

August 22, 2023

**VIA ELECTRONIC PORTAL**

Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

**Re: CFTC Regulation 40.2(a) Certification. Notification Regarding the Recertification of BUSO Contracts**

**Bitnomial Submission No. 2023-002**

Dear Mr. Kirkpatrick:

Bitnomial Exchange, LLC. (“Bitnomial” or “Exchange”), a designated contract market (“DCM”), hereby notifies the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is recertifying Options on its US Bitcoin Dollar Futures (“BUSO”) contract for trading on the Bitnomial electronic trading platform and for submission for clearing via the Minneapolis Grain Exchange, LLC (“MGEX”) derivatives clearing organization (“DCO”) for an intended trade date on or after August 24, 2023.

The BUSO contract is an options contract based on Bitnomial’s actively traded Bitcoin US Dollar futures (“BUS”). Since the contract was self-certified on April 20, 2020, BUSO contracts were never listed or traded, therefore, the contract has never had open interest. Bitnomial is recertifying the contract because it is currently dormant. The BUSO product specifications have not changed since BTNL 2022-001 was filed on February 7, 2022. No other rules related to options products will change as a result of this submission.

In what follows:

- Section 1: BUSO Product Description;
- Section 2: Rules for Digital Asset Delivery;
- Section 3: Description of MGEX Clearing Arrangement;
- Section 4: Deliverable supply analysis; and
- Section 5: Addresses compliance of Bitnomial rules certified herein with the pertinent Core Principles for Designated Contract Markets (“Core Principles”) set forth in the Commodity Exchange Act (“Act”).

Appendix A: Exchange Rulebook Chapters with associated Terms and Conditions (Bitnomial Rulebook Rule 1203, followed by related Rules 1201 and 1204 -1206); and

Appendix B: Deliverable Supply Analysis [Redacted]

### **Section 1: Bitcoin Options Product Descriptions**

Bitnomial will offer BUSO contracts for trading on its DCM. BUSO contracts will convert to BUS futures on expiration. The BUS contract is deliverable and represents one Bitcoin. Contract details are listed in Bitnomial Rulebook Rule 1203. The underlying BUS contract terms are also attached, followed by related rules 1204 – 1206. All product rules can be found in Appendix A.

### **Section 2: Rules for Digital Asset Delivery**

BUSO contracts expire into BUS futures as stated in Bitnomial Rule 1203. In order to take delivery of BUS futures, Participants and Clearing Members must comply with Chapter 11 of the Bitnomial Rulebook. Please see Appendix A for Bitnomial's current Digital Asset Delivery Rules.

Participants and Clearing Members must have pre-existing relationships with an Exchange authorized settlement facility and MGEX prior to making or taking futures delivery.

### **Section 3: Description of MGEX Clearing Arrangement**

MGEX, through its DCO, will have the exclusive right and obligation to provide for the management of post-trading, pre-settlement credit exposure with respect to the trading of BUSO contracts to ensure that trades are settled in accordance with applicable MGEX Rules and CFTC regulations. Clearing services shall include the Clearing of trades, acting as the counterparty to each trade prior to delivery, marking open positions to market and settling accounts, collecting and maintaining performance bonds and security deposits, providing a daily file to Bitnomial stating the transactions cleared and reporting volume and open interest, filing a trade capture report, filing Part 16 and Part 39 filings with the CFTC, and providing all necessary back office files to Clearing Members, though MGEX will not be responsible for the processing of such files.

All Bitnomial Participants and Clearing Members are subject to MGEX Clearing Rules. The relationship between Bitnomial and MGEX's DCO is further discussed in the MGEX Rulebook.

### **Section 4: Deliverable Supply Analysis**

Bitnomial's Deliverable Supply Analysis is attached as Appendix B (submitted and redacted in the initial April 20, 2020 filing). Based on this analysis, Bitnomial determined to set position limits of 20,000 for BUSO contracts.

