



March 4, 2024

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

Re: Cboe Digital Exchange, LLC Rule Certification
Submission Number CDE-2024-04E

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (“Act”), and Regulation 40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (“CFTC” or “Commission”) under the Act, Cboe Digital Exchange, LLC (“CDE” or “Exchange”) hereby submits this rule change to update CDE rules in connection with daily settlement price calculations (“Amendment”). The Amendment will become effective on March 18, 2024.

Description of Rule Changes

The Amendment updates subparagraph (b) of Rule 906 (Settlement Prices) to add an additional daily settlement pricing process that the Exchange may apply to its futures products. Specifically, the Amendment add subparagraph (b)(2),¹ which provides that the Daily Closing Price is:

- Based on a volume weighted average price of executed trades for a contract on CDE (“Contract”) during the last minute of trading on each trading day;
- If no trades occur in the Contract during the last minute of trading, the midpoint of the last best bid and offer available before the close of trading will be the daily settlement price; or
- If a two-sided market is not available during the last minute of trading, or the Exchange determines that the best bid and offer spread is too wide, then the Exchange will use a third-party index adjusted by the difference between the previous day closing price of the relevant Digital Asset in the Exchange’s spot market and the previous day futures closing price.

¹ The Amendment also updates Rule 906(b) so that the existing daily settlement price process (i.e., the “Wide Window”) is governed under subparagraph (b)(1).

Also, like for the existing daily settlement price process under CDE Rule 906(b) (i.e., the “Wide Window”), the Amendment makes clear that for the new daily settlement price process (i.e., the “Narrow Window”), in the event that the Exchange concludes that the settlement price does not fairly represent the market value of the period, the Exchange may determine an alternative settlement price, which may be based upon, among other things, a third party or combination of third party index or reference prices. Finally, the Amendment makes clear in Rule 906(b) that a Contract’s specifications will specify which daily settlement process under Rule 906(b) applies to that Contract.

The Exchange believes that this additional daily settlement price process will serve as a daily pricing tool that may be better suited to certain CDE futures products or certain market conditions, and as such, the rule as amended provides the Exchange the flexibility to apply one process over another. The Exchange notes that another DCM currently has a substantially similar daily pricing process in place for its bitcoin- and Ether-based futures offerings.²

The Exchange will apply the new Narrow Window daily settlement price determination under Rule 906(b)(2) to its margin futures products. Therefore, the Amendment additionally updates Rule 1101(a) (Financially-Settled Bitcoin Futures), Rule 1101(b) (Physically-Settled Bitcoin Futures), Rule 1102(a) (Financially-Settled Ether Futures), and Rule 1102(b) (Physically-Settled Ether Futures) to specify that the Daily Closing Price for each of these Contracts will be determined pursuant to Rule 906(b)(2). The Exchange believes that determining the daily settlement prices for margin futures products pursuant to the Narrow Window aligns with market participant expectations and the market conditions generally. Daily settlement pricing is not related to and does not impact final settlement pricing for CDE’s margin futures products. Rather, daily settlement prices are used to mark positions to market daily, particularly for the purposes of managing daily profit and loss and adjusting margin levels with a market participant’s clearing firm. The Exchange believes the daily settlement price determination applied to margin futures products may better reflect the fair market value of the products at the daily close, aligning daily close pricing with the marketplace generally and market participants’ end-of-day pricing expectations, thus reducing the risk to market participants that hold positions across these products in relation to factors such as margin requirements, pay/collect obligations, synchronization of hedges, and the level of end-of-day risk.

Core Principle Compliance

CDE believes that the Amendment is consistent with the Designated Contract Market (“DCM”) Core Principles under Section 5 of the Act. In particular, CDE believes that the Amendment is consistent with:

- DCM Core Principle 2 (Compliance with Rules) in that CDE will continue its

² See CME Bitcoin Futures Daily Settlement Procedure, available at: <https://www.cmegroup.com/confluence/display/EPICSANDBOX/Bitcoin#Bitcoin-NormalDailySettlementProcedure>; and CME Ether Futures Daily Settlement Procedure, available at: <https://www.cmegroup.com/confluence/display/EPICSANDBOX/Ether>.

normal practice to monitor and enforce compliance with its Rules, including the implementation of the Amendment, such as, but not limited to, CDE rules prohibiting abusive trade practices;

