

# crypto facilities

CF CRYPTOCURRENCY INDEX FAMILY OVERSIGHT

FUNCTION

Meeting Minutes

30<sup>th</sup> April 2019

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# 1 Attendees & Quorum

Darren Minness, **Oversight Function**, Crypto Facilities

Sui Chung and Graham Macdonald presented to the Oversight Function as representatives of the Administrator.

The Meeting began at 1630 London Time.

## 2 Conflicts of Interest

**A conflict was raised and the Administrator was asked to note this in conflict in its records and undertake any further action its policies would require.**

## 3 Monthly CF Cryptocurrency Index Family Metrics Reports

The Administrator gave a review of the Monthly Metrics Reports describing the metrics, their purpose and how they were derived. Drew the attention of the oversight function to specific metrics that had triggered further actions by the Administrator. Then asked the oversight function whether there were any questions on the contents of the report.

The oversight function thanked the Administrator for the reports and enquired as to what further underlying data was available to it for any aspects of the metrics that it wished to query further.

The Administrator responded that wherever possible it would be happy to provide further data granularity that was requested.

The oversight function agreed that the reports would assist it in providing oversight of the CF Cryptocurrency Index Family.

## 4 Proposed adjustments to the Order Size Cap Parameter for CF XRP Bitcoin Spot Rate and CF Bitcoin Cash Dollar Spot Rate

The Administrator reminded the oversight function of the CF Spot Rates methodology and its utilisation of an order size cap to negate any distortive effects that very large orders might have on the index level. Analysis of the proportion of the orders that were utilised as input data for both the CF XRP Bitcoin Spot Rate and CF Bitcoin Cash Dollar Spot Rate since August 2018 was discussed.

The Administrator proposed amending the order size caps for the respective indices given the fall in the prevailing price for Bitcoin Cash and XRP since index inception and the relatively high frequency at which it is utilised in the index calculation.

- **CF Bitcoin Cash Dollar Spot Rate**

Existing Order Size Cap Parameter – 100 BCH

Proposed Order Size Cap Parameter – 500 BCH

- **CF XRP Dollar Spot Rate**

Existing Order Size Cap Parameter – 100,000 XRP

Proposed Order Size Cap Parameter – 400,000 XRP

Analysis that showed the proportion of index calculations that utilised of the order size cap was considered by the oversight function. A discussion concerning the degree of utilisation of the order size cap and the order size cap utilisation for other indices within the CF Cryptocurrency Index Family concluded that the existing order size caps were not appropriate for the index aims.

The oversight function asked the Administrator what considerations it had given to any effects this change might have on index users. The Administrator confirmed that the impact would be minimal as it did not change the nature of the input data utilised and nor would it change the calculation algorithm, however if the relevant cryptocurrencies were to exhibit further significant price volatility that necessitated further changes to the parameter then index users may find it difficult to track the exact order size parameter that was in use at a given time.

The oversight function resolved for the order size cap parameter utilised in the calculation of the **CF Bitcoin Cash Dollar Spot Rate** and the **CF XRP Dollar Spot Rate** be amended in line with the Administrators proposal and this to be implemented in line with the Administrators deployment procedure at the next available window.

The oversight function further resolved that this change and all subsequent changes to the order size cap parameter of any members of the CF Cryptocurrency Index Family be announced on the Administrators website in advance of its implementation to promote awareness amongst index users of the change.

## 5 Proposed change to the observation window parameters of the CF XRP Bitcoin Settlement Price

The Administrator has observed that the available liquidity (as measured by traded volume) and the number of transactions available for the calculation of the CF XRP Bitcoin Settlement Prices has become inconsistent in recent months. To ensure data sufficiency, the representativeness of the index and the fulfilment of index aims the Administrator proposed to change certain parameters that are utilised in applying its methodology.

Specifically, the below parameters were proposed to be changed for the CF XRP Bitcoin Settlement Price:

Parameter	Current	Proposed
Observation Window	60 Minutes	90 Minutes
Observation Window Timing	1500 to 1600 LDN	1430 to 1600 LDN
No of Partitions	12	9
Partition Length	5 Minutes	10 Minutes

An impact analysis of key index metrics including; the index level, liquidity and transactions observed by back-testing the proposed parameters on transaction data for the previous 12-month period was presented.

The oversight function considered the analysis and the Administrator confirmed that it was constructed from actual transaction data from the same input data sources as the index currently utilises. The Administrator also confirmed to the oversight function that there would be no change to the methodology algorithm and that all partitions would be weighted equally in the index calculation.

The oversight function noted that in accordance with the Administrator's **Governance & Oversight Framework** a consultation would have to be conducted before this change could be brought into effect.

The Administrator confirmed this was the case and would propose consultation plan for oversight consideration. Due to the limited number of users of the index it was proposed for the consultation period to be of two weeks duration.

The oversight function resolved that:

- The proposed parameter changes would promote data sufficiency

- The proposed change would require a consultation, to be conducted under its oversight
- That due to the limited number of users of the index that a two-week period of consultation would be sufficient but there should be five working days between the announcement of the consultation and its initiation

## 6 Conflict of Interest Assessment due to Change in Ultimate Ownership of the Index Administrator

The Administrator had provided a Conflict of Interest analysis to the oversight function members in light of Payward, Inc. (Kraken) acquiring 100% of the shares of Crypto Research, the holding company that controls Crypto Facilities on December 28<sup>th</sup>, 2018. This analysis covered certain key topics.

- The policies and processes the administrator had in place that had been previously reviewed by the committee
- The creation of a separate legal entity dedicated to index administration housing all index activities including IP, employees, IT platform and index administration policies and processes
- The index administration entity was in the process of regulatory authorisation that would mean supervision from a regulator of high standing and this regulatory path would mean senior management positions requiring the authorisation of the regulator and the individuals being held personally responsible for the actions of the firm

The oversight function asked for clarity on the exact the chain of governance and control of the new dedicated index administration entity including whether there was any overlap of individuals and what conflicts of interest they may be subject to.

The oversight function was satisfied that the policies and processes that the Administrator had put in place ensured an arms-length relationship between the Administrator and constituent exchanges, including Kraken.

The oversight function also voiced its desire to see independent representation on the Administrator's board of directors to ensure independent scrutiny of the implementation of its policies and processes, especially those concerning conflicts of interest and overall business strategy.

The Administrator had initiated a process to add an independent member to its board of directors and would provide the oversight function a report on its progress in this area including its criteria for the role including how it defines independence of potential candidates for the role.

## 7 AOB

**There as no further business and the meeting was adjourned c. 1730 LDN**