### **Section 5: Core Principle Compliance**

Bitnomial has determined that its rules related to the listing of BUSO contracts comply with the requirements of the Commodity Exchange Act and the rules and regulations promulgated by the Commission thereunder. Bitnomial has reviewed the DCM Core Principles and related Guidance

and determined that the listing of BUSO contracts impact the following Core Principles:

Core Principle 2 - Compliance with Rules:

Trading and delivery of BUSO contracts are subject to the Business Conduct and Trading Practice Rules found in Chapter 4 of the Bitnomial Rulebook including Rule 403 which forbids pre-arranged, pre-negotiated non-competitive trades. Trading and delivery in these products will also be subject to Market Operations and Discipline and Enforcement Rules found in Chapters 5 and 6, respectively.

Core Principle 3 - Contracts Not Readily Subject to Manipulation:

Trading and delivery of BUSO contracts are not readily subject to manipulation because they are subject to position limits. Using guidance from the Commission, Bitnomial has set the reportable position limit at the equivalent of five (5) bitcoins. Daily and Final settlement will be determined in accordance with Bitnomial Rule 509.

Core Principle 4 - Prevention of Market Disruption:

Trading and delivery of BUSO contracts are subject to prohibitions of market disruption under Chapters 4, 5, and 6 relating to Business Conduct and Trading Practices, Market Operations, and Discipline and Enforcement, respectively. All trading at Bitnomial Exchange is subject to market surveillance and a robust disciplinary framework.

Core Principle 5 - Position Limits or Accountability:

Trading and delivery of BUSO contracts are subject to position limits set forth in Chapter 12. The position limits are consistent with Commission guidance. Position limits may be adjusted based on market needs.

Core Principle 7 - Availability of General Information:

Prior to the launch of trading of BUSO contracts, product terms and conditions will be available on the Bitnomial website. Information on delivery of BUSO contracts is also available on the Bitnomial website.

Core Principle 8 - Daily Publication of Trading Information:

The Exchange will publish BUSO trading volumes, open interest levels, and price information on its website and through quote vendors.

Core Principle 9 - Execution of Transactions:

Execution of all BUSO contracts will take place on the Bitnomial electronic trading platform. Electronic execution provides competitive and transparent transactions. All BUSO contracts will be cleared by MGEX.

Core Principle 10 - Trade Information:

All requisite trade information will be recorded and stored in the audit trail and will be surveilled and monitored in accordance with Bitnomial Rules.

Core Principle 11 - Financial Integrity of Transactions:

All BUSO contracts will be cleared through MGEX, a DCO subject to Commission rules and oversight.

Core Principle 12 - Protection of Markets and Market Participants:

Bitnomial Rules have set forth numerous requirements and protections to prevent intermediaries from disadvantaging customers.

Core Principle 13 - Disciplinary Procedures:

All BUSO contracts are subject to the protections provided by Chapter 6 of the Bitnomial Rulebook. Chapter 6 describes the disciplinary procedures of the Exchange that authorize the Exchange to discipline, suspend, or expel Participants that violate the Exchange's Rules.

Core Principle 14 - Dispute Resolution:

Disputes arising from trading of BUSO contracts must be arbitrated in accordance with Bitnomial Rules found in Chapter 7. All disputes, controversies or claims between or among themselves that relate to or arise out of any contract or otherwise arise out of one or more transactions made or to be made on the Exchange or subject to the Rules and are based upon facts and circumstances that occurred at a time when the parties were Participants or Customers.

Certification

Bitnomial hereby certifies that its BUSO contracts and delivery rules comply with the Act and all regulations promulgated by the Commission thereunder. Bitnomial has discussed these contracts with multiple market participants and is not aware of any opposing views to this certification.

Bitnomial certifies that this submission has been concurrently posted on the Exchange's website at [bitnomial.com/regulation/](http://bitnomial.com/regulation/).

Should you have any questions concerning the above filing, please contact the undersigned at

[james.walsh@bitnomial.com](mailto:james.walsh@bitnomial.com).

