

OPEN LETTER



Interactive Brokers Group
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Thomas Peterffy
Chairman

November 14, 2017

J. Christopher Giancarlo
Chairman, Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

AMERICAS
GREENWICH
CHICAGO
WEST PALM BEACH
MONTREAL

Re: Dangers of Clearing Bitcoin and Cryptocurrency Derivatives in Same Clearing Organization as Other Products

EUROPE
ZUG
LONDON
BUDAPEST
ST. PETERSBURG
TALLINN

Dear Chairman Giancarlo:

I am the Chairman and founder of Interactive Brokers LLC, a futures commission merchant and broker-dealer with over \$ 3.8 billion in regulatory net capital and over \$1.2 billion in client margin funds (Interactive Brokers Group is publicly traded on Nasdaq with a market cap of over \$22 billion). As a CME clearing member, we are deeply concerned with proposals that would allow Bitcoin and other cryptocurrency derivatives to be cleared in the same clearing organization as other products.

ASIA
PACIFIC
HONG KONG
MUMBAI
SHANGHAI
SYDNEY
TOKYO

This letter is to request that the Commission require that any clearing organization that wishes to clear any cryptocurrency or derivative of a cryptocurrency do so in a separate clearing system isolated from other products.

There is no fundamental basis for valuation of Bitcoin and other cryptocurrencies, and they may assume any price from one day to the next. This has been illustrated quite clearly in 2017 as the price of Bitcoin has increased by nearly 1000%.

Cryptocurrencies do not have a mature, regulated and tested underlying market. The products and their markets have existed for fewer than 10 years and bear little if any relationship to any economic circumstance or reality in the real world.

Margining such a product in a reasonable manner is impossible. While the buyer (the long side) of a cryptocurrency futures contract or call option could be required to put up 100% of the value to ensure safety, determining the margin requirement for the seller (the short side) is impossible.

Instituting daily price move limits on cryptocurrency derivatives does not solve the problem. In a runaway upward market for example (like the silver market in the 1980's caused by the Hunt brothers), the futures price gets locked limit-up day after day with little or no trading and the short sellers are unable to cover, leading them (and potentially their clearing firms) to ruin.

If the Chicago Mercantile Exchange or any other clearing organization clears a cryptocurrency together with other products, then a large cryptocurrency price move that destabilizes members that clear cryptocurrencies will destabilize the clearing organization itself and its ability to satisfy its fundamental obligation to pay the winners and collect from the losers on the other products in the same clearing pool.

Accordingly, even clearing members who do not wish to clear cryptocurrencies because they judge the risk to be too great cannot isolate themselves and their customers from a potentially catastrophic loss from cryptocurrency risk at the clearing organization.

Thus, it is no answer for the proponents of clearing these products to suggest that objecting clearing members can simply charge very large margins or not offer cryptocurrencies at all. In a central clearing organization, all members are at risk for the activities of any member (and of the clearing organization itself).

Unless the risk of clearing cryptocurrency is isolated and segregated from other products, a catastrophe in the cryptocurrency market that destabilizes a clearing organization will destabilize the real economy, as critical equity index and commodity markets cleared in the same clearing organization become infected.

The only way to protect clearing organizations and their members (and the financial system as a whole) from the unique risks inherent in clearing cryptocurrencies is to require that they be cleared in a separate clearing system, isolated from other products.

We would be happy to discuss this with you or to provide any further information at your convenience.

Sincerely,

Chairman