
Ledger Holdings Inc

June 27, 2019

VIA COMMISSION PORTAL

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

Re: Commission Regulation 40.2(a) – Certification of USDBTC Prepaid Day-Ahead Swaps
LedgerX LLC Submission No. 19-12

Dear Mr. Kirkpatrick:

LedgerX LLC (“LedgerX”) hereby notifies the Commodity Futures Trading Commission (the “Commission”), pursuant to Commission Regulation 40.2(a), that it is certifying the USDBTC Prepaid Day-Ahead Swaps (the “Exchange Contract”) for trading on LedgerX’s designated contract market (“DCM”).

LedgerX will list the Exchange Contract no earlier than July 1, 2019.

This certification includes the following:

- The submission cover sheet, which shall be generated through the Commission’s submission portal at the time of filing.
- A concise explanation and analysis of the Exchange Contract, attached as Exhibit A.
- A copy of the Exchange Contract’s rules, which will be published as contract specifications on LedgerX’s website, attached as Exhibit B.
- A concise explanation and analysis of the Exchange Contract’s compliance with applicable provisions of the Commodity Exchange Act (the “CEA”), including the Core Principles, and the Commission’s Regulations thereunder, attached as Exhibit C.

LedgerX certifies that the Exchange Contract complies with the CEA and Commission Regulations thereunder. LedgerX additionally certifies that it has concurrently posted a copy of this submission letter and the attachments hereto on LedgerX’s website at <https://ledgerx.com/>.

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Please contact the undersigned at (917) 267-2381 or juthica@ledgerx.com if you have any questions or you would otherwise like to discuss this further.

Sincerely,

A handwritten signature in black ink, appearing to read 'Juthica Chou'.

Juthica Chou
Chief Operating Officer
LedgerX LLC





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Exhibit A

Below is a concise explanation of the Exchange Contract:

The Exchange Contract is a USD-priced prepaid day-ahead swap on bitcoin. The Exchange Contract, which is prepaid by the buyer at the time of order execution and physically settled by the seller on a T+1 basis, provides (subject to the following paragraphs) an Exchange Contract buyer with bitcoin and an Exchange Contract seller with USD.

Prior to placing a bid to purchase one or more Exchange Contracts, a prospective buyer must post to LedgerX the USD bid amount of each Exchange Contract it wishes to purchase, the aggregate amount of which will be debited from such buyer's account on the Initial Payment Date in satisfaction of such buyer's delivery obligation under each such Exchange Contract. At settlement, the buyer will receive physical delivery of one bitcoin for each Exchange Contract purchased.

Notwithstanding the foregoing, a buyer that has a net short Exchange Contract position at LedgerX prior to purchasing one or more additional Exchange Contracts will have short positions assigned to one or more sellers of Exchange Contracts with the same Trade Date. As a result, any such buyer will receive physical delivery of bitcoin only to the extent that the number of Exchange Contracts purchased on such Trade Date is net positive (e.g., a buyer with an open short interest of 5 bitcoin who then purchases 10 Exchange Contracts would receive 5 bitcoin at settlement).

Prior to placing an order to sell one or more Exchange Contracts, a prospective seller must have a number of bitcoin available for trading in its account at LedgerX at least equal to the number of Exchange Contracts it wishes to sell pursuant to such order. On the Initial Payment Date, each seller of an Exchange Contract will be credited with USD in an amount equal to the related offer price of such Exchange Contract. On the Final Payment Date, a number of bitcoin equal to the net number of Contracts sold by such Seller will be debited from such Seller's account in satisfaction of the delivery obligation under each such Contract.

For more information, the Exchange Contract's contract specifications are attached as Exhibit B.

