



CME CF Cryptocurrency Pricing Products

CME CF Oversight Committee Meeting Minutes
(Summary)

January 28th 2020

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1 Attendees and Quorum

Gavin Lee: **Chair**, CME

Dr. Timo Schlaefer (**TS**): Crypto Facilities

Max Boonen (**MB**): B2C2

Michael Moro (**MM**): Genesis Global Trading

Andreas Antonopoulos (**AA**): Independent Expert

Prof. Willian Knottenbelt (**WK**): Imperial College London (joined the meeting)

Apologies for Absence

Payal Lakhani (**PL**): CME

The Meeting began at 1505 London Time

2 Conflicts of Interest

The Chair asked committee members whether they had any conflicts to raise.

A potential conflict was raised by a committee member.

The Chair asked the Administrator to liaise with the committee member that was subject to the conflict and follow other procedures regarding the conflict in accordance with its and the CME CF Cryptocurrency Pricing Products Conflicts of Interest Policies.

The committee did not believe the potential conflict would require the member to be recused from the meeting, any of its items or resolutions.

3 Standing Items

The Administrator asked committee members if there were any questions raised from the monthly metrics reports and benchmark surveillance alerts that had been provided to the committee since the last committee meeting.

Committee members had raised where they could see the actual threshold for Exceptional Trade Size within the report and the Administrator explained the location of this in the report

The committee and the Administrator discussed the implementation and ongoing monitoring of the threshold for Exceptional Trade Size the was now driven by the Dynamic Order Size Cap

The Administrator also confirmed it had not received any complaints in relation to the CME CF Cryptocurrency Pricing Products since the last meeting

4 Amendment to the Potentially Erroneous Data Parameter for BTC-USD and ETH-USD Pairs

The Administrator explained its reasoning for wishing the committee to consider amending the potentially erroneous data parameter applied to the BTC-USD and ETH-USD. The committee was reminded of the purpose of the potentially erroneous data parameter alongside analysis of the historic application of the potentially erroneous data parameter at its current levels. The Administrator proposed new levels for the potentially erroneous data parameter.

The committee discussed developments in the cryptocurrency markets and that their experiences concurred with the Administrators analysis of greater price convergence between venues. In light of this the committee agreed that the potentially erroneous data parameter be should be reduced. There was further discussion as to whether the committee felt the parameter should be reduced further than that which was suggested by the Administrator and whether the parameter should be different for the Reference Rate or Real Time Index of a Relevant Pair.

The Chair summarised the discussions and the committee resolved to amend the potentially erroneous data parameter to 10% for all the CME CF Cryptocurrency Pricing Products as per the Administrators proposal. The Administrator was asked to implement this change without undue delay.

In light of the discussion the Administrator offered to conduct further analysis on how the application of the potentially erroneous data parameter might be amended in the future to better reflect its purpose in promoting benchmark integrity.

5 Adoption of the LTC-USD Reference Rate and Real Time Index

The Administrator reminded the committee that it had considered the adoption of LTC-USD pair for the CME CF Cryptocurrency Pricing Products at its meeting of November 18th, 2018 and the deliberations that informed the resolution that was adopted at the time. The Administrator went on to present analysis of the proposed LTC-USD Reference Rate and LTC-USD Real Time Index that had been calculated in the Administrators Test environment.

Input data was from constituent exchanges that would be the proposed sources of input data and the observation window parameter of 60 minutes and 12 equal partitions of 5 minutes in length.

The committee discussed the data and analysis presented, concluding that the input data that was now available to the Administrator meant that it was observing a lot more liquidity and transaction day than when the committee last considered the subject. The committee also noted that the analysis provided by the Administrator showed that although some input data sources contributed significantly more volumes and transactions than others their removal would not have impacted the index level and hence there was not an over reliance on any individual source of input data.

The committee resolved to adopt the LTC-USD Reference Rate and LTC-USD Real Time Index with observation window parameters of 60 minutes and 12 equal partitions of 5-minute length utilising input data from the constituent exchanges; Btstamp, Coinbase, Gemini and Kraken.

The Administrator was tasked with implementing the launch in conjunction with its partners in accordance with its policies and procedures.

6 Adoption of the BCH-USD Reference Rate and Real Time Index

The Administrator reminded the committee that it had considered the adoption of BCH-USD pair for the CME CF Cryptocurrency Pricing Products at its meeting of November 18th, 2018 and the deliberations that informed the resolution that was adopted at the time, specifically the hard fork event that had recently occurred to the BCH blockchain. The Administrator presented analysis of how constituent exchanges were now representing the Bitcoin Cash token and the symbol BCH, in comparison to the token that was a result of the fork in November 2018, commonly referred to as Bitcoin SV and the symbol BSV.

The Administrator went on to present analysis of the proposed BCH-USD Reference Rate and BCH-USD Real Time Index that had been calculated in the Administrators Test environment with data from constituent exchanges that would be the proposed sources of input data and the observation window parameter of 60 minutes and 12 equal partitions of 5 minutes in length.

A committee member raised a potential conflict that the Chair asked the Administrator to note and liaise with the committee member that was subject to the potential conflict and follow other procedures regarding the conflict in accordance with its and the CME CF Cryptocurrency Pricing Products Conflicts of Interest Policies. The committee did not believe the potential conflict would require the member to be recused from the meeting, any of its items or resolutions.

The committee discussed market practices in cryptocurrency trading and concluded that there was no ambiguity as to the identity of the Bitcoin Cash token. The committee also discussed the data and analysis provided by the Administrator.

