



CME CF OVERSIGHT COMMITTEE

Meeting Minutes - Summary

19th November 2018

Agenda

1	Attendees & Quorum	3
2	Conflicts of Interest.....	4
3	Constituent Exchange Fulfilment of Criterion Two of the CME CF Constituent Exchange Criteria	5
4	Regulatory Developments at the Index Administrator	6
5	Indices Under Consideration for Launch – Administrator Analysis.....	7
6	Changes to the parameters of Rule 5.3 for BRR and BRTI Methodologies.....	9
7	Sui Chung to resign membership of the Committee.....	10
8	AOB.....	11

1 Attendees & Quorum

Gavin Lee: **Chair**, CME

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

Sui Chung (**SC**): Crypto Facilities

Payal Lakhani (**PL**): CME

Max Boonen (**MB**): B2C2

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

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

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

One non-member of the Committee, Graham Macdonald representing Crypto Facilities, the index administrator, attended the meeting to answer any questions from Committee Members.

The Meeting began at 1510 London Time.

2 Conflicts of Interest

Chair: Informed committee members that Michael Moro had registered a conflict and that this was recorded in the Administrators Conflicts Log in accordance with both the Administrators Conflicts of Interest Policy and the CME CF Cryptocurrency Pricing Products Conflicts of Interest Policy. The level of conflict did not require Mr Moro to be recused from discussions during the committee meeting.

There were no dissensions from this view and the Chair moved to the first agenda item

3 Constituent Exchange Fulfilment of Criterion Two of the CME CF Constituent Exchange Criteria

Criterion Two of the CME CF Cryptocurrency Pricing Products Constituent Exchange Criteria states:

“The venue has published policies to ensure fair and transparent market conditions at all time and has processes in place to identify and impede illegal, unfair or manipulative trading practices.”

The Index Administrator shared with the committee results of a structured dialogue that it had conducted with Constituent Exchanges as to the market monitoring and surveillance measures that are in place and any pending developments in this area on their respective markets.

The Administrator also presented the committee the Administrators statement of affirmation was presented to the committee. The committee discussed the arrangements that the Administrator has in place with Constituent Exchanges that confirm conformance with other Constituent Exchange Criteria.

The committee then moved to unanimously confirm that the conclusions drawn from the dialogue with constituent exchanges supported the statement of affirmation presented by the Administrator.

4 Regulatory Developments at the Index Administrator

The Administrator informed the committee of the regulatory process that it had undertaken and potential changes to its organisational structure at the conclusion of this process. As a part of this process the Administrator had formulated a series of policies with associated processes and procedures as part of this regulatory programme. The committee was asked for its view on their fitness for the administration of the CME CF Cryptocurrency Pricing Products.

The committee was asked to give specific scrutiny and advice on policies and processes that governed:

- Any potential changes to the methodologies of the CME CF Cryptocurrency Pricing Products
- Any potential cessation of a member of the CME CF Cryptocurrency Pricing Products
- Conflicts of Interest concerning the Administrator and persons employed by the Administrator

During the discussions it was confirmed:

- The proposed policies were formulated to be complementary to the published policies that governed the CME CF Cryptocurrency Pricing Products
- Specific mechanics that would apply to processes concerning changes to any methodologies or cessation of any CME CF Cryptocurrency Pricing Products
- Policies that govern conduct of persons employed by the Administrator would apply only to those individuals involved in the provision of the CME CF Cryptocurrency Pricing Products

The committee was then asked to review the CF Benchmarks – Governance & Oversight Framework, specifically the provisions related to changes to benchmark methodologies in keeping with the responsibilities stated in the CME CF Cryptocurrency Pricing Products Oversight Committee Founding Charter:

- Section 4.4 Changes to Benchmark Methodologies – definitions of materiality
- Appendix IV Benchmark Methodology Change & Cessation Consultation Processes

The committee was in unanimous agreement that the policies reviewed were fit for the purpose of Administering the CME CF Cryptocurrency Pricing Products.

5 Indices Under Consideration for Launch – Administrator Analysis

The Index Administrator presented the committee with analysis requested at the previous meeting that examined the timing of observation windows and their duration. This analysis would inform the committee's view on the potential launch of reference rates and real time indices for cryptocurrencies that exhibited lower levels of liquidity than those for which there were existing indices.