Exhibit B

Rule 12.2 Day-Ahead USD/BTC Swaps

- A. Contract Description.** The term “swap” is a generic one that covers many types of instruments, including (among other things) any agreement, contract or transaction that is for the purchase or sale of any one or more currencies or commodities. A Participant may enter into an Exchange Contract as a buyer, whereby such Participant will pay USD and receive BTC, or as a seller, whereby such Participant will pay BTC and receive USD. The Exchange Contract requires that a buyer pay USD on the Initial Payment Date, and that the seller pay BTC on the Final Payment Date. This Rule 12.2 pertains to swaps on bitcoin (as described further herein) and contains general Exchange Contract terms and conditions.
- B. Bitcoin.** Bitcoin is a computer network and protocol that allows digital currency to be stored and transferred in a distributed manner without the need for a central intermediary. The Bitcoin network is a form of blockchain, which allows consensus to be built and maintained on a distributed, decentralized basis by parties with no inherent reason to trust one another. Each individual bitcoin transaction is validated by the network of decentralized parties, or nodes, over a period of time and then added to a “block”, which is then cryptographically linked to the immediately preceding block (over time, creating a chain, or a “blockchain”).
- C. Trading Hours.** The trading hours of the Exchange’s Designated Contract Market that are applicable to the Exchange Contract described in this Rule 12.2 (a “Day-ahead Swap”) will be 24 hours a day, seven days a week or as otherwise determined by the Exchange from time to time as disclosed on the Website and through Participant Notice.
- D. Currency.** The currency applicable to Day-ahead Swaps will be United States dollars, which will be expressed in dollars and cents per bitcoin.
- E. Underlying.** The underlying applicable to Day-ahead Swaps will be bitcoin (sometimes referred to as “BTC”).
- F. Contract Size.** Each Day-ahead Swap will be for a single Underlying (i.e., one bitcoin).
- G. Position Limits.** As of any date of determination, no person will own or control positions in excess of 100,000 Day-ahead Swaps.
- H. Collateral.** All Exchange Contracts will be fully collateralized. Before the Exchange’s Designated Contract Market will accept a buy order for one or more Day-ahead Swaps from a Participant, such Participant must have sufficient USD available for trading in its account to satisfy its settlement obligations on such Exchange Contract(s). Before the Exchange’s Designated Contract Market will accept a sell order for one or more Day-
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ahead Swaps from a Participant, such Participant must have sufficient bitcoin available for trading in its account to satisfy its delivery obligations on such Exchange Contract(s).

I. Swap Tenor. One Business Day.

J. Swap Conventions.

- a. *Trade Date.* With respect to any Day-ahead Swap, the date on which the Exchange, in its sole discretion accepts a buy or sell order, as the case may be.
 - b. *Effective Date.* With respect to any Day-ahead Swap, the Trade Date applicable thereto.
 - c. *Minimum Price Fluctuation.* With respect to any Day-ahead Swap, \$0.25.
 - d. *Initial Payment Date.* With respect to any Day-ahead Swap, the Trade Date applicable thereto. The buyer of a Day-ahead Swap will pay the bid amount of such Exchange Contract on the Trade Date thereof.
 - e. *Premium.* With respect to any Day-ahead Swap, the Buyer thereof will pay the premium thereon on the Initial Payment Date. In the context of a Day-ahead Swap, the bid amount is equal to the Premium.
 - f. *Final Payment Date.* With respect to any Day-ahead Swap, the Business Day next succeeding the Trade Date applicable thereto.
 - g. *Business Day Convention.* Previous.
 - h. *Settlement.* Physical delivery. With respect to any Day-ahead Swap, physical delivery will occur on the Final Payment Date applicable thereto.
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Exhibit C

LedgerX has determined that the Exchange Contract certified herein relate to the following DCM Core Principles:

Core Principle 2 – Compliance with Rules

Trading in the Exchange Contract will be subject to the LedgerX Rulebook (the “Rules”), which prohibits abusive trading practices, including, but not limited to, the following: fraudulent trading (Rule 8.3.C); spoofing or any other conduct that constitutes a disruptive trading practice or is otherwise prohibited under CEA Section 4c(a)(5) or applicable CFTC Regulations (Rules 8.3.J, 8.3.N and 8.9); any manipulation proscribed under CEA Section 9(a)(2) or CFTC Regulations 180.1(a) or 180.2 (Rules 8.3.K and 8.9); making fictitious bids or offers (Rules 8.3.M and 8.9); or any other activity that tends to impair the welfare, reputation, integrity or good name of LedgerX (Rule 8.5).

