercised by the Clearing Organization.

#### **Rule 24.C.10. Assignment**

- (a) The Clearing Organization shall assign Exercise Notices to Clearing Members with open short Option Positions of the same type as the one being exercised.
- (b) A Clearing Member which has been assigned an Exercise Notice shall be notified of such assignment by the Clearing Organization as soon as practicable after such notice is assigned.
- (c) The Clearing Member receiving an Exercise Notice shall be assigned a short position in the Underlying Futures Contract if a Call is exercised or a long Position in the Underlying Futures Contract if a Put is exercised. The Clearing Member representing the Option buyer shall be assigned a long position in the Underlying Futures Contracts if a Call is exercised or a short position in the Underlying Futures Contract if a Put is exercised.
- (d) All Bakkt Bitcoin (USD) Monthly Futures Contract positions shall be assigned at a price equal to the Strike Price of the Option.



## **Rule 6.16. Position Limits for Bitcoin ~~[Futures]~~ Contracts**

### (a) Bitcoin Daily ~~[Futures]~~ Contracts:

Subject to the exceptions contained in this Chapter, the maximum net long or net short position ~~[number of Exchange Futures Contracts, net long or net short,]~~ which any one (1) Person may own or control in Bitcoin Daily Futures Contracts is one hundred thousand (100,000) Futures Contracts in any one Contract Date or in all Contract Dates combined.

### (b) Bitcoin Monthly ~~[Futures]~~ Contracts:

Subject to the exceptions contained in this Chapter, the maximum net long or net short position ~~[number of Exchange Futures Contracts, net long or net short,]~~ which any one (1) Person may own or control in Bitcoin Monthly ~~[Futures]~~ Contracts is one hundred thousand (100,000) Futures Contracts and Futures Equivalent Contracts in any one Contract Month or in all Contract Months combined.

### (c) Reportable Position Level:

The Bitcoin Daily Futures Contract, ~~and the~~ Bitcoin Monthly Futures Contract and Bitcoin Monthly Options Contract 'reportable position' (as such term is used in Rule 6.15) is 5 contracts. A Clearing Member which holds, controls or carries for any Person a 'reportable position' (as such term is used in Rule 6.15) in any Bitcoin Futures Contract or Bitcoin Options Contract shall submit such information as may be requested by the Exchange regarding transactions effected in Bitcoin by it or such Person on other futures markets and spot markets.