- DCM Core Principle 3 (Contracts Not Readily Subject to Manipulation) because the Amendment serves to perform the intended risk management and price discovery functions of the daily closing price for margin futures in that the Narrow Window daily settlement determination applied to margin futures products may better reflect the fair market value of the products at the daily close, aligning daily close pricing with the marketplace generally and market participants' end-of-day pricing expectations, thus reducing the risk to market participants that hold positions across these products in relation to factors such as margin requirements, pay/collect obligations, synchronization of hedges, and the level of end-of-day risk. The Narrow Window daily settlement price determination is substantially similar to that of a daily price determination currently in place for similar digital asset-based futures offered for trading on another DCM³;
- DCM Core Principle 4 (Prevention of Market Disruption) because CDE Rules prohibit participants from manipulating the market in, disrupting the orderly functioning of the market in, or creating a condition in which prices do not or will not reflect fair market values in CDE futures products and CDE enforces compliance with such CDE Rules.
- DCM Core Principle 7 (Availability of General Information) because the Amendment describes in CDE's Rules and CDE Contract specifications how the daily settlement prices of CDE futures contracts will be determined;
- DCM Core Principle 8 (Daily Publication of Trading Information) in that daily settlement prices of margin futures contracts that CDE lists (currently, financially-settled margined bitcoin futures and financially-settled margined Ether futures) and will continue to be provided to the Commission and made available publicly on a daily basis on CDE's website consistent with Commission Regulation 16.01;
- DCM Core Principle 12 (Protection of Markets and Market Participants) because CDE has rules that include prohibitions against market manipulation and fraudulent, non-competitive, and disruptive trading practices that apply to trading activities on CDE and related conduct, including during any period before the close in which a daily settlement price is being determined.

Public Information

We have concurrently posted a notice and copy of this submission on the Exchange's website at <https://www.cboedigital.com/regulation/exchange-notices/> under "CFTC Submissions."

³ See *supra* note 3.

Opposing Views

The Exchange is not aware of any opposing views to this self-certification.

Certification

Cboe Digital Exchange, LLC hereby certifies to the Commodity Futures Trading Commission, pursuant to the procedures set forth in Commission regulation §40.6, that this submission complies with the Commodity Exchange Act, as amended, and the regulations promulgated thereunder.

If you have any questions regarding this submission, please contact the undersigned at the information below.

Sincerely,

/s/ Rebecca Tenuta

Rebecca Tenuta
Senior Counsel
rtenuta@cboe.com
(773) 485-7926

Exhibit A

Amendments to the Cboe Digital Exchange Rulebook

(All deletions are struck-through and all additions are underlined)

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RULE 906. Settlement Prices

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(b) Daily Settlement Price. Unless specified in the terms of a Contract, the daily settlement price for all Exchange Futures Contracts based on a Digital Asset will be determined by one of the as followings calculations, specified in each Contract's specifications:

(1) Wide window.

(A) Based on the volume weighted average price of executed trades for the Ccontract during the last ~~ten~~(10) minutes of trading on each trading day, where the closing period will be broken down into two ~~(2)~~ distinct five (5) minute periods for which the volume weighted average price will be calculated and the average of the two ~~(2)~~ value weighted average prices will be the daily settlement price;

(B2) If no trades occur in the Contract during the last ~~ten~~(10) minutes of trading, the last trade in the Exchange's spot market during the same period for the relevant underlying Digital Asset will be used and adjusted by the difference between the previous day spot closing price and the previous day futures closing price; or

(C3) If no trade has occurred in the Exchange's spot market during this period or in the event that the Exchange concludes that the settlement price determined in accordance with the foregoing does not fairly represent the market value of the period, the Exchange may determine an alternative settlement price. Such determination may be based upon, among other things, a third party or combination of third party index or reference prices.

(2) Narrow window.

(A) Based on a volume weighted average price of executed trades for the Contract during the last minute of trading on each trading day;

(B) If no trades occur in the Contract during the last minute of trading, the midpoint of the last best bid and offer available before the close of trading will be the daily settlement price; or

(C) If a two-sided market is not available during the last minute of trading, or the Exchange determines that the best bid and offer spread is too wide, then the Exchange will use a third-party index adjusted by the difference between the previous day closing price of the relevant Digital Asset in the Exchange's spot market and the previous day futures closing price.

(D) In the event that the Exchange concludes that the settlement price determined in accordance with the foregoing does not fairly represent the market value of the period, the Exchange may determine an alternative settlement price. Such determination may be based upon, among other things, a third party or combination of third party index or reference prices.

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RULE 1101. Bitcoin Futures

(a) Physically-Settled Bitcoin Futures.

<i>Description</i>	<i>A margin-based physically settled futures contract for bitcoin</i>

<i>Daily Closing Time</i>	4:00 p.m.
<u><i>Daily Closing Price</i></u>	<u>Daily settlement price is determined pursuant to Rule 906(b)(2).</u>

(b) Financially-Settled Bitcoin Futures.

<i>Description</i>	<i>A margin-based financially settled futures contract for bitcoin</i>

<i>Daily Closing Time</i>	4:00 p.m.
<u><i>Daily Closing Price</i></u>	<u>Daily settlement price is determined pursuant to Rule 906(b)(2).</u>

RULE 1102. Ether Futures

(a) Physically-Settled Ether Futures.

<i>Description</i>	<i>A margin-based physically settled futures contract for ether</i>

<i>Daily Closing Time</i>	4:00 p.m.
<u><i>Daily Closing Price</i></u>	<u>Daily settlement price is determined pursuant to Rule 906(b)(2).</u>

(b) Financially-Settled Ether Futures.

<i>Description</i> <i>A margin-based financially settled futures contract for bitcoin</i>	

<i>Daily Closing Time</i>	4:00 p.m.
<i>Daily Closing Price</i>	Daily settlement price is determined pursuant to Rule 906(b)(2).
