



October 31, 2023

BY ELECTRONIC FILING

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

Re: Cboe Clear Digital, LLC Rule Certification Submission Number CCD-2023-05C

Dear Mr. Kirkpatrick:

Cboe Clear Digital, LLC (“CCD” or “Clearinghouse”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (the “Act”), hereby submits, pursuant to §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (“CFTC” or “Commission”) certain CCD policies and to supplement the expansion of its product offerings to include digital asset futures on a margined basis (the “Rule Change”). The Rule Change will become effective on November 15, 2023. The text of the policies and procedures are appended as **Exhibits A-P**. As part of the Commission’s review of CCD’s application to amend its DCO order of registration to clear margin future products,¹ the Commission reviewed drafts of each of the policies and procedures being submitted, and the drafts are unchanged from the Commission’s review.² The policies and procedures are set forth in a segregated confidential **Exhibit A-P** to this submission.

Below is a concise explanation and analysis of the operation and purpose of each policy and procedure and its compliance with the applicable provisions of the Act.

Description of Policies and Procedures and Core Principle Compliance

Product Eligibility Policy

CCD is adopting a Product Eligibility Policy, which establishes eligibility requirements for products to be submitted to CCD for clearing pursuant to CFTC Regulation §39.12. The Clearinghouse currently provides clearing and settlement services for products, including any new products, listed by its affiliated designated contract market (“DCM”), Cboe Digital Exchange, LLC (“CDE” or “Exchange”). The Product Eligibility Policy is designed to reflect procedures for evaluating whether new products adhere to clearing-eligibility requirements and whether a new

¹ CCD’s amended DCO order of registration was approved by the Commission on June 5, 2023.

² CCD has made minor, non-substantive changes in certain policies and procedures to correct grammar or enhance clarity of language.

product introduces any potential fundamentally new risks to the Clearinghouse. The Product Eligibility Policy is attached as **Exhibit A**.

The Product Eligibility Policy outlines the process and criteria by which a new product is evaluated. With respect to each new product, the CCD Chief Risk Officer (“CRO”) or the Risk Committee of the CCD Board (“RiskCo”),³ as applicable, will consider the factors outlined in CFTC Regulation §39.12(b)(1)(i-vii), evaluate the adequacy of internal system functionality, ensure clearing of a new product will not impact the financial solvency of the Clearinghouse, and ensure that any new product can be cleared in compliance with the CCD Rulebook.

The Product Eligibility Policy details additional requirements related to evaluating the eligibility of trades in products listed by the Exchange. The Exchange must automatically validate with the Clearinghouse that a trade is eligible and a product is available for clearing prior to any trade match that occurs in a product.⁴

The Product Eligibility Policy facilitates CCD compliance with other product eligibility requirements under CFTC Regulation §39.12(b), including: the Clearinghouse will select product unit sizes and other terms and conditions;⁵ and the Clearinghouse will coordinate with each DCM and swap execution facility⁶ that lists for trading a product cleared by the Clearinghouse to develop rules and procedures⁷ and with each Futures Commission Merchant (“FCM”) Clearing Member to establish systems for accepting or rejecting trades submitted to the CCD.⁸ Finally, the Product Eligibility Policy provides that CCD will accept all trades for which the executing parties have clearing arrangements in place with Clearing Members and identify CCD as the intended clearinghouse, and that satisfy the criteria of CCD. This criteria includes but is not limited to applicable risk filters, provided that such criteria are non-discriminatory across trading venues and are applied as quickly as would be technologically practicable if fully automated systems were used.⁹

CCD believes that the Product Eligibility Policy is consistent with DCO Core Principle C (Participant and Product Eligibility) in that the Policy assists CCD in ensuring that products submitted to CCD for clearing meet CFTC Regulation §39.12(b) product eligibility requirements and documents CCD’s practices around evaluating product eligibility for the clearing process.

Futures Market Risk Models Governance Policy

CCD is adopting a Futures Market Risk Models Governance Policy to set the initial and maintenance margin requirement for members of the Clearinghouse for each product and portfolio. The Futures Market Risk Models Governance Policy governs the Clearinghouse’s compliance with

³ Pursuant to its charter, RiskCo is responsible for advising the Board regarding the eligibility of contracts for clearing and approving any new contract that presents fundamentally new risks to the Clearinghouse.

⁴ The Exchange may offer Exchange for Physical (“EFPs”) with futures legs that are cleared by the Clearinghouse and subject to automatic validation.

⁵ CFTC Regulation §39.12(b)(5).

⁶ Currently, only CDE clears trades through the Clearinghouse.