Sincerely,



James Walsh  
Chief Regulatory Officer  
Bitnomial Exchange, LLC

**Appendix A**

**Bitnomial Rule 1203, followed by related Rules 1201 and 1204 -1206  
Chapter 11 - Digital Asset Delivery Rules**

**Appendix B**

**Deliverable Supply Analysis  
[Redacted Material submitted April 20, 2020]**

**Appendix A**

**Rule 1203 Options on Bitcoin US Dollar Futures**

Product Name	Options on Bitcoin US Dollar Futures
Product Code	BUSO
Strike Price Listing	Minimum 40 strikes at \$50 per contract strike increment above and below the at-the-money strike, the previous day's settlement price of the underlying futures, then 20 strikes at \$100 per contract strike increment above and below the highest and lowest \$50 increment strike then 10 strikes at \$500 per contract strike increment above and below the highest and lowest \$100 increment strike.
Contract Size	One BUS futures contract
Exercise Style	European
At-The-Money Behavior	Abandon Calls and Puts. Please see MGEX Rule 23.8.2: Options – Automatic Exercise
Underlying Product Code	BUS
Minimum Price Fluctuation	\$0.10 per contract
Trading Hours	8:30 Open to 14:30 Close CPT, Monday through Friday.
Trading Commencement	The next trading day following the trading commencement of the underlying.
Trading Termination	Trading in an option class shall terminate on the last Friday which preceded by at least two business days, the last business day of the month preceding the options contract month. If such Friday is not an Exchange business day, then trading shall terminate on the preceding business day.
Reportable Position Level	5 contracts
Margin Unit	US Dollars
Settlement	Deliverable into BUS futures contract.
Settlement Price	See Rule 1106
Listing	The first two consecutive contracts in the March, June, September, and December quarterly cycle.

## Rule 1201 Bitcoin US Dollar Futures

Product Name	Bitcoin US Dollar Futures
Product Code	BUS
Contract Size	1 Bitcoin
Price Quotation	US Dollars per Bitcoin
Minimum Price Fluctuation	\$1 per Bitcoin (\$1 per contract)
Trading Hours	8:30 Open to 14:30 Close CPT, Monday through Friday
Trading Termination	9:30 CPT of the trading day two trading days prior to the last Friday of the expiry month
Reportable Position Level	5 contracts
Margin	US Dollars
Settlement	Deliverable <sup>1</sup>
Settlement Price	See Rule 1206
Listing	Up to twelve consecutive contract months
Deliver Rules	Bitnomial Rulebook Chapter 11
Clearing and Delivery Timeline	See MGEX Rulebook Chapter 23: Bitnomial Exchange Clearing Rules

## Rule 1204 Bitcoin Futures and Options Price Bands and Price Limits

(a) **Price Bands.** Price Bands are a per-product price range for aggressive orders based on the latest top-of-book price. The initial Price Bands are based on the previous day settlement price +/- the Price Band Variation which is set by the Bitnomial Market Operations & Risk Team. The Price Band Variation range is continuously recalculated from top-of-book.

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<sup>1</sup> Bitnomial Settlement, LLC is authorized by the Exchange and not licensed, approved or registered with the CFTC.

(b) **Price Limits.** Price Limits are a per product price range based on a percentage of the previous day settlement price. If a trade occurs at the Price Limit for a side, the matching engine triggers a timer. If the timer elapses and no trades occur inside of the Price Limit, the Price Limits are re-calculated and reset. The resultant Price Limits are outside the original Price Limits to allow for additional price movement. The Exchange Market Operations & Risk Team may adjust the daily Price Limits at its sole discretion based on market conditions.