The committee was presented with historical beta test analysis for these cryptocurrencies that showed:

- The actual index levels would show very little difference under the different observation window and partition length parameters
- The number of trades and volume of trading observed would be substantially increased through the adoption of a 90-minute observation window and 9 equal partitions of 10-minute length
- The number of empty partitions would be significantly reduced through the application of these parameter changes
- Liquidity levels for the respective cryptocurrencies through different hours of the day

The committee then asked the Administrator how these changes to the observation window and partition parameters would affect the proposed indices in respect of:

- Their susceptibility to manipulation
- Treatment of empty partitions
- Proposed timing of the 90-minute observation window

The Administrator confirmed that

- Given that the proposed changes are that partitions remain equally weighted and input data remains sourced from a number of constituent exchanges the manipulation resistance properties of the methodology would not be significantly eroded
- Empty partitions would be treated in exactly the same way as they are in the methodology applied to existing indices – namely disregarded from the numerator and denominator when calculating the mean of the volume weighted medians of all the partitions.
- That the optimum timing for the 90-minute observation window would be from 2:30pm to 4:00pm LDN time- analysis of the hourly liquidity of the cryptocurrencies in question

- It was not proposing a codified framework for determining what parameters would be appropriate for any further new index launches that may be considered in the future due to the nascent nature of the asset class and its evolving liquidity profile.
- The Administrator will in future give its recommendation for the appropriate observation window and partition length parameters for any new indices under consideration but would seek the guidance of the committee for its appropriateness to that specific index.

The committee unanimously approved the adoption of a 90-minute observation window and 9, 10-minute partition length parameters where appropriate for the calculation of certain reference rates

The committee unanimously approved to include oversight of reference rates and real time indices for Litecoin denominated in U.S. Dollar. The reference rate will utilise a 90-minute observation window and 9 equally weighted partitions of 10-minute length.

6 Changes to the parameters of Rule 5.3 for BRR and BRTI Methodologies

To ensure that this rule 5.3 was fit for the purpose of identifying potentially erroneous data and promote benchmark integrity the Administrator proposed to alter the parameter from 25% absolute deviation to 15% absolute deviation. Since this rule was instigated the spot market for trading Bitcoin had become much more efficient and prices on different venues no longer exhibited substantial differences as they did in 2016 and 2017.

The committee reviewed analysis of instances of the greatest absolute deviation from the median of the Volume Weighted Medians for a constituent exchange for both the BRR and BRTI.

The committee concluded that:

- It concurred with the Administrator's view that the market for bitcoin-dollar trading had become much more efficient
- Though 25% was not fit for purpose that it not be set too low due to the price volatility that cryptocurrencies exhibited and that intra-day volatility levels were a good guide to the appropriate level of the parameter
- That the market for Ether–Dollar trading exhibited intra-day volatility levels where the parameter should remain at 25%

It was unanimously agreed that the parameters of rule 5.3 for the BRR and BRTI methodologies be amended to 15% from 25%

The committee asked the Administrator to co-ordinate with index users such as the CME on the implementation of this change to ensure the conformance with any regulatory requirements.

7 Sui Chung to resign membership of the Committee

The committee members agreed to accept Sui Chung's resignation from the Committee and that from the close of this meeting he would no longer be a member of the CME CF Cryptocurrency Pricing Products Oversight Committee.

The committee thanked Sui Chung for his service to the committee and confirmed that as the person with overall responsibility for Benchmark Administration the committee would continue to call upon him to address the committee on matters relating to the administration of the benchmarks, albeit not as a member of the committee.

8 AOB

The Chair asked members of the committee if there were any other items of business to discuss. There were no further items raised from members of the committee.

The Chair noted that the policies that were reviewed earlier in the meeting made it clear that the Administration had implemented a very comprehensive suite of monitoring to promote the integrity of the benchmark. It would be appropriate that the records of these metrics or a sub set of them be made available to the committee on a regular basis.

The Administrator agreed and would work with the Chair on the appropriate metrics to share with the committee

The Chair then Adjourned the meeting.