

BITNOMIAL CLEARING, LLC
DISCLOSURE DOCUMENT
COMMODITY FUTURES TRADING COMMISSION RULE 1.55(k)
February 1, 2024

Introduction

Commodity Futures Trading Commission (CFTC) Rule 1.55 requires each futures commission merchant (FCM), including Bitnomial Clearing, LLC (the Firm), to provide the following information to a customer prior to the time the customer first enters into an account agreement with the FCM or accepts funds from a customer. Except as otherwise noted below, the information set out is as of February 1, 2024. The Firm will update this information annually and as necessary to take into account any material changes to its business operation, financial condition or other factors the Firm believes may be material to a customer's decision to do business with the Firm. Nonetheless, the Firm's business activities and financial data are not static and will change in non-material ways frequently throughout any 12-month period.

Firm - 1.55(k)(1)

Bitnomial Clearing, LLC
318 West Adams Street
Chicago, IL 60606

Phone: (312) 809-1423

Email: help@clearing.bitnomial.com

Principals – 1.55(k)(2)

Joseph Pensinger, Chief Compliance Officer
318 West Adams Street
Chicago, IL 60606

Mr. Pensinger is responsible for managing all aspects of the Firm's compliance. He was previously a Founder and Managing Partner of Mocho Trading, LLC and a Managing Partner at Allston Trading, LLC where he led firm-wide trading operations, chaired the Compliance and Operating Committees, and was a member of the Audit Committee.

Ian Shipman, Chief Risk Officer & VP of Technology Operations
318 West Adams Street
Chicago, IL 60606

Mr. Shipman oversees all technology operations and development of the firm. Previously, he served in various senior technology roles for financial technology firms in addition to conducting mathematical research. He holds a Ph.D. from the University of Chicago.

James Haney, Chief Financial Officer
318 West Adams Street
Chicago, IL 60606

Mr. Haney is responsible for all financial matters and regulatory reporting aspects of the firm. James has more than 30 years of experience in the futures industry including 10 years as the CFO of Advantage Futures, 10 years as VP of Finance for RJ O'Brien & Associates, and 8 years as an Auditor for the Chicago Board of Trade.

Nathaniel Haynes, President
318 West Adams, Street
Chicago, IL 60606

Mr. Haynes operates as the Associated Person and as such is responsible for sales and new business development. Nathaniel has held various roles in the futures industry for the past 20 years, predominantly in the execution of interest rate futures for firms such as Allston Trading and Consolidated Trading.

Luke Hoersten, Director
318 West Adams Street
Chicago, IL 60606

Mr. Hoersten is the Founder & Chief Executive Officer of Bitnomial, Inc. Luke was previously a Managing Partner at Allston Trading, LLC where he was Head of Core Technology and served in a variety of leadership roles from Head of Infrastructure to Head of Equities and Options Trading Technology.

Business Activities – 1.55(k)(3)

The Firm is registered as a Futures Commission Merchant with the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA) and is a clearing member of the Minneapolis Grain Exchange.

The primary sources of revenue are commissions derived from clearing futures contracts on behalf of the Firm's customers. 100% of the Firm's assets and capital are devoted to this endeavor.

Customer Business – 1.55(k)(4)

The Firm's customer base consists of institutional clients, trading only bitcoin futures and options on futures on Bitnomial Exchange (an affiliated company) and cleared by the Minneapolis Grain Exchange clearing organization.

Policies and procedures concerning the choice of bank depositories, custodians, and counterparties to permitted transactions under reg 1.25 – 1.55(k)(4)

Prior to depositing clients' segregated funds with a depository, and at least annually thereafter, the Firm shall perform adequate due diligence in order to assure that clients' segregated funds will be treated safely and in accordance with relevant laws, rules, and regulations.

The Firm shall perform the initial credit review on any new depository, bank and non-bank institutions. Every quarter thereafter, the Firm shall perform a comprehensive review to determine if the depository is still adhering to the Firm's parameters. Results shall be presented to the Firm's senior management and Credit Committee.

At minimum, this review shall include capitalization, creditworthiness, operational reliability, and access to liquidity. Additionally, review shall include segregated funds concentration with any one depository or group of depositories. It shall also note availability of deposit insurance and regulatory standing of the depository.

