



November 1, 2023

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

Re: Cboe Clear Digital, LLC Rule Certification
Submission Number CCD-2023-07C

Dear Mr. Kirkpatrick:

Cboe Clear Digital, LLC (“CCD” or “Clearinghouse”), a registered derivatives clearing organization (“DCO”) under the Commodity Exchange Act, as amended (“CEA” or the “Act”), hereby submits, pursuant to §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission (“CFTC” or “Commission”) the **CCD Risk Management Procedures** in connection with clearing margined futures contracts on bitcoin and ether (“Products”).¹ As part of the Commission’s review of CCD’s application to amend its Derivatives Clearing Organization (“DCO”) order of registration to clear margin future products,² the Commission reviewed a draft of CCD’s Risk Management Procedures and Credit Risk Management Framework. Since the Commission’s approval of CCD’s amended DCO order of registration, CCD has absorbed its Credit Risk Management Framework into its Risk Management Procedures; however, the combined content is the same that the Commission reviewed and CCD has since only added additional details or updates to enhance procedures.³ The CCD Risk Management Procedures is set forth in a segregated confidential **Exhibit A** to this submission.

The proposed rule change to adopt the CCD Risk Management Procedures (or, “Procedures”) will become effective on November 16, 2023.

¹ CCD anticipates that it will begin clearing the margined Products on behalf of its affiliated Designated Contract Market (“DCM”), Cboe Digital Exchange, LLC, by Q1 2024.

² CCD’s amended DCO order of registration was approved by the Commission on June 5, 2023.

³ CCD has added: additional details in the Onboarding section regarding how pre-trade limits and post-trade thresholds will be initially set for newly approved FCM Clearing Members; an additional Pre-Trade Exposure Limits section; an additional FCM Clearing Member Margin Profiles section; an additional Financial Review Metrics section; additional detail to the Margin Rate and Initial Margin Controls section (formerly titled the Risk Parameter and Initial Margin Requirement Review and Approval section); additional detail to the Ongoing Monitoring section (formerly titled the Intraday Monitoring section); and updates to the Periodic Reviews section to include details around periodic reviews of pre-trade limits and post-trade thresholds as well as FCM risk management policy and procedure reviews.

Procedures Overview

The Procedures set forth the procedures to implement various CCD policies,⁴ and applicable to Clearing Members applying or approved to clear the Products (also known as “FCM Clearing Members”) as well as Non-Clearing Exchange Members (including, Non-Clearing Futures Commission Merchant (“FCM”) Exchange Members and Introducing Brokers) approved to trade the Products on its affiliated Designated Contract Market (“DCM”), Cboe Digital Exchange, LLC (“CDE” or the “Exchange”), as applicable.

The Procedures govern procedures around: on-boarding; pre-trade exposure limits; net stress exposure; post-trade credit exposure; FCM Clearing Member margin profiles; financial review metrics; margin rate and initial margin controls; on-going monitoring; and periodic reviews.

Onboarding

The Procedures set forth Clearing Member requirements and required documentation that CCD must review and approve for Clearing Member applicants. This includes documentation in connection with Clearing Members’ financial resource requirements, required written risk management policies and procedures, and operational capacity requirements, including for Clearing Members with proprietary trading operations. The Procedures also detail the Clearing Member application review and approval process.

Pre-trade Exposure Limits

The Procedures govern the process for setting up a Clearing Member’s pre-trade margin exposure limit and risk profile, initially based on information collected by CCD as part of the on-boarding process and updated in connection with on-going reviews. The Procedures also provide the process for setting a Clearing Member’s margin profile in the Clearinghouse systems, and set forth Non-Clearing Exchange Member financial requirements and CCD’s review of documentation in connection with such financial requirements.

Net Stress Exposure

The Procedures govern processes around net stress exposure. Specifically, the Procedures provide that if a net stress exposure threshold is violated based on the end-of-day positions after all post-trade adjustments, then CCD will implement a margin add-on included in the FCM Clearing Member’s initial margin requirement for the morning settlement. The Procedures govern net stress

⁴ Cboe Clear Digital Credit Risk Management Policy, Cboe Clear Digital Default Financial Resource Policy, and the Cboe Clear Digital Futures Price Sources and Pricing Model Policy, each of which CCD submitted as a rule change for self-certification on October 31, 2023 (Submission No. 2023-05C).

exposure threshold maintenance and monitoring for FCM Clearing Members and Non-Clearing Exchange Member FCMs.

Post-trade Credit Exposure

Pursuant to the Procedures, the Risk Management System will monitor credit exposure metrics on an intraday basis where real-time positions, prices, and collateral balances will be used in conjunction with estimated initial margin requirements using intraday positions at the account level. It sets forth credit exposure measures that will be monitored by the Risk Management System to determine if the early warning level or threshold is breached and generate alerts as appropriate. Such measures include: open trade equity, net settlement forecast, net stress exposure, position by contract and by product, and margin exposure.