⁷ CFTC Regulation §39.12(b)(7)(i)(A).

⁸ CFTC Regulation §39.12(b)(7)(i)(B).

⁹ CFTC Regulation §39.12(b)(7)(ii).

certain margin-related requirements set forth in CFTC Regulation § 39.13(g), including methodology and coverage, independent validation, margin requirement reviews and monitoring. The Futures Market Risk Models Governance Policy additionally provides for annual review of stress test scenarios by the Clearinghouse and the process to address any failures or delays in the Clearinghouse meeting certain margin-related requirements. These procedures are a component of the Clearinghouse's implemented risk management framework. The Futures Market Risk Models Governance Policy is attached as **Exhibit B**.

Specifically, pursuant to the Futures Market Risk Models Governance Policy, CCD must have a model for generating daily initial margin requirements in which CCD must: set margin requirements commensurate with risk of each product and portfolio; generate margin requirements sufficient to cover CCD's potential exposure to Clearing Members based on price movements; set the liquidation time for determining margin requirements (a minimum of one day) by considering liquidity of different products and documenting such rationale; and set the risk coverage of the margin requirements to meet an established confidence level of at least 99 percent for products that use a product-based margin methodology, spreads within or between products for which there is a defined spread margin rate, and accounts held by Clearing Members.¹⁰

The Policy guides each review, backtest, and update to the model. It requires that CCD have a system for generating margin requirements, including its theoretical models, that are review and validated by a qualified independent party on an annual basis.¹¹ The result of the annual review and validation will be presented to the RiskCo for its review. The Policy also outlines the procedures for ongoing reviews and monitoring of margin requirements. CCD will review all reductions in margin requirements and the correlations on which they are based on a monthly basis.¹² CCD will review the adequacy of its initial margin requirement daily¹³ and will conduct back tests¹⁴ on all product portfolios to test adequacy of the initial margin requirement using a Lookback Period¹⁵ of at least 30 business days.¹⁶ A summary of the results of these ongoing reviews will be provided to the CRO and Head of Clearing once completed. The CRO will present a summary of the regular reviews to the RiskCo during regularly scheduled meetings.

The Futures Market Risk Models Governance Policy requires CCD review all stress test scenarios being used for measuring credit exposure risk to Clearing Members at least on an annual basis. A summary of the reviews must be shared with the RiskCo. The CRO shall instruct more frequent review of stress scenarios on their discretion under volatile market conditions.

¹⁰ CFTC Regulation §39.13(g).

¹¹ CFTC Regulation § 39.13(g)(3).

¹² CFTC Regulation § 39.13(g)(4).

¹³ CFTC Regulation § 39.13(g)(6).

¹⁴ CFTC Regulation § 39.13(g)(7).

¹⁵ Lookback Period is defined in the Cboe Clear Digital Futures Market Risk Models Document as "the length of historical data that is studied to understand the risk characteristics of any product and for the calibration of risk models."

¹⁶ Backtesting performed as part of this review will not include any margin add-ons that the Clearinghouse may charge beyond the margin requirement dictated by the Tail Risk measurement, as defined in the Cboe Clear Digital Futures Market Risk Models Document.

Finally, the Future Market Risk Models Governance Policy provides that, in the event CCD staff is unable to successfully complete a daily margin requirement calculation(s), daily margin adequacy review, daily backtest, or monthly review of margin reduction on spreads and portfolios prior to the start of the next business day from when the requirement is due, staff must notify the CRO and Head of Clearing and provide the CRO and Head of Clearing information regarding the cause of any such failure, steps being taken to resolve the issue, and expected timeline. If CCD cannot complete or accurately complete a daily initial margin requirement, then it may use any information available to it, including prices of similar futures contracts, prices of the underlying products, and blockchain data, to determine reasonable clearing initial margin requirements.

CCD believes that the Futures Market Risk Models Governance Policy is consistent with DCO Core Principle D (Risk Management) in that the Policy governs the process in which CCD determines risk-based margin requirements and regularly reviews, monitors and tests its margin requirements. The policy enables CCD to ensure the margin required from each member and participant is sufficient to cover its potential exposures in normal market conditions.

Default Financial Resources Policy

CCD is adopting a Default Financial Resources Policy which provides the policies to which the Clearinghouse will adhere to meet its financial obligations to its Clearing Members by ensuring it maintains sufficient pre-funded financial resources. The Default Financial Resources Policy is attached as **Exhibit C**.