Material Risks – 1.55(k)(5)

Bitnomial Clearing, LLC acknowledges that there are inherent risks in operating a FCM. While any of the following risks has the potential to negatively affect customer deposits, the Firm actively works to manage them via its policies and procedures.

Risk to Customer Deposits

The Firm performs due diligence in assessing where customer segregated deposits will be held. CFTC regulations are specific on how and where these deposits may be held to minimize the possibility of loss of customer funds, and to which the Firm is steadfastly compliant. The Firm will maintain all customer funds in the form of cash deposits with depositories and accounts compliant with CFTC regulation 1.20 and 1.25, as well as policies stated in section 1.55(k)(4) of this document.

Affiliate Risk

The Firm is currently affiliated with Bitnomial Exchange, LLC and Bitnomial Settlement, LLC. There is no investment of customer funds in either affiliate, however there are potential risks associated with them. Due to the Firm's singular focus on clearing trades conducted on Bitnomial Exchange, LLC, any material impact to its operations, such as connectivity issues, exchange software or hardware outages or general internet availability could have a deleterious effect on the Firm's operating income for as long as access was unavailable. Other events that could affect Bitnomial Exchange, LLC's operations, such as financial viability, adverse regulatory outcomes and other issues that could preclude its continued operation would also have a significant impact to the Firm. Similarly, Bitnomial Settlement, LLC is vital to the conduct of the exchange and any impact to its regular functioning could have negative consequences to both the Firm and its affiliates. The Firm maintains and regularly updates a Business Continuity/Disaster recovery plan (BC/DR) per CFTC regulations, to account for and be prepared for an event such as this.

Market Access Risk

The Firm offers access to Bitnomial Exchange, LLC products via a third party software vendor and direct market access via an API (Application Program Interface) with the exchange. Any disruption to either means of access such as connectivity issues, exchange software or hardware outages or general internet availability could disrupt customers' ability to take action to prevent losses in an adverse market, as well as the Firm's ability to liquidate positions if a customer breached margin drawdown limits. Under such a scenario, the Firm's own capital may be at risk if customers' deposited capital was exhausted. Additionally, if impaired access was limited to the Firm's systems, the potential for customer redemptions in the interest of moving to another FCM is a possibility.

Risk Controls

Both the Firm and its software vendor have pre-trade risk controls that impose limits on order size, position limits and checks on available capital to fund new trades on a per customer basis. It is conceivable that such risk controls could fail, subjecting the Firm to the potential for orders outside approved risk parameters to be submitted to the Exchange for execution. If such an event were to occur it could impact capital requirements with the Exchange, which, in turn, could expose the Firm's own capital in the event the customer responsible for said orders was unwilling or unable to post additional capital to margin the acquired positions/potential losses due to unapproved trading. Multiple layers of pre-trade checks are employed to minimize the impact of any one of these systems failing and allowing such an event to occur. Additionally, the Risk Management Program (RMP) has contingent policies to mitigate such an event.

Customer Default

The Firm maintains extremely conservative agreements with customers concerning margin requirements. If a customer's account falls below a predetermined level of required margin their position, or some portion thereof, will be auto-liquidated prior to going debit. However, liquidity and market volatility conditions could potentially prevent the Firm from i) offsetting the position at a price that preserves a positive account balance for the customer or ii) offsetting the position entirely or in part. Under such a scenario, the Firm could be liable to make up the difference in the event the customer was unable or unwilling to provide funds to bring the account balance back to a credit, which would have a negative effect on the Firm's available capital. To minimize the potential for a liquidation event occurring, the Firm issues intra-day margin calls, payable by next business day wire or ACH. Additionally, the Firm has agreements in place with its Introducing Brokers (IB) that hold them responsible for debit balances on any accounts associated with them.

Regulatory Risk

Being it that the Firm's only line of business is associated with facilitating customers transacting in cryptocurrency derivative contracts and is a clearing member of a single exchange, any shift in the regulatory landscape that would negatively impinge on the legal framework has the potential to significantly damage the Firm's potential as a going concern. Under such a scenario, the Firm may incur extraordinary legal and operational expenses that could drawdown significantly on its capital. While customer deposits are protected via segregation from the Firm's capital, such an event could imperil the Firm's continued ability to operate.