FCM Clearing Member Margin Profiles

The Procedures govern creation and application of margin profiles for FCM Clearing Members, including determination of outright and spread maximums and minimums assigned to a Clearing Member's margin profile.

Financial Review Metrics

The Procedures provide for financial review metrics and processes applicable to FCM Clearing Members and Non-Clearing Exchange Member FCMs.

Pursuant to the Procedures, on at least a monthly basis, all FCM Clearing Members' and Non-Clearing Exchange Member FCMs' 1FR-FCM filings will be obtained and reviewed to ensure they continue to meet the participation requirements, including but not limited to:

- financial resource minimum requirements;
- evaluation of any contingent liability due to the Clearinghouse's assessment powers compared to the FCM's current financial resources as reported on the 1FR-FCM;
- identification of any potentially concerning trends with respect to capital, profitability, liquidity, among others; and
- the metrics for identifying potentially concerning trends within an FCM Clearing Member's or Non-Clearing Exchange Member FCM's financial filings (which are defined in the Financial Review Metrics document appended to the Procedures), and the applicable type/level of escalation and follow-up.

Margin Rate and Initial Margin Controls

Pursuant to the Procedures, every Business Day, a series of processes are run using the current Reference Price (after 3:12 pm). These processes include generating tail risk parameters for the underlying assets for the futures contracts listed by Cboe Digital and margin rates for each listed

futures contract and spread based on the Tail Risk parameters, basis risk adjustment, calendar risk adjustment, and spread charges.

The Procedures describe in detail the review and approval process for margin rates. The Procedures set forth specific review procedures for analyzing daily tail risk measure, the adequacy of the tail risk model and the adequacy of the clearing initial (customer maintenance) margin rates, and measuring the performance of the current risk adjustments relative to historical price movements of the contracts in each Clearing Member account by origin. The Procedures then provide steps for completing the margin rate approval process and publishing the margin rates.

Further, the Procedures govern monthly risk-based margin rate reviews and approval processes, SPAN file review and approval processes, initial margin requirement review and approval processes, and stress scenario monitoring.

On-going Monitoring

The Procedures set forth the processes for on-going intraday monitoring, including setting early warning levels and thresholds, responses to alerts, threshold breaches or other changes in Clearing Member activity, and types/levels of certain alerts. Specifically, the Procedures govern monitoring around: pre-trade exposure limits; net stress exposure thresholds; post-trade credit exposure thresholds; post-trade risk alert monitoring; price data monitoring and alerting; system tasks intraday monitoring and alerting; Non-Clearing Exchange Member FCM intraday monitoring (including net stress exposure thresholds); FCM Clearing Member daily monitoring (including financial monitoring, notice filing reviews, credit and liquidity exposure monitoring, large trader monitoring); and Non-Clearing Exchange Member daily monitoring (including financial monitoring, and notice filing reviews).

Periodic Reviews

Finally, the Procedures govern periodic reviews, including independent validation of models, stress scenario reviews, and the appropriateness of FCM Clearing Members' pre-trade risk limits and post-trade risk thresholds, each on an annual basis, as well as FCM Clearing Members' risk management policies and procedures at least every three years.

Core Principle Compliance

CCD believes that its Risk Management Procedures are consistent with the DCO Core Principles as set forth in the CEA and has identified DCO Core Principles as potentially being relevant to the above amendments:

- Core Principle C (Participant and Product Eligibility) as the Procedures are designed to govern requirements and review around appropriate admission requirements for Clearing Members, along with procedures to verify, on an ongoing basis, Clearing Member

compliance with DCO membership requirements, including financial resources. The Procedures also set forth appropriate product eligibility requirements in connection with CCD's ability to measure risk for purposes of setting margin requirements; and

- DCO Core Principle D (Risk Management) as the Procedures ensure that CCD possesses the ability to manage the risks associated with discharging its responsibilities through the use of appropriate, tailored tools and procedures, specifically including CCD's ability to:
 - measure and monitor credit exposure to its Clearing Members;
 - set, monitor, back-test and review daily margin rates;
 - impose pre-trade exposure and risk limits on its Clearing Members;
 - obtain from its Clearing Members large trader reports;
 - measure and test net stress exposure of its Clearing Members;
 - require its Clearing Members to maintain and allow CCD to review risk management policies and procedures; and
 - take additional actions with respect to particular Clearing Members, when appropriate, based on the application of objective and prudent risk management standards.

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

Rebecca Tenuta
Senior Counsel, Cboe Digital
rtenuta@cboe.com