The Chair summarised the discussion and the committee resolved to adopt the BCH-USD Reference Rate and BCH-USD Real Time Index with observation window parameters of 60 minutes and 12 equal partitions of 5-minute length utilising input data from the constituent exchanges; Btstamp, Coinbase, Gemini and Kraken.

The Administrator was tasked with implementing the launch in conjunction with its partners in accordance with its policies and procedures.

7 Transfer of existing CF LTC-USD and CF BCH-USD Settlement Prices and Spot Rates into the CME CF Family

To fulfil the committee’s resolution of adopting LTC-USD and BCH-USD pairs the Administrator proposed the transfer of the Administrators existing indices from the CF Cryptocurrency Index Family to the CME CF Cryptocurrency Pricing Products and renaming them as per the below:

Existing Name	Proposed Name
CF Litecoin Dollar Settlement Price	CME CF Litecoin Dollar Reference Rate
CF Litecoin Dollar Spot Rate	CME CF Litecoin Dollar Real Time Index
CF Bitcoin Cash Dollar Settlement Price	CF Bitcoin Cash Dollar Reference Rate
CF Bitcoin Cash Dollar Spot Rate	CF Bitcoin Cash Dollar Real Time Index

The Administrator confirmed that the existing indices were calculated utilising the parameters and constituent exchanges that had been adopted by the committee and had been administered utilising the same policies and procedures as the CME CF Cryptocurrency Pricing Products. The Administrator also presented the regulatory analysis that had been performed by its compliance function on the regulatory implications of such a transfer in light of its discussions with its regulator, the UK FCA.

The committee resolved that the adopted indices for the LTC-USD and BCH-USD pair would be those of the Administrators equivalent indices from the CF Cryptocurrency Index Family, From the point of their renaming they would come under the oversight of the committee.

8 Adoption of Bitcoin-Euro and Ether-Euro Pair to the CME CF Cryptocurrency Pricing Products

The Administrator presented analysis of Reference Rates and Real Times Indices against the Euro as a quote asset. The Administrator has been calculating these indices in its development environment for some time and asked the committee for its consideration for the launch of a Bitcoin-Euro pair and an Ether-Euro pair into the CME CF Cryptocurrency Pricing Products.. The Administrator explained the commercial rationale for the indices.

The committee discussed whether a EUR denominated variant of the existing CME CF Cryptocurrency Pricing Products was a simpler means of supplying the market with such indices and concluded that given that trading of cryptocurrencies to EUR took place in separate order books that a separate rate was more appropriate. The Administrator went on to clarify the calculation parameters by which the analysis had been provided and that these were the proposed parameters for the indices were they to be published.

The committee resolved to adopt both a Bitcoin-Euro and Ether-Euro pair to the CME CF Cryptocurrency Pricing Products under the oversight of the committee. This resolution would be pending the satisfactory review of the committee on the FX translation analysis to be provided by the Administrator.

Supplementary

The Administrator provided the committee with the FX translation analysis of the proposed Bitcoin-Euro and Ether-Euro indices via email on February 3rd 2020.

A query was sent by WK on February 14th and responded to by the Administrator on the February 18th. The analysis provided did not raise any concerns.

9 Review of Exchanges Conformance to CME CF Constituent Exchange Criteria

The Administrator summarised the review it had conducted of the constituent exchanges conformance to the CME CF Constituent Exchange Criteria that it had conducted in October and November 2019.

The committee discussed a number of aspects of the Administrator's summary regarding the conformance of exchanges to criterion two as there had been significant changes to the arrangements of constituent exchanges in this area from the review conducted 12-months ago.

The Administrator summarised the changes of constituent exchanges arrangements concerning criterion two since the last review and also gave the committee further details on work that constituent exchanges had in progress relating this area. The Administrator also reminded the committee that it had arrangements in place to detect and investigate any actual or attempted benchmark manipulation. In the 12-month period each of the constituent exchanges had triggered the Administrator's investigation processes and in these investigations and enquiries that the Administrator analysed the data received and its consistency with the exchange's arrangements. To date no inconsistencies have emerged.

The committee further discussed the arrangements that the Administrator had in place and the Administrator confirmed it did not have rights of audit with the constituent exchanges, the committee noted that this would likely be of limited utility.

Administrator: Responded that it did not have rights to audit the constituent exchanges and that its regulator had reviewed the Administrator's process and had not suggested rights of audit as part of its framework

The committee resolved that it had reviewed the Administrator's analysis of the constituent exchanges conformance to the CME CF constituent exchange criteria and that the constituent exchanges were in conformance.

10 Admission of a further exchange as a Constituent Exchange of the CME CF Cryptocurrency Pricing Products

The Administrator reminded the committee of the previous discussions it had held on the potential inclusion of a further a constituent exchange and the reasons for its reservations. The Administrator summarised its discussions with the exchange as to public access to its market data such that it would allow the market to replicate the calculation of the CME CF Cryptocurrency Pricing Products. The Administrator also presented the review of the exchange's conformance to the CME CF Constituent Exchange Criteria.

The committee discussed the importance of transparency to the CME CF Cryptocurrency Pricing Products and to this end all market participants had to be able to reproduce the Administrators calculations.

The exchanges draft policy for public access to its market data would require a

The committee concluded that the importance of the principle of transparency meant that it needed more time to fully study the exchange's draft policy for public access to its market data before deciding on including the exchange as a constituent exchange

11 A.O.B.

The Administrator informed the committee that in accordance with its Accountability Framework that it had begun the process for appointing an external auditor to provide assurance to its conformance to EU BMR. The aim was for the audit report to be available by August 2020, the anniversary of its authorisation by the FCA

The Chair thanked the Administrator for the update and there being no more business the meeting was adjourned at 1645.