Pursuant to the Policy, the Clearinghouse must meet the Default Financial Resource Requirement (“DFRR”), which is the total required amount of funds needed to meet or exceed on a daily basis its obligations on behalf of its two largest Clearing Members (“Cover 2”), as measured by their Net Stress Exposure¹⁷, if the two largest Clearing Members were to default.

Pursuant to the Default Financial Resources Policy, there is a minimum DFRR that will be resized on at least a monthly basis.¹⁸ The DFRR will be fulfilled by the Clearinghouse’s pre-funded financial resources, which, pursuant to the Policy and consistent with CFTC Regulation § 39.11(b)(1), will be comprised of the funds that make up the Corporate Contribution Requirement, Minimum Guarantee Requirement (applicable to Clearing Members), and Exposure-Based Guaranty Fund Requirement (applicable to Clearing Members); each defined in the Policy. The Corporate Contribution Requirement is provided by a corporate parent entity of the Clearinghouse up to a certain maximum and down to a certain minimum as provided in the Policy. Once the Corporate Contribution Requirement maximum amount is exceeded, a Minimum Guaranty Fund Requirement for Clearing Members will be imposed per Clearing. Finally, all DFRR in excess of the Corporate Contribution Requirement maximum amount plus the total Minimum Guaranty

¹⁷ See the Daily Cover 2 Requirement definition in the Cboe Clear Digital Default Financial Resource Requirement Calculator for how this risk will be measured.

¹⁸ Any month end DFRR resizing will be conducted using the Exposure-Based Guaranty Fund Allocation Formula, the metrics of which are defined in the Default Financial Resources Policy.

Fund Requirement will be met by Clearing Members based on the Exposure-Based Guaranty Fund Allocation Formula.¹⁹

The Default Financial Resources Policy provides that CCD will monitor the DFRR on a daily basis. If certain internal thresholds, approved by the RiskCo, are exceeded, then Cover 2 margin calls or an intra-month resizing of the DFRR may be imposed as a protective measure. The Default Financial Resources Policy describes the calculation and issuance process for Cover 2 margin calls as a protective measure.

The Default Financial Resources Policy also creates procedures in the event a Clearing Member's Default Financial Resources on deposit with the Clearinghouse are in deficit or excess (of the total DFRR fund requirements applicable to each Clearing Member, which is the sum of its Minimum Guaranty Fund and Exposure-Based Guaranty Fund Requirement (together, "Guaranty Fund Requirement")), and in the event a Clearing Member withdraws from membership (regarding the return of Guaranty Fund Requirement funds). Additionally, the Policy requires the CCD Risk Management team to perform an annual review of the CCD Default Financial Resources Requirement Calculator (described below).

CCD believes the Default Financial Resources Policy is consistent with DCO Core Principle B (Financial Resources) as the Policy establishes detailed procedures that require CCD to hold adequate financial resources, comprised of the permissible types of resources under CFTC Regulation § 39.11(b)(1), to cover its exposures, particularly enabling CCD to meet its financial obligations to its Clearing Members notwithstanding a default by the Clearing Member(s) creating the largest financial exposure for the Clearinghouse (i.e., Cover 2) in extreme but plausible market conditions.

Default Financial Resources Requirement Calculator

CCD is adopting a Default Financial Resources Calculator, which will be utilized to calculate the total required amount of funds needed to meet or exceed its DFRR. The Default Financial Resources Calculator enables CCD to meet its financial obligations to its clearing members²⁰ by governing CCD's maintenance of sufficient financial resources to cover its exposures with a high degree of confidence²¹. The Default Financial Resources Requirement Calculator is attached as **Exhibit D**.

Per the Default Financial Resources Policy, as described above, the DFRR is to be measured by the Clearinghouse's obligations on behalf of its two largest Clearing Members (i.e., Cover 2), as measured by their Net Stress Exposure if the two largest Clearing Members were to default. The Default Financial Resources Calculator provides for the manner in which CCD may determine the two largest Clearing Members for the purposes of calculating the daily Cover 2 requirement and the Net Stress Exposure, which is calculated for Clearing Members by position aggregation in

¹⁹ The Exposure-Based Guaranty Fund Allocation Formula is the daily weighted average net stress exposure created by a Clearing Member, weighted average gross portfolio notional exposure, and weighted average daily gross notional volume traded calculated for each Clearing Member.

²⁰ CFTC Regulation § 39.11(a)(1).

²¹ CFTC Regulation § 39.11(a).

accounts by origin, subject to certain offset requirements pursuant to the Default Financial Resources Calculator, and in a manner consistent with CFTC Regulation § 39.11(c)(2).

