



## CME CF OVERSIGHT COMMITTEE

Meeting Minutes - Summary

25<sup>th</sup> June 2019

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# 1 Attendees & Quorum

Gavin Lee: **Chair**, CME

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

Payal Lakhani (**PL**): CME

Max Boonen (**MB**): B2C2

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

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

Darren Minness (**DM**): Joined the meeting for item 6 of the Agenda

## **Apologies for Absence:**

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

The Meeting began at 1400 London Time.

## 2 Conflicts of Interest

There were no conflicts raised

### 3 Monthly Index Metrics Reports

The Administrator asked members of the committee if they had any questions or queries regarding any of the Monthly Metrics Reports that had been provided since the last meeting.

There were no questions from the committee on the reports that had been provided for the month of February, March, April or May.

The Chair asked whether the Administrator could be provided email notices of exceptions that it recorded.

**Administrator:** Confirmed that exceptions would be provided to the committee via email.

## **4 Update from the Administrator regarding its entity governance**

The Administrator updated the committee on its regulatory and corporate developments that included the invitation by its Board of Directors to an independent non-executive director to join the board of CF Benchmarks Ltd. The Administrator summarised its process in determining the criteria for its search for an independent director including how it defined independence.

The Committee resolved that the appointment of the INED candidate would provide the desired independence to the Administrator's entity governance that it had voiced in the previous committee meeting.

## 5 Constituent Exchange itBit to be included as a constituent exchange of the CME CF Ether-Dollar Reference Rate and Ether-Dollar Real Time Index

The Administrator summarised the development of the ETH-USD spot market operated by itBit and went on to present analysis of the trading volume it had observed since January 1 2019. The Administrator went on to describe the further due diligence and operational steps it had taken to integrate itBit into its calculation workflow in accordance with the **CF Benchmarks - Operational Framework**. The analysis of volumes against the criterion two of the CME CF Constituent Exchange Criteria did not cover the entire second quarter of 2019 due to the timing of the meeting. The Administrator asked the committee whether it concurred with the analysis presented to confirm that itBit had met the criteria and could be added as a constituent exchange to the indices for the Ether-Dollar relevant pair on the timetable proposed

The committee discussed market conditions for ETH-USD, particularly the heightened volatility that the market was experiencing. Due to these conditions the committee resolved that the Administrator present the volume analysis for the full second quarter to ensure itBit's conformance with criterion two for Constituent Exchanges. It further asked the Administrator to present this with a revised implementation schedule to ensure sufficient notice be given between the announcement of this change and its implementation.

## **6 Review of Benchmark Surveillance Alerts that have been triggered for the CME CF Cryptocurrency Pricing Products**

### **CF group Head of Compliance) joined the call**

The committee members had been supplied with the benchmark surveillance reports and the CF Benchmarks Alert Handling Procedure in advance of the meeting. The Administrator Administrators compliance function gave an overview of the process that the Administrator undertakes in cases of a benchmark surveillance alert being triggered and the procedures it followed to investigate and resolve these.

The committee enquired as to the further steps the Administrator would take in cases where it did have a reasonable suspicion of benchmark manipulation having taken place that impacted any of the CME CF Cryptocurrency Pricing Products. The committee further enquired as to the frequency at which the Administrator would provide its Benchmark Surveillance reports.

The Administrators compliance function described the guidance from regulatory authorities regarding appropriate responses to these incidents and confirmed that for each instance of a benchmark surveillance alert being resolved there would be no delay in providing the committee with the relevant report.

The committee resolved that the reports gave the committee sufficient information to provide oversight of the Administrators manipulation surveillance of the CME CF Cryptocurrency Pricing Products.

## 7 Constituent Exchange Update

The Administrator provided an update on its relationships with constituent exchanges to the CME CF Cryptocurrency Pricing Products and the deeper co-operation it was seeking. Upon the completion of its regulatory processes the Administrators would require this deeper co-operation of all Constituent Exchanges that provided input data to it.

Should agreement with any constituent exchange on deeper co-operation not be reached then the Administrator would have to consider the removal of that exchange in an orderly manner with sufficient notice being given to the market.

The committee discussed the nature of the deeper co-operation that was required and asked the Administrator to expedite these discussions and bring them to a conclusion as soon as is practical. The committee further discussed what impact there might be to the indices should the input data from any individual exchanges be removed.

The Administrator went on to provide an update as to its discussions with prospective constituent exchanges and the progress it had been making in this area. This included a summary of its process to date with establishing their conformance to the CME CF Cryptocurrency Pricing Products Constituent Exchange Criteria.

The Administrator wished to hear the committee's opinion on whether certain aspects of the operation of the exchanges held any concerns for the committee. These included:

- Exchanges that are open to institutional users only
- Exchanges whose market data requires IP authentication to access
- Exchanges that offered order routing through multiple orderbooks to achieve crosses that do not have a specific market

The committee discussed how these characteristics of prospective constituent exchanges may impact the CME CF Cryptocurrency Pricing Products and what analysis would be helpful when considering their inclusion as constituent exchanges were the Administrator to propose them their inclusion.

The chair summarised the discussions as very helpful and asked the Administrator to ensure that the committee be kept abreast of the discussions of deeper co-operation with existing constituent exchanges. Furthermore, before any actions were taken that the Administrator provide potential timetables and impact analysis for any changes to constituent exchanges so that the committee may provide its opinions in a fully informed and timely manner.

In regards to potential constituent exchanges to be considered for inclusion asked that the committee be provided with all relevant information and requested analysis in a timely manner before any scheduled implementation that the Administrator may be considering.

## 8 Discussions of a dynamic order size cap for the CME CF ETHUSD\_RTI and CME CF BRTI

The Administrator reminded the committee that at the previous the order size cap parameter that is applied to orders from constituent exchanges for the CME CF ETHUSD\_RTI was amended. When the committee approved the change it asked the Administrator to propose a dynamic cap so that parameter that could be applied to all real time indices so that adjustments would not have to be made very frequently in reaction to price movements.

The Administrator went on to summarise its work on a dynamic order size cap and the key objectives that guided these efforts. The Administrator described a prototype order size cap it had designed that would be applied **at each and every** calculation of the relevant RTI. This ensures that the cap is tailored to the prevailing conditions of the market. The Administrator was not ready to deploy the cap to full production as it had a series of questions it would like the committee to consider:

- The proposed cap takes a statistical approach in its design, this means that in the majority of cases (over 80%) it would cap orders that are utilised as input data – this is much higher than the instances of the cap being utilised under the existing hard coded parameter.
- Although it would have been applied on a greater proportion of calculations its application on the proportion of input data utilised in each time it was utilised would still be small c. 1.5% ~ 2.5% of input data

The committee discussed how this new dynamic order size cap would impact the Real Time Indices and were positive on its design. There were suggestions from committee members as to how the cap may be improved through the utilising different statistical methods in different steps of its calculation.

The Chair summarised the discussions and asked the Administrator to continue to develop the prototype cap and when the administrator was ready with a cap to put into production to provide the Administrator with further analysis.

## 9 AOB

The Chair asked committee members if there was any other business and upon confirmation there was not any further business the meeting was adjourned c. 1600 LDN