



CME CF Cryptocurrency Pricing Products

Oversight Committee Meeting Minutes (Summary)

November 17th 2020

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1 Attendees & Conflicts of Interest

Chair: Gavin Lee

PS: Payal Shah

MM: Michael Moro

TS: Timo Shclaefer

WK: William Knottenbelt

MB: Max Boonen

Administrator: Sui Chung CEO, CF Benchmarks

EVDA: Evelien van den Arend, Head of Legal and Regulatory Affairs, CF group

The Chair asked members if they were subject to any conflicts of interest. None we raised and the meeting began at 1504 London Time.

2 Standing Items

The Administrator reminded the committee of the reports that had been provided since the previous meeting. There were no questions regarding the monthly metrics reports or alert reports and the meeting continued to the next agenda item.

3 Review of Constituent Exchanges and their conformance to the 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 2020.

The committee discussed a number of aspects of the Administrators 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 in Constituent Exchanges arrangements concerning criterion two, ***“The venue has policies to ensure fair and transparent market conditions at all times and has processes in place to identify and impede illegal, unfair or manipulative trading practices.”*** Since its last review the Administrator noted that all the exchanges had expanded their capabilities in this area and continued to do so. Almost all exchanges now utilised third party software platforms for to aid their market monitoring programmes and all had dedicated market monitoring officers undertaking this work.

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 Administrators investigation processes. The Administrator analysed the data received during these investigations and verified their consistency with the exchange’s arrangements. No inconsistencies were detected.

The Administrator summarised the changes in Constituent Exchanges arrangements concerning criterion three, ***“The venue does not impose undue barriers to entry or restrictions on market participants, and utilizing the venue does not expose market participants to undue credit risk, operational risk, legal risk or other risks”***. Since its last review, the Administrator noted that the Constituent Exchanges continued to operate under best practice concerning security measures, with none suffering any hacks in the period. All Constituent Exchanges had continued operating in their key markets and continued to be domiciled and incorporated in the same jurisdictions under the same legal frameworks as the previous year. Some of the Constituent Exchanges had expanded their operations significantly in the prior year and in so doing had gained the required regulatory authorisations to carry out these expanded operations.

The Administrator summarised the changes in Constituent Exchanges arrangements concerning criterion four, ***“The venue complies with applicable law and regulation, including, but not limited to capital markets regulations, money transmission regulations, client money custody regulations, know-your-client (KYC) regulations and anti-money laundering (AML) regulations”***. The Administrator noted that a number of the exchanges had obtained regulatory registrations in a variety of jurisdictions that had recently

introduced specific requirements in relation to cryptocurrency exchanges. All Constituent Exchanges continued to be registered with appropriate authorities as regards AML and KYC requirements of their domicile.

The Administrator and the representative of CME Group confirmed that information sharing agreements continued to be in force for all Constituent Exchanges

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 with all criteria.

4 Volume Contribution of itBit to the CME CF Cryptocurrency Reference Rates

The committee reviewed the volume contribution of Constituent Exchange itBit's to the CME CF Cryptocurrency Reference Rates. The committee noted it had continued to be below the 3% entry threshold, although this trend had reversed slightly in the month of October.

The Administrator explained that this was likely due to the integration that Paypal had put in place with Paxos (parent company of itBit) to provide Paypal users with access to cryptocurrency purchases- with many of the orders being routed through the itBit exchange.

The committee noted that this was a very positive development for itBit, very likely leading to increased volumes for the exchange. The committee had previously noted that although the volume share of itBit had fallen the primary driver was the increased volumes that some of the other cryptocurrency exchanges had experienced as opposed to any falls in volume experienced by itBit.

Nevertheless, the committee remained concerned that the relatively low volume contribution of itBit could impact the integrity of the CME CF Cryptocurrency Reference Rates although it noted that the price action observed from itBit's transactions and orders continued to be very closely aligned to the other Constituent Exchanges.

The Committee resolved to continue to retain itBit as a Constituent Exchange but also continue to monitor the volume contribution of itBit and asked the Administrator to continue to highlight this data in its monthly metric reports to the committee.

5 Consideration of a potential Constituent Exchange

The Administrator presented its findings from its due diligence on the potential Constituent Exchange against the five criteria.

Criterion 2

- Measures and systems are in place but lack maturity and are not in line with best practice as observed from existing Constituent Exchanges
- The capacity of the processes could be insufficient to monitor the significant number of markets operated by the potential Constituent Exchange

Criterion 3

- The potential Constituent Exchange utilises best practice in many of the areas of risk management and is legally incorporated in the country it serves

Criterion 4

- The potential Constituent Exchange is registered with appropriate agencies and authorities and is under obligations to implement AML/KYC standards that are in line with the FATF guidelines.

Criterion 5

- The potential Constituent Exchange has agreed in principle to the information sharing agreements

The committee noted that the potential exchange was part of a larger cryptocurrency group and that its approach as regards regulatory conformance was unclear, and that this could impact the reputation and perceived integrity of the CME CF Cryptocurrency Reference Rates.

The committee also noted that from the information presented it did not seem the potential Constituent Exchange was unequivocally in conformance with criterion 2.

The committee resolved that potential Constituent Exchange did not meet the CME CF Constituent Exchange Criteria at this time and hence it would not be added as a Constituent Exchange at this time.

6 A.O.B.

There being no further the meeting was adjourned at 1651 London Time.