CCD believes the Default Financial Resources Calculator is consistent with DCO Core Principle B (Financial Resources) as the Calculator allows the Clearinghouse to make a reasonable calculation of the financial resources needed to meet its financial obligations to its Clearing Members in light of a default.

Futures Price Sources and Pricing Model Policy

CCD is adopting a Futures Price Sources and Pricing Model Policy to ensure it holds timely and accurate sources of price data for products that it clears and the underlying digital assets that drive the values of the margin futures contracts. The Futures Price Sources and Pricing Model Policy requires the Clearinghouse to maintain the reliability of its pricing data for it to effectively measure and manage its credit risk and exposure.²² The Futures Price Sources and Pricing Model Policy is attached as **Exhibit E**.

The Futures Price Sources and Pricing Model Policy lists the Clearinghouse functions that require access to price data (the “Pricing Data Uses) and requires that each Pricing Data Use have a back-up data source. The Clearinghouse’s Pricing Data Uses include: issuance of intraday and end of day margin calls; performance of daily mark-to-market; the measuring and monitoring credit exposure to Clearing Members; and the setting of risk-based margin requirements by product, spread or portfolio. For derivatives specifically, the Policy requires a theoretical Valuation Model to be used as a back-up where price data is not readily available or reliable.²³ Currently, the Clearinghouse uses one Valuation Model, the Futures Theoretical Price Model, which is described below. A Valuation Model (i.e., the Futures Theoretical Price Model) is subject to governance²⁴ and evaluation requirements²⁵ specified in the Policy. The Futures Price Sources and Pricing Model Policy requires the Clearinghouse to put adequate protections in place to detect obviously erroneous or outlier data points from price data sources.

CCD believes the Futures Price Sources and Pricing Model Policy is consistent with DCO Core Principle D (Risk Management) in that the Policy ensures the Clearinghouse possesses the timely and reliable price data necessary to effectively monitor its risk and accurately measure its credit exposure.

Futures Theoretical Pricing Model

CCD will maintain a Futures Theoretical Price Model as described in the Futures Price Sources and Pricing Model Policy (i.e., a Valuation Model), which will ensure its listed derivative contracts can be priced for its various settlement and risk management needs. The Futures Theoretical Price

²² CFTC Regulation § 39.13.

²³ CFTC Regulation § 39.13(g)(5).

²⁴ All pricing sources and models used for determining pricing information and changes to the use of pricing sources and Valuation Models are to be approved by the CRO and Head of Clearing.

²⁵ CCD staff are required to review the performance of Valuation Models by i) establishing rules that will trigger ad-hoc reviews ii) periodically reviewing statistics of model performance with respect to established standards to determine if any changes to model design or parameters are warranted.

Model provides for the theoretical price calculation applicable to futures contracts cleared by the Clearinghouse. The Futures Theoretical Pricing Model is attached as **Exhibit F**.

Pursuant to the Futures Theoretical Price Model, to calculate a theoretical futures price, the exponentially weighted moving average (“EWMA”) of a funding rate (“Fair Funding Rate”), which is the calculated premium between the last observed futures price and the spot price adjusted for the futures contract’s time to expiration, is calculated every 60 seconds (the Policy’s current funding rate interval). The Fair Funding Rate is then used, together with the volume-weighted average price (“VWAP”) of all trades in the last 60 seconds, to calculate the final theoretical futures price.²⁶ The detailed calculations are provided in **Exhibit F**.

CCD believes the Futures Theoretical Price Model is consistent with DCO Core Principle D (Risk Management) as the Model provides for a sound valuation model, thus generally assuring that CCD has the appropriate tools and procedures to address circumstances when pricing data is not readily available or reliable.

Default Management Plan

CCD is adopting a Default Management Plan (“DMP”) which delineates the roles and responsibilities of the Clearinghouse’s management team, Board of Directors, Risk Management Committee, and Default Management Committee in the event of a Clearing Member default. The purpose of the DMP and procedures is to ensure that CCD takes timely action to contain losses and liquidity pressures, and to continue meeting its obligations in the event of a default on the obligations of one or more of its Clearing Members. The DMP is attached as **Exhibit G**.