<b>Products</b>	<b>Price Band Variation</b>	<b>Price Limit (the greater of)</b>
BUS	\$250	50% or \$10,000
BUS-BUS	\$50	50% or \$5,000
BUI	\$250	50% or \$10,000
BUI-BUI	\$50	50% or \$5,000
BUSO	\$50	50% or \$5,000

#### **Rule 1205 Bitcoin Futures and Options Position Limits**

For purposes of aggregation, no market participant shall own or control any combination of futures and options contracts that exceeds twenty thousand (20,000) Bitcoin Futures-equivalent contracts net long or short in any single month, five thousand (5,000) of such contracts net long or short beginning on the first trading day of the delivery month, or two thousand (2,000) of such contracts net long or short beginning on the first day of the Delivery Period. In no case may a market participant own or control more than eighty thousand (80,000) Bitcoin Futures-equivalent contracts net long or short for all contract months. For aggregation purposes, ten (10) Deci Bitcoin Futures Contracts will convert into one (1) Bitcoin Futures Contract.

In determining whether any market participant has exceeded the position limits, all positions in accounts for which such market participant by power of attorney or otherwise directly or indirectly holds positions or controls trading will be included with the positions held by such market participant. Position limits will apply to positions held by two or more market participants acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single market participant.

#### **Rule 1206 Bitcoin Futures and Options Settlement Price Computation**

##### **(a) Settlement Times and Definitions**

Daily Settlement Period	Five minutes prior to Trading Close
Final Settlement Period	Five minutes prior to Trading Termination
Settlement Period	Daily or Final Settlement Period
Roll Period	Five trading days prior to contract expiration day
Front Month Contract After Roll Period	Next contract to expire



Deferred Month Contracts	All contracts yet to expire excluding the Front Month Contract
Pricing Contract	Contract used for determining settlement prices

(b) **Futures Pricing Contract Selection.** Unless during the Roll Period, the Front Month Contract is the Pricing Contract for determining settlement prices. During the Roll Period, the next-to-expire Deferred Month Contract is used as the Pricing Contract.

(c) **Futures Settlement Price Computation**

- (i) The settlement price of the Pricing Contract is the volume-weighted average price (VWAP) of all the trades during the Settlement Period.
- (ii) If no trades occur during the Settlement Period, the settlement price is the time-weighted average price (TWAP) of the bid-ask spread midpoint during the Settlement Period.
- (iii) If a bid-ask spread isn't available during the Settlement Period, earlier market data or a composite spot price is used from spot markets deemed acceptable by Bitnomial.
- (iv) All settlement prices are rounded to the nearest tick.

(d) **Options Settlement Price Computation**

- (i) The settlement price of the Pricing Contract is the volume-weighted average price (VWAP) of all the trades during the Settlement Period.
- (ii) If no trades occur during the Settlement Period, the settlement price is the time-weighted average price (TWAP) of the bid-ask spread midpoint during the Settlement Period.
- (iii) If a bid-ask spread isn't available during the Settlement Period, the settlement price is the output of the Black-Scholes model based on that day's settlement price and 30-day volatility of the underlying contract.
- (iv) All settlement prices are rounded to the nearest tick.

(e) **Futures Non-Pricing Contract Settlement Prices.** The settlement prices for non-Pricing Contracts are inferred from the quoted spread market relationships to the Pricing Contract settlement price, directly or indirectly.

(f) **Futures Final Settlement.** During the Final Settlement Period the Front Month Contract final settlement price is determined using the non-Pricing Contract settlement price procedure.

(g) **Options Final Settlement.** During the Final Settlement Period the Front Month Option Contract will settle based on the underlying Futures Contract.

(h) **Sole Discretion.** The Exchange has sole discretion to determine an alternative settlement price if the stated settlement procedure produces prices which are not representative of the fair value of the contract.

## CHAPTER XI DIGITAL ASSET DELIVERY

### **Rule 1101 Digital Asset Delivery Definitions**

“Blockchain” means a distributed ledger that records transactions between parties in a verifiable and permanent way.

“Delivering Participant” means the Participant that is required to deliver the underlying commodity through the Settlement Facility.