As with all swaps and options listed for trading on LedgerX’s DCM, trading activity in the Exchange Contract will be subject to monitoring and surveillance by LedgerX’s Compliance Department. LedgerX has the authority to exercise its investigatory and enforcement power where potential Rule violations are identified. See Chapter 9 of the Rules.

Core Principle 3 – Contracts Not Readily Susceptible to Manipulation

The Exchange Contract is not readily susceptible to manipulation because it is fully-collateralized and results in physical delivery. LedgerX’s fully-collateralized model limits the ability of Participants to manipulate the market through corners and squeezes. Under a partially-collateralized model, a Participant might be unable to source a sufficient quantity of the underlying to satisfy its delivery obligations because the market had been cornered. This approach would not enable manipulation of the Exchange Contract because each position is fully collateralized at the time of execution. For example, a Participant selling an Exchange Contract would not need to cover the position by purchasing more bitcoin because the Participant will have already posted the bitcoin underlying the contract with LedgerX pursuant to the fully-collateralized model. As a result, the Participant will not experience a squeeze and an attempt to squeeze the LedgerX market likely would be unsuccessful.

Core Principle 4 – Prevention of Market Disruption

Rule 8.9 prohibits traders from attempting to manipulate, or manipulating the market, in any swap listed on LedgerX’s DCM, including any manipulation or attempted manipulation of the swap’s underlying. This prohibition would include manipulation and attempted manipulation of the Exchange Contract and the underlying for the Exchange Contract. This Rule is enforced by LedgerX in accordance with Chapter 9 of the Rules.

Core Principle 5 – Position Limits or Accountability



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Rules 8.15 and 8.16 allow LedgerX to adopt position limits or position accountability levels for swaps listed on LedgerX's DCM. LedgerX has elected to set position limits as described above in Exhibit B in order to (i) add a further layer of protection for market participants by mitigating the risk of market manipulation and (ii) prevent excess speculation in the Underlying.

Core Principle 6 – Emergency Authority

Pursuant to Rule 2.12, LedgerX may take necessary or appropriate actions in response to an emergency affecting trading or open positions in the Exchange Contract, including the following: (i) suspend or curtail trading in, or limit trading to liquidation, for the Exchange Contract; (ii) extend or shorten the last trading date for the Exchange Contract; (iii) provide alternative settlement mechanisms for the Exchange Contract (including by altering the settlement terms or conditions or fixing the settlement price) or suspend the transfer of the underlying; (iv) order the transfer or liquidation of open positions in the Exchange Contract under certain circumstances; (v) extend, shorten or change the trading hours or the expiration date of the Exchange Contract; (vi) require participants to meet special margin requirements; (vii) order the transfer of positions in the Exchange Contract and the associated margin or alter the Exchange Contract's settlement terms or conditions; or (viii) impose or modify position limits, price limits, and intraday market restrictions.

Core Principle 7 – Availability of General Information

In accordance with Rule 2.17, LedgerX will publish daily information on the Exchange Contract regarding settlement prices, volume, open interest, and opening and closing ranges.

LedgerX will submit electronic reports of all reportable swap data for each executed Exchange Contract to a registered swap data repository immediately following execution of the Exchange Contract. See Rule 6.7. All such reports will meet the standards set out in Parts 43 and 45 of Commission Regulations.

Core Principle 11 – Financial Integrity of Transactions

Rule 6.1.A describes the process by which LedgerX verifies sufficient funds and/or collateral prior to accepting an order in any swap, including an order in the Exchange Contract. Specifically, upon submission of an order, LedgerX will conduct a review of the relevant participant's collateral account to ensure that the participant can fully collateralize the order prior to entering into the Exchange Contract. If the relevant participant's collateral account does not have the necessary funds and/or collateral for the order, LedgerX will not accept the order. Once orders in the Exchange Contract have been successfully matched, LedgerX's derivatives clearing organization will immediately clear the Exchange Contract in accordance with Rule 6.1.B.