Among other things, the DMP specifically defines and addresses the following:

- FCM contribution obligations to the Guaranty Fund;
- The construct, composition, and duties of the Risk Management Committee and the Default Management Committee;
- Annual testing of the DMP;
- Circumstances that would result in a default by a Clearing Member, the actions and processes undertaken by the Clearinghouse in the event of a default, and the liability of Clearing Members in the event of a default;
- The method of position close out(s), which include consideration by the Default Management Committee of the effects of any liquidation, auction, tear-up, or sale of positions of a Defaulting Clearing Member, along with a determination as to the appropriateness of a particular method given the liquidity of the product(s), open interest, market conditions, and other relevant factors;
- The application of funds and associated priorities following a position close-out, along with additional actions the Clearinghouse may take in managing this process;
- Assessments against all Clearing Members in the event a Default Loss;

²⁶ A reference price is also calculated to be used where the difference between the VWAP and the Theoretical Futures Price exceeds a certain threshold set by the Model.

- Circumstances that could permit a modification of settlement cycles and the associated processes surrounding such modifications;
- Circumstances that could permit voluntary tear-ups, sanctioned partial tear-ups, and/or full termination of contracts and the associated processes surrounding such action; and
- Management of multiple defaults, and the associated “Cooling Off Period” for assessments against non-defaulted Clearing Members.

The DMP would not apply to Clearing Member portfolios that hold only fully collateralized positions. Because CCD only extends margin to its FCM Clearing Members, the DMP would only apply to FCMs. CCD’s Default Auction Procedures, discussed further below, are a component of the DMP.

CCD believes the DMP is consistent with Core Principle G (Default Rules and Procedures) as the adoption of the DMP informs the roles and responsibilities of the Clearinghouse and its Clearing Members, and permits CCD to take timely action to contain potential losses in the event of a default of a CCD Clearing Member, consistent with CFTC Regulations 39.16.

Default Auction Procedures

CCD is adopting Default Auction Procedures as part of its DMP. The Default Auction Procedures provide specific definitions and parameters relating to participant categorization (Mandatory Participants and Voluntary Participants), participation requirements, and the processes associated with auctions following a Clearing Member default. The Default Auction Procedures are attached as **Exhibit H**.

In the event of a default auction, the Default Auction Procedures memorializes, among other things, the following:

- Definitions of Mandatory Participants and Voluntary Participants;
- Minimum participation requirements in each auction, determined by the auction Participant’s proportionate share of total margin requirement for the applicable product class(es);
- Notification processes and communications from the Clearinghouse to Clearing Members and Participants regarding the auction; and
- The format, terms, and processes surrounding a default auction, including: (i) auction specification, (ii) relevant timing considerations for the Bidding Start, the Bidding Window, and the Bidding Close, (iii) bidding and selection, and (iv) post-bid processing. The Default Management Committee is permitted to make changes to the elements described in the Default Auction Procedures where conditions warrant.

CCD believes the adoption of the Default Auction Procedures are consistent with Core Principle B (Financial Resources), Core Principle D (Risk Management), and Core Principle G (Default Rules and Procedures), as they provide all necessary details and relevant information surrounding the administration and management of a default auction, consistent with CFTC Regulations 39.16 and 39.13.

Default Communication Plan

CCD is adopting a Default Communication Plan, which provides details regarding internal and external communications and escalation procedures in the event the Clearinghouse becomes aware of a potential or actual Default of a Clearing Member. The Default Communication Plan is attached as **Exhibit I**.

The Default Communication Plan memorializes, among other things, the following:

- A description of the manner in which CCD may become aware of a potential or actual Clearing Member Default;
- Escalation processes once a potential default has been identified by CCD staff, which includes notifying the Default Notice Group comprised of CCD management;
- Corroboration of relevant information with the Clearing Member, whereby CCD will contact the Clearing Member in question to confirm the veracity of the information indicating a potential default as imminent. If confirmed, additional internal communications, notifications, and responses described in the Default Communication Plan will be taken;
- The determination of default, which requires a minimum of 2 out of 4 individuals in the Default Notice Group to agree to declare a Clearing Member in default, and associated subsequent requirements pertaining to next steps and coordination among the Chief Risk Officer, the Default Management Committee and Risk Management Committee, which are also detailed in the DMP; and
- A description of the initial and ongoing notifications made to all FCM Clearing Members and Mandatory Auction Participants regarding their obligations to participate in DMP testing.

CCD believes the adoption of the Default Communication Plan is consistent with Core Principle G (Default Rules and Procedures), as the Plan provides all necessary details and relevant information surrounding the initial determination of a default and the specific communications and next steps to be taken under the DMP, consistent with CFTC Regulations 39.16.

Default Management Committee Charter

CCD is adopting a Default Management Committee Charter to memorialize the mandate, purpose, and function of the Default Management Committee. The Default Management Committee Charter is attached as **Exhibit J**.