Funding and Capital

The Firm currently relies on funding for its operations from its parent company, Bitnomial, Inc. A funding shortfall in the parent could impair the Firm's ability to operate. The Firm is a private company and has no credit rating. The Firm does not operate with any leverage and the capital structure may be accessed via its CFTC required filings here:

<https://www.cftc.gov/MarketReports/financialfcmdata/index.htm>

The Firm's principal liability is its customers' deposits. If the Firm were unable to meet the financial obligations it has to its clearing customers, such an event would have a significant impact on its ability to continue business operations. This risk is managed by registration with the CFTC and the associated oversight and filing requirements that entails. Additionally, the Firm's Designated Self-Regulatory Organization (NFA) also monitors our available capital to ensure adequate funding and the surety of customer deposits.

Designated Self-Regulatory Organization – 1.55(k)(6)

the Firm's designated self-regulatory organization (DSRO) is the National Futures Association (NFA). NFA's website is www.nfa.futures.org

Annual Audited Financial Statements – 1.55(k)(6)

The annual audited financial statements of the Firm can be found at www.bitnomial.com/clearing/disclosures/audited-financial/latest.pdf

Material Administrative, Civil, Enforcement and Criminal Actions – 1.55(k)(7)

the Firm has no material administrative, civil, enforcement or criminal complaints or actions that have not concluded, nor any enforcement complaints or actions filed against it during the last three years.

Customer Fund Segregation – 1.55(k)(8)

FCMs may maintain up to three different types of accounts for customers, depending on the products a customer trades:

- (i) a Customer Segregated Account for customers who trade futures and options on futures listed on U.S. futures exchanges;
- (ii) a 30.7 Account for customers who trade futures and options on futures listed on foreign boards of trade; and
- (iii) a Cleared Swaps Customer Account for customers trading swaps that are cleared on a DCO registered with the Commission.

The requirement to maintain these separate accounts reflects the different risks posed by the

different products. Cash, securities and other collateral (collectively, Customer Funds) required to be held in one type of account, e.g., the Customer Segregated Account, may not be commingled with funds required to be held in another type of account, e.g., the 30.7 Account, except as the Commission may permit by order. For example, the Commission has issued orders authorizing ICE Clear Europe Limited, which is registered with the Commission as a DCO, and its FCM clearing members: (i) to hold in Cleared Swaps Customer Accounts Customer Funds used to margin both (a) Cleared Swaps and (b) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such Cleared Swaps and foreign futures and foreign options; and (ii) to hold in Customer Segregated Accounts Customer Funds used to margin both (c) futures and options on futures traded on ICE Futures US and (d) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such transactions.

Customer Segregated Account. Funds that customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on futures exchanges located in the U.S., i.e., designated contract markets, are held in a Customer Segregated Account in accordance with section 4d(a)(2) of the Commodity Exchange Act and Commission Rule 1.20. Customer Segregated Funds held in the Customer Segregated Account may not be used to meet the obligations of the FCM or any other person, including another customer.

All Customer Segregated Funds may be commingled in a single account, i.e., a customer omnibus account, and held with: (i) a bank or trust company located in the U.S.; (ii) a bank or trust company located outside of the U.S. that has in excess of \$1 billion of regulatory capital; (iii) an FCM; or (iv) a DCO. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's customers. Unless a customer provides instructions to the contrary, an FCM may hold Customer Segregated Funds only: (i) in the U.S.; (ii) in a money center country;¹ or (iii) in the country of origin of the currency.

An FCM must hold sufficient U.S. dollars in the United States to meet all U.S. dollar obligations and sufficient funds in each other currency to meet obligations in such currency. Notwithstanding the foregoing, assets denominated in a currency may be held to meet obligations denominated in another currency (other than the U.S. dollar) as follows: (i) U.S. dollars may be held in the U.S. or in money center countries to meet obligations denominated in any other currency; and (ii) funds in money center currencies may be held in the U.S. or in money center countries to meet obligations denominated in currencies other than the U.S. dollar.