“Digital Asset” means Bitcoin, and any other “digital currency” which is a “commodity” under the Commodity Exchange Act, as amended. For this purpose, “digital currency” means any type of digital unit that is used as a medium of exchange or a form of digitally stored value (including digital units of exchange that (i) have a centralized repository or administrator, (ii) are decentralized and have no centralized repository or administrator, and/or (iii) may be created or obtained by computing or manufacturing effort).

“Digital Asset Delivery Address” means a unique identifier that serves as a virtual location where a Digital Asset can be sent.

“Receiving Participant” means the Participant that is required to take delivery of the underlying commodity through the Settlement Facility.

“Settlement Facility” means the Digital Asset delivery facility, Bitnomial Settlement, LLC<sup>2</sup>, or any successor organization authorized by the Exchange.

“Transfer” means transmission of a Digital Asset between the Settlement Facility and a Delivering or Receiving Participant. Delivery shall be fully effected and transferred if reflected by a consensus of nodes on the Digital Asset Blockchain and after being confirmed as such by the Settlement Facility.

### **Rule 1102 Participant and Clearing Member Delivery Obligations**

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<sup>2</sup> Bitnomial Settlement, LLC is authorized by the Exchange and not licensed, approved or registered with the CFTC.

(a) A Participant and its respective Clearing Member carrying a position that is required to make or take delivery hereby guarantees and assumes full and unconditional responsibility for the performance of all delivery requirements set forth in the Rules.

(b) Participants are required to register accounts for the purpose of making or taking delivery with the Settlement Facility and MGEX at least 30 days before the start of the delivery period. A Participant may effect delivery only through the Settlement Facility.

(c) In the event of a default or failure of a Clearing Member during the delivery period or process, the Clearing House shall not be obligated to make or take delivery of Digital Assets.

(d) Any Participant intending to make or take delivery of a Digital Asset pursuant to a Futures Contract shall maintain a valid Digital Asset Delivery Address on record with the Settlement Facility to deliver and/or receive and to hold the respective Digital Asset.

(e) Any Participant intending to make delivery of a Digital Asset agrees to transfer control of that asset to the Settlement Facility in anticipation of delivery in accordance with Exchange Rules.

(f) Each Delivery Participant represents and warrants, to the best of its knowledge, to each Receiving Participant, the Exchange, the Clearing House, and the Settlement Facility that the Digital Asset subject to delivery is free and clear of all adverse claims, security interests, liens and encumbrances of any kind whatsoever. Each Participant acknowledges and agrees that the Exchange, the Clearing House, and the Settlement Facility provide no representation or warranty as to good or marketable title to any Digital Asset subject to delivery. Each Receiving Participant hereby waives any right to bring a claim, whether in law or equity, against the Exchange, the Clearing House, and the Settlement Facility with respect to any defect in, or lack or failure of, good or marketable title of any Digital Asset delivered to Receiving Participant.

(g) The rights and obligations of Clearing Members for contracts cleared by the Clearing House, including but not limited to rights and obligations regarding clearing and settlement, variation payments and performance at expiration, shall be as set forth in the By-Laws and Rules of the Clearing House.

(h) Clearing Members will not, under any circumstances, be required to own, hold, or control Digital Assets under Exchange Rules, but Clearing Members must ensure, through position monitoring and communication with their customers, as Participants, that such customers are able to satisfy their obligations regarding delivery and acceptance thereof under the applicable MGEX and Exchange Rules.

(i) Clearing Members must confirm that Delivering Participants deliver the appropriate amount of Digital Asset to the Settlement Facility during the Delivery Period.

(j) All Participants and their respective Clearing Members with obligations to make or take delivery are subject to the Clearing House Rulebook.

**Rule 1103 Delivery Procedures****(a) Notice**

The Clearing Member shall provide the Clearing House with a Delivery Notice in the form and manner specified by the Clearing House. Delivery Notices must be delivered to the Clearing House as set forth in the By-Laws and Rules of the Clearing House. The Delivery Notice is not transferable.

**(b) Final Settlement Price**

The final settlement price shall be the sole basis for delivery.