The Default Management Committee Charter memorializes, among other things, the following:

- The mandate of the Default Management Committee, which is to assist in the management of risks to the Clearinghouse and its (non-defaulting) members in the event of default or potential default by a FCM Clearing Member;
- The composition of the Default Management Committee, which is chaired by the Chief Risk Officer and is constituted by five voting members and one non-voting member;
- Reporting lines and management of potential conflicts of interest;

- Requirements pertaining to the form and manner of Default Management Committee meetings;
- Reservation of authority to the Default Management Committee to make recommendations with respect to any default management matters deemed necessary or appropriate; and
- Requirements regarding the confidentiality of Default Management Committee matters.

CCD believes the adoption of the Default Management Committee Charter is consistent with Core Principle G (Default Rules and Procedures), as it provides clarity to the mandate, purpose, and function of the Default Management Committee, which itself has key responsibilities in the administration and oversight of the DMP.

Treatment of Member and Customer Funds Policy and Procedures

CCD is submitting the Treatment of Member and Customer Funds Policy and Procedures, which are designed to protect and ensure the safety of funds and assets belonging to a Clearing Member and their customers while the funds and assets are in transit or held by the Clearinghouse in accordance with regulations under CFTC Regulation 39.15. The Treatment of Member and Customer Funds Policy and Procedures is attached as **Exhibit K**.

The Treatment of Member and Customer Funds Policy and Procedures establish, among other things, the following:

- The CCD Treasury Team is responsible for administration of the associated procedures;
- The Clearinghouse clearing system (“TCS”) is utilized for all processing and clearing of futures and spot transactions, and all asset movements for these transactions. The daily reports generated by TCS include those regarding: (i) Assets & Liabilities and (ii) Balances and Fund Designations for Segregated, Members Property, and Non-Segregated classifications;
- The manner and means by which review of TCS reports are memorialized and escalated, as needed, upon review by the Treasury team;
- The manner and means by which the Clearinghouse ensures the protection of clearing member funds, including: (i) segregation of customer funds and assets in compliance with CFTC Regulation 1.20 and CFTC Regulation 22.3, (ii) holding funds and assets of Clearing Members and their customers in a manner which minimizes the risk of loss or of delay in access, (iii) holding all futures related funds and assets deposited by a Direct Clearing Member or FCM Clearing Member on behalf of the FCM Clearing Member’s house account in a designated Member Property Account, and (iv) holding all cleared swap funds and assets deposited by a Direct Clearing Member or FCM Clearing Member on behalf of the FCM Clearing Member account in a designated Cleared Swaps Member Property Account.
- The manner and means by which the Clearinghouse may transfer customers’ portfolio positions and the associated requirements to doing so; and
- The limitation that the Clearinghouse will only invest funds received from Clearing Members in accordance with CFTC Regulation 1.25, which permit investments in instruments with minimal credit, market, and liquidity risks.

CCD believes the adoption of the Treatment of Member and Customer Funds Policy and Procedures is consistent with Core Principle F (Treatment of Funds), as it is designed to protect and ensure the safety of member and participant funds and assets, it addresses the manner in which all funds and assets are classified, segregated, and held, and also delineates the categorization of permissible investments.

Financial Resources and Reporting Policy

CCD is adopting the Financial Resources and Reporting Policy to guide the Clearinghouse Finance Department in ensuring compliance with requirements set forth in CFTC Regulation 39.11 and CFTC Regulation 39.19. It is the policy of CCD to have adequate financial, operational, and managerial resources to discharge its responsibilities as a DCO. The Financial Resources and Reporting Policy is attached as **Exhibit L**.

The Financial Resources and Reporting Policy memorializes, among other things, the following:

- The determination of the adequacy of financial resources, as measured by both (i) the ability of the Clearinghouse to meet its financial obligations to its Clearing Members, notwithstanding a default by the two Clearing Members creating the largest combined financial exposure for the Clearinghouse in extreme but plausible conditions (“Default Requirement”) and (ii) the ability of the Clearinghouse to cover its operating costs for a period of at least one year, calculated on a rolling basis (“Operational Cost Requirement”);
- The low-risk appetite associated with the execution of CCD’s finance operations;
- The procedures and methodologies for calculating financial resources available to cover Default Requirements, including procedures for ensuring adequate liquidity of such financial resources.
- The procedures and methodologies, including those pertaining to liquidity, for calculating financial resources available to cover Operational Cost Requirements, including procedures for ensuring adequate liquidity of such financial resources; and
- The procedures relating to ongoing and periodic reporting to the Commission, consistent with requirements set forth in CFTC Regulation 39.11(f).

