



Dear Crypto Community,

Recent events in the industry have led us to reach out to highlight our customer protection policies, the benefits of regulatory oversight, and the value of including intermediaries in our marketplace—which has been our position since inception.

Customer Assets

To protect member funds and assets, Cboe Digital is obligated to completely segregate customer assets from our own assets by holding them at a bank in a specially-designated account, for the benefit of our Members, and separate from the operating funds of Cboe Digital. This is required by CFTC regulations for futures trading and clearing, and state requirements related to Money Service Business (MSB) licenses. Cboe Digital has strict policies in place to ensure our customer funds are segregated and safe.

Regulatory Oversight

Cboe Digital believes that regulatory oversight provides significant benefits to the industry with focus on, but not limited to, counterparty risk, financial health/solvency/resources, responsible innovation, system safeguards, and overall goal of providing a resilient and robust market for price discovery in any asset class, including cryptocurrencies. Given the frequent macro-level events the industry has endured, below is a table that highlights why this oversight is important and how Cboe Digital is solving for different types of risk the industry continues to face.

Potential Risks of Unregulated Markets	Cboe Digital Approach*
Counterparty risk	<p>Cboe Digital currently maintains policies, procedures, and controls to mitigate this risk.</p> <p>Review of our operations via operational integrity audits, and regular reporting to our many regulators.</p> <p>Independent financial audits are conducted.</p> <p>Cboe Digital acts as a central counterparty enabling buyers and sellers to trade with each other. <i>We do not act as a trading counterparty versus our customers.</i></p>
Protection of customers assets	<p>Regulatory obligation to segregate customer funds and review of our operations via independent financial audits and operational integrity audits and regular reporting to our many regulators.</p>

<p>Conflicts of interest between affiliated companies and between internal groups</p>	<p>Separation of duties for internal teams, including information barriers between teams and need-to-know access controls.</p> <p>Unconflicted agency-only matching. No proprietary trading versus our own customers, and no affiliated trading groups trading against our customers.</p> <p>Separation of exchange and clearing operations via two distinct legal entities, and separate staff for market operations and clearing operations.</p>
<p>Balance sheet/ “wrong way risk”</p>	<p>Cboe Digital does not trade for its own account and does not take directional position risk.</p> <p>Regulatory minimum capital requirements that obligate us to hold capital to cover at least 12 months of operational expenses.</p>
<p>Ownership opacity</p>	<p>Cboe Digital is required to report with full transparency its ultimate beneficial owners to its regulators.</p>
<p>Credit risk, liquidity risk</p>	<p>Cboe Digital does not take directional positions in crypto assets and intends to have access to credit, if needed.</p>
<p>Manipulation risk</p>	<p>Market surveillance program in place to monitor, detect, and review for potential manipulation and other abusive practices. No preferential treatment of any trading firm, including no affiliated trading firm, in the Central Limit Order Book.</p>
<p>Default risk</p>	<p>Default management policies and default financial resource requirements.</p>
<p>Jurisdictional risk</p>	<p>Cboe Digital operates in the United States, incorporated in Delaware, with headquarters in Chicago and an office in New York City.</p> <p>Cboe Digital, and our customers, benefit from the robust legal and regulatory environment of the United States, where we hold two Federal licenses to support futures trading and clearing, 43 state money transmission licenses, and one “BitLicense” to support virtual currency business activity in New York State.</p>

Concentration risk	Supporting intermediaries allows Cboe Digital and our market participants to benefit from a diversity of compliance, risk and credit controls managed by experienced teams at a variety of firms.
Settlement risk	Clearinghouse operations that comply with the CFTC Core Principles and are subject to regular audits and oversight.
Spot Market Regulation	As a best practice, Cboe Digital has a surveillance program designed around CFTC Core Principles and which was established to enforce the rules of our spot market to help protect investors as well as the integrity of our markets. <i>We are aware of no other market operator that has undertaken this level of customer protection.</i>

Intermediaries

From the outset we have set out to bring best practices in risk, operation, trading, and trust from traditional markets to support intermediaries including Futures Commission Merchants (FCMs) and their customers in our marketplace. FCMs act as intermediaries between the customer and the exchange that actually executes the trade and the clearing house that clears the trade. We are committed to including retail and institutional intermediaries because they are positioned to provide specialized, tailored services and risk management. Traders and investors can leverage intermediaries’ tools for research and education, as well as idea implementation to reach financial goals.

Enabling access via intermediaries ensures that there are multiple points of risk and credit control, customer protection, separation of business function/duty, and management of conflicts of interest. We continue to be focused on serving our intermediary partners by offering them a regulatory-first, trusted, transparent, purpose-built exchange and clearing house to provide their customers responsible access to cryptocurrencies and derivatives on cryptocurrencies.

Cboe Digital believes in responsible innovation and has built our transparent market within current Federal and state regulatory guidelines from the ground up to keep our members’ assets secure. We work with intermediaries to enhance the trading and investing experience. If you would like to read our full comment letter about the FTX proposal and caution on dis-intermediated access, you can find it [here](#).

Thank you,
 John Palmer
 President, Cboe Digital



About Cboe Digital

Cboe Digital is a U.S. based platform providing access to crypto spot and regulated futures markets. By combining professional tools, advanced technology, sophisticated regulatory oversight, and a diverse product set, Cboe Digital offers compliant and transparent, capital markets friendly workflows to digital market participants. Cboe Digital, Cboe Clear Digital and Cboe Digital Intermediate Holdings LLC logos are trademarks of the Cboe Global Markets group of companies.

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