30.7 Account. Funds that 30.7 Customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on foreign boards of trade, i.e., 30.7 Customer Funds, and sometimes referred to as the foreign futures and foreign options secured amount, are held in a 30.7 Account in accordance with Commission Rule 30.7.

Funds required to be held in the 30.7 Account for or on behalf of 30.7 Customers may be commingled in an omnibus account and held with: (i) a bank or trust company located in the

U.S.; (ii) a bank or trust company located outside the U.S. that has in excess of \$1 billion in regulatory capital; (iii) an FCM; (iv) a DCO; (v) the clearing organization of any foreign board of trade; (vi) a foreign broker; or (vii) such clearing organization's or foreign broker's designated depositories. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's 30.7 Customers. As explained below, Commission Rule 30.7 restricts the amount of such funds that may be held outside of the U.S.

Customers trading on foreign markets assume additional risks. Laws or regulations will vary depending on the foreign jurisdiction in which the transaction occurs, and funds held in a 30.7 Account outside of the U.S. may not receive the same level of protection as Customer Segregated Funds. If the foreign broker carrying 30.7 Customer positions fails, the broker will be liquidated in accordance with the laws of the jurisdiction in which it is organized, which laws may differ significantly from the U.S. Bankruptcy Code. Return of 30.7 Customer Funds to the U.S. will be delayed and likely will be subject to the costs of administration of the failed foreign broker in accordance with the law of the applicable jurisdiction, as well as possible other intervening foreign brokers, if multiple foreign brokers were used to process the U.S. customers' transactions on foreign markets.

If the foreign broker does not fail but the 30.7 Customers' U.S. FCM fails, the foreign broker may want to assure that appropriate authorization has been obtained before returning the 30.7 Customer Funds to the FCM's trustee, which may delay their return. If both the foreign broker and the U.S. FCM were to fail, potential differences between the trustee for the U.S. FCM and the administrator for the foreign broker, each with independent fiduciary obligations under applicable law, may result in significant delays and additional administrative expenses. Use of other intervening foreign brokers by the U.S. FCM to process the trades of 30.7 Customers on foreign markets may cause additional delays and administrative expenses.

To reduce the potential risk to 30.7 Customer Funds held outside of the U.S., Commission Rule 30.7 generally provides that an FCM may not deposit or hold 30.7 Customer Funds in permitted accounts outside of the U.S. except as necessary to meet margin requirements, including prefunding margin requirements, established by rule, regulation, or order of the relevant foreign boards of trade or foreign clearing organizations, or to meet margin calls issued by foreign brokers carrying the 30.7 Customers' positions. The rule further provides, however, that, in order to avoid the daily transfer of funds from accounts in the U.S., an FCM may maintain in accounts located outside of the U.S. an additional amount of up to 20 percent of the total amount of funds necessary to meet margin and prefunding margin requirements to avoid daily transfers of funds.

Cleared Swaps Customer Account Funds deposited with an FCM, or otherwise required to be held for the benefit of customers, to margin swaps cleared through a registered DCO, i.e., Cleared Swaps Customer Collateral, are held in a Cleared Swaps Customer Account in accordance with the provisions of section 4d(f) of the Act and Part 22 of the Commission's rules. Cleared Swaps Customer Accounts are sometimes referred to as LSOC Accounts. LSOC is an acronym for "legally separated, operationally commingled." Funds required to be held in a Cleared Swaps Customer Account may be commingled in an omnibus account and held with: (i) a bank or trust company located in the U.S.; (ii) a bank or trust company located outside of the U.S. that has in excess of \$1 billion of regulatory capital; (iii) a DCO; or (iv) another FCM. Such

commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's Cleared Swaps Customers.

Investment of Customer Funds:

Section 4d(a)(2) of the Act authorizes FCMs to invest Customer Segregated Funds in obligations of the United States, in general obligations of any State or of any political subdivision thereof, and in obligations fully guaranteed as to principal and interest by the United States. Section 4d(f) authorizes FCMs to invest Cleared Swaps Customer Collateral in similar instruments.

Commission Rule 1.25 authorizes FCMs to invest Customer Segregated Funds, Cleared Swaps Customer Collateral and 30.7 Customer Funds in instruments of a similar nature. Commission rules further provide that the FCM may retain all gains earned and is responsible for investment losses incurred in connection with the investment of Customer Funds. However, the FCM and customer may agree that the FCM will pay the customer interest on the funds deposited.