CCD believes the adoption of the Financial Resources and Reporting Policy is consistent with Core Principle B (Financial Resources) and Core Principle D (Risk Management), as it is designed to ensure that the Clearinghouse has adequate financial, operational, and managerial resources to discharge its responsibilities as a DCO, to ensure sufficient financial resources are maintained to cover its exposures with a high degree of confidence, and to enable the Clearinghouse to perform its functions in compliance with the Act.

Settlement Procedures

CCD is adopting Settlement Procedures to ensure it has complete and comprehensive procedures surrounding the processing of settlement obligations of its Clearing Members as well as the Settlement Banks it employs to facilitate the settlement process, consistent with requirements set forth in CFTC Regulation 39.14. The Settlement Procedures are attached as **Exhibit M**.

As stated in the Settlement Procedures, it is the policy of the Clearinghouse to maintain complete and up to date procedures on the processing of daily settlements, final settlement, physical deliveries and criteria for establishing and maintaining bank relationships. The documents that set forth the policy and procedures for selecting, opening accounts, and continued monitoring of such settlement banks and digital asset service providers include: (i) Opening of Bank Accounts and Digital Wallet Policy and Procedures and (ii) Treasury Management Policy and Procedures.

The Settlement Procedures memorialize, among other things, the following:

- Daily Settlement Procedures that are designed to: (i) ensure settlement finality by maintaining all required legal agreements with associated banks that state that settlement fund transfers are irrevocable and unconditional no later than when the DCO's accounts are debited or credited, with a provision for the ability to correct errors as required, (ii) ensure Clearing Members settle at least twice per trading day upon a midday and end of day settlement cycle, excluding banking holidays, and (iii) allow for additional intraday settlements to be performed in times of extreme actual or anticipated market volatility.
- Physical Delivery Procedures that are designed to: (i) ensure that any physical delivery of an underlying on any contract will be made in accordance with the rules of the Exchange listing such contract for trading, both with respect to Fully Funded Futures and with respect to Margin Eligible Futures, and (ii) ensure that any error, omission, or outrade discovered on or after the last day of trading will be processed in a manner specified by the Clearinghouse and described in the Settlement Procedures.
- Maintenance of an accurate record of the flow of funds associated with each settlement in accordance with the Cboe Digital Recordkeeping Policy.

CCD believes the adoption of these Settlement Procedures is consistent with Core Principle E (Settlement Procedures), as it is designed to ensure compliance with DCO requirements set forth in CFTC Regulation 39.11 and CFTC Regulation 39.14, to establish appropriate tools and procedures to complete settlements on a timely basis.

Acceptable Collateral Policy

CCD is submitting its Acceptable Collateral Policy that defines the collateral that will be acceptable from its Clearing Members as eligible deposits to meet collateral requirements for its fully funded and margin eligible CFTC regulated products and Guaranty Fund Deposits. The Acceptable Collateral Policy is attached as **Exhibit N**.

The Acceptable Collateral Policy memorializes and establishes, among other things, the following:

- For Fully Funded Futures Products, CCD will accept: (i) Collateral in the form of U.S. Dollar ("USD") for long positions in fully funded physically settled futures and fully funded financially settled bounded futures, and (ii) Collateral in the form of the underlying deliverable Virtual Currencies for short positions in fully funded physically settled futures.
- For Margin Eligible Futures Products, CCD will accept Collateral in the form of USD for: (i) margin eligible financially settled futures, and (ii) margin eligible physically settled futures.

- Guaranty Fund Deposits: CCD will accept Collateral in the form of USD for all contributions required to meet the Guaranty Fund Deposits requirements.
- There are no concentration limits or haircut requirements for USD Collateral.

The Acceptable Collateral Policy also specifies the processes associated with the addition of new Collateral Assets and specifies the process associated with the removal of a previously Acceptable Collateral Asset. The CRO will be responsible for the Clearinghouse’s compliance with this policy and all associated processes.

CCD believes the adoption of the Acceptable Collateral Policy is consistent with Core Principle D (Risk Management) as it is designed to ensure compliance with DCO requirements set forth in CFTC Regulation 39.13.

Member Participation Requirements Policy and Procedures

CCD is submitting its Member Participation Requirements Policy and Procedures that set forth the admission and continuing participation requirements in spot and futures products for Clearing Members of the Clearinghouse that are objective, clear, publicly disclosed, and risk-based. The Member Participation Requirements Policy and Procedures are attached as **Exhibit O**.

Consistent with the CCD Rulebook, the two categories of membership are: (i) FCM Clearing Members eligible for holding positions at CCD on margin, and (ii) fully collateralized Direct Clearing Members.