**(c) Final Delivery**

Final delivery will be made in the manner specified by the Exchange.

(v) Upon instruction by the Clearing House to the Exchange, the delivery of Digital Assets pursuant to Futures Contracts shall be effected by the Settlement Facility by transferring the relevant amount of the Digital Asset from the Digital Asset Delivery Address of the Delivering Participant to the Digital Asset Delivery Address of the Receiving Participant on the Digital Asset's Blockchain. Delivery shall be fully effected and transferred if reflected by a consensus of nodes on the Digital Asset's Blockchain and after being confirmed as such by the Settlement Facility (a "Transfer").

(vi) Upon a Transfer of Digital Assets from the Digital Asset Delivery Address of the Delivering Participant to the Digital Asset Delivery Address of the Receiving Participant on the Digital Asset's Blockchain, each Participant hereby agrees that all title, ownership and control of such Digital Asset, and all risk of loss associated with the misappropriation or loss of such Digital Asset, shall reside solely with the Receiving Participant.

(vii) Neither the Exchange nor the Clearing House will have any responsibility or liability to any Person for the use of, or any failure, error, action or omission of, the Settlement Facility.

**Rule 1104 Cost of Delivery**

All transaction fees required to make delivery of Digital Assets through the Settlement Facility must be paid by the Participant that is seeking to make delivery in addition to the full delivery amount. All transaction fees required to take delivery of Digital Assets through the Settlement Facility must be paid by the Participant seeking to take delivery. The Settlement Facility is authorized to deduct the transaction fees from the delivery amount in the case of a Participant taking delivery.

**Rule 1105 Delivery Infractions**

(a) The failure of the Delivering Participant to deliver sufficient Digital Assets to the Digital Asset Delivery Address in a timely manner shall constitute a delivery failure by the Participant and subject them to disciplinary action. Clearing Members are financially liable for delivery failures of their accounts, including customer accounts, and must pay financial performance upon delivery failure. Clearing House rules stipulate “financial performance” means payment of commercially reasonable costs in US Dollars related to replacing the failed delivery but does not include physical performance or legal fees. Payment of reasonable costs will be determined at the sole discretion of the Exchange based on the final settlement price of the contracts that should have been delivered.

(b) If a Participant is required to pay funds pursuant to Rule 1103 but fails to deposit such funds in order to make timely payment on the date required, the Exchange may, in its sole discretion, impose a fine upon the Participant pursuant to the schedule of fines listed in Chapter 6 and any other compensation due to the late or inaccurate delivery.

**Rule 1106 Digital Asset Delivery Eligibility**

(a) To qualify a Digital Asset as eligible for delivery, the Digital Asset sent through the Settlement Facility must be accepted as valid by the Digital Asset Blockchain consensus protocol and must be at a block depth acceptable to the Settlement Facility.

(b) New Digital Assets that are created as a result of a fork in the Digital Asset protocol during the term of a futures or options contract are not eligible for contract delivery. New Digital Assets created as a result of a fork in the Digital Asset protocol while the Settlement Facility is in the process of delivery will not be delivered to the Participant taking delivery of the forked Digital Asset. The Settlement Facility will return the new Digital Assets created, less any transaction fees, to the Participant making delivery at a later date determined by the Exchange. In the case of a fork where it is not clear which is the new Digital Asset chain, the Exchange has sole discretion to determine which chain will be delivered and which will be returned.

**Rule 1107 Settlement Facility Reporting Requirements**

In connection with, and as a condition to, performing the functions assigned to it herein with respect to Digital Asset delivery, the Settlement Facility will maintain all books and records relating to Transfers of Digital Assets. Such records must be available for inspection by the Exchange and the CFTC and must be maintained in a form acceptable to the Exchange for a period of not less than 5 years from the date of the relevant transaction. Further, the Settlement Facility shall maintain a set of operational procedures to which the Exchange shall access and shall keep the Commission informed of any material changes to such procedures.