Permitted investments include:

- (i) Obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (U.S. government securities);
- (ii) General obligations of any State or of any political subdivision thereof (municipal securities);
- (iii) Obligations of any United States government corporation or enterprise sponsored by the United States government (U.S. agency obligations);
- (iv) Certificates of deposit issued by a bank (certificates of deposit) as defined in section 3(a)(6) of the Securities Exchange Act of 1934, or a domestic branch of a foreign bank that carries deposits insured by the Federal Deposit Insurance Corporation;
- (v) Commercial paper fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (commercial paper);
- (vi) Corporate notes or bonds fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (corporate notes or bonds); and
- (vii) Interests in money market mutual funds.

The duration of the securities in which an FCM invests Customer Funds cannot exceed, on average, two years.

An FCM may also engage in repurchase and reverse repurchase transactions with non-affiliated registered broker-dealers, provided such transactions are made on a delivery versus payment basis and involve only permitted investments. All funds or securities received in repurchase and reverse repurchase transactions with Customer Funds must be held in the appropriate Customer Account, i.e., Customer Segregated Account, 30.7 Account or Cleared Swaps Customer

Account. Further, in accordance with the provisions of Commission Rule 1.25, all such funds or collateral must be received in the appropriate Customer Account on a delivery versus payment basis in immediately available funds.

Filing A Complaint – 1.55(k)(9)

A customer who wishes to file a complaint about the Firm or one of its employees may contact either the NFA or CFTC at:

CFTC www.cftc.gov/Forms/tipsandcomplaints

NFA www.nfa.futures.org/complaintnet

Financial Data – 1.55(k)(10)

The Firm discloses the following:

- (i) The Firm's total equity, regulatory capital and net worth, all computed in accordance with U.S. Generally Accepted Accounting Principles and Rule 1.17, as applicable:

Total equity	\$1,762,352
Regulatory Capital	\$1,534,846
Net Worth	\$1,762,352

- (ii) The dollar value of the Firm's proprietary margin requirements as a percentage of the aggregate margin requirement for futures customers, cleared swaps customers, and 30.7 customers: None
- (iii) The smallest number of futures customers, cleared swaps customers, 30.7 customers that comprise 50 percent of the Firm's total funds held for futures customers, cleared swaps customers, and 30.7 customers: One
- (iv) The aggregate notional value, by asset class, of all non-hedged, principal over-the-counter transactions into which the Firm has entered: None
- (v) The amount, generic source and purpose of any committed unsecured lines of credit (or similar short-term funding) the Firm has obtained but not yet drawn upon: None
- (vi) The aggregate amount of financing the Firm provides for customer transactions involving illiquid financial products for which it is difficult to obtain timely and accurate prices: None
- (vii) The percentage of futures customer, cleared swap customer, and 30.7 customer receivable balances that the Firm had to write-off as uncollectable during the past 12-

month period, as compared to the current balance of funds held for futures customers, cleared swaps customers, and 30.7 customers: None

Summary of current risk practices – 1.55(k)(11)

- Daily reports to senior management identifying any accounts in danger of slipping out of margin compliance
- Daily and intra-day margin call issuance
- Automated and/or manual liquidation of positions to return accounts to margin compliance
- Daily stress testing of individual and firm-wide exposure with aggressive scenarios to identify, ahead of time, any potential for egregious exposure or margin drawdowns
- Risk management tools to appropriately set trading limits for accounts
- Weekly stress test on all accounts and elevation to senior management of any account that exceeds pre-defined limits for remediation if required
- Weekly stress tests and evaluation of credit risk associated with any account that demonstrates a potential for losses exceeding funds on deposit
- Prior to on-boarding, a thorough customer vetting process, via a third party vendor, to ensure financial adequacy and appropriate experience for the products the Firm clears.
- Regular reporting to senior management of any issues regarding customer accounts and/or financial irregularities that could affect the Firm's capital or operation
- Annual submission of the Firm's Risk Management Plan (RMP) to the CFTC for review and certification
- Registration with CFTC and DSRO to ensure third party oversight and adherence to industry best practices