It is the policy of the Clearinghouse to ensure that the onboarding process is completed in full prior to making a decision whether to approve a Clearing Member application for membership. The onboarding process includes, among other things, an Anti-Money Laundering (“AML”) and Know Your Customer (“KYC”) review and, for FCM Clearing Members, a Financial and Operational Due Diligence review.

The Member Participation Requirements Policy and Procedures Collateral Policy memorializes, among other things, the following:

- The CCD RiskCo of the CCD Board delegated the authority to review and recommend the approval or disapproval of member applicants to a Membership Applicant Risk Committee (“MARC”) comprised of two groups: 1) the CRO the Head of Clearing, the Head of Operations; and 2) Chief Legal Officer and Chief Compliance Officer of Cboe Clear Digital. The MARC has the authority to approve member applicants that meet the minimum requirements by requiring one approval from each group noted above, and must provide RiskCo a quarterly update of all member applicants approved by the MARC AML/KYC Review;
- The processes and approvals required for membership admission, delineated by membership category;
- The processes surrounding onboarding of institutions, which includes: (i) AML/KYC reviews and collection of specified associated documentation, (ii) a review for self-regulatory organization membership (for FCMs, membership with the National Futures Association and for Broker-Dealers, membership with the Financial Industry Regulatory

Authority); (iii) financial reviews for FCM Clearing members, (iv) operational requirements reviews for FCM Clearing members, (v) financial reviews for Non-Clearing Exchange Members registered with the CFTC as FCMs or IBs, and (vi) proper execution of associated legal agreements;

- The processes surrounding onboarding of individuals, which includes: (i) AML/KYC reviews and collection of specified associated documentation, (ii) provision of risk disclosures for Direct Clearing Members trading futures, and (iii) proper execution of associated legal agreements;
- Ongoing obligations of Clearing Members, including: (i) continuing participation requirements, (ii) annual clearing member questionnaires, and (iii) periodic financial reporting requirements for FCMs and Broker-Dealers; and
- Ongoing monitoring and membership related reviews undertaken by the Clearinghouse, and associated Clearing Member notifications.

CCD believes the adoption of the Member Participation Requirements Policy and Procedure is consistent with Core Principle C (Participant and Product Eligibility) as it is designed to ensure appropriate admission and continuing eligibility standards for its members and to establish requirements that are objective, publicly disclosed, and permit fair and open access.

Credit Risk Management Policy

CCD is establishing its Credit Risk Management Policy to memorialize the processes relating to the onboarding of Clearing Members applying to clear margined futures contracts, as well as measuring, monitoring, and managing credit and counterparty risk exposure presented by such Clearing Members on an ongoing basis. The Credit Risk Management Policy is attached as **Exhibit P**.

The Credit Risk Management Policy establishes, among other things, the manner in which the Clearinghouse will manage its credit exposure to each Clearing Member, including through:

- Establishment of admission requirements to ensure all applicants meet financial resource, risk management, and operational standards set by the Clearinghouse;
- Assignment of a Net Stress Exposure Threshold to each Clearing Member;
- Ongoing monitoring of Clearing Members' adherence to all relevant standards and processes surrounding escalation of any known failures;
- Assessment of margin charges commensurate with the risk characteristics of the products listed by the Clearinghouse as well as the characteristics of the particular Clearing Member;
- Establishment of Protective Measures to be applied when certain thresholds are breached or other related requirements are not met;
- Processes to mark-to-market each Clearing Member's open positions at least once per day; and
- Processes to conduct initial and ongoing financial reviews of FCM Clearing Members and Non-Clearing Members.

CCD believes the adoption of the Credit Risk Management Policy is consistent with Core Principle C (Participant and Product Eligibility) as it is designed to establish appropriate admission and continuing eligibility standards for DCO members and participants, along with the establishment and implementation of procedures to verify, on an ongoing basis, the compliance of each participation and membership requirement of the DCO.

Public Information

A notice and copy of this submission has been concurrently posted on Cboe Digital's website at <https://www.cboedigital.com/regulation/exchange-notices/> under "CFTC Submissions."

Opposing Views

CCD is not aware of any opposing views expressed regarding this Rule Change.

Certification

CCD hereby certifies to the Commission, pursuant to the procedures set forth in Commission regulation §40.6, that this submission complies with the CEA, as amended, and the regulations promulgated thereunder.

Please contact me if you have any questions or wish to discuss this matter further.

Sincerely,

[/s/ Rebecca Tenuta](#)

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