coinbase

To:
Mr. Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
3 Lafayette Square
1155 21st Street NW
Washington, DC 20581

February 27, 2026

Request for Comment on the Direct Clearing of Derivatives by Retail Participants

Coinbase Global, Inc. (together with its subsidiaries, **Coinbase**) appreciates the opportunity to respond to the Commodity Futures Trading Commission staff's (the **CFTC**) request for comment on the direct clearing of derivatives by retail participants published on December 18, 2025 (the **RFC**).[1]

The CFTC's longstanding principles-based approach to regulation encourages new business models and market structures, including direct access to trading and clearing. We believe that these innovations can and should be supported by the CFTC in a responsible manner.

The CFTC should continue to encourage a variety of DCO models to develop to further promote robust innovation that meets market demand. Whether intermediated or direct access, customers should benefit from the same protections, and the CFTC should ensure that important areas including customer asset protections, risk management, and conflicts of interest are addressed. Doing so need not mark a departure from the CFTC's principles-based approach to regulation and we caution against an unnecessarily prescriptive approach that could inadvertently stifle innovation.

We commend the CFTC for its commitment to fostering responsible innovation in its markets and to customer protection and remain available to discuss these matters going forward.

Yours sincerely,

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Head of US Futures
Coinbase

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[1] *REQUEST FOR COMMENT ON THE DIRECT CLEARING OF DERIVATIVES BY RETAIL PARTICIPANTS* (December 18, 2025), *available at* https://www.cftc.gov/media/12861/DerivativesRetailInvestors_RFC121725/download.

Introduction

Coinbase shares the CFTC's goal of protecting customers while encouraging growth and innovation in the derivatives market. We commend the CFTC for thinking carefully and critically about derivatives market structure and risk. The current RFC is only the most recent example of the Commission's longstanding commitment to thoughtful innovation in US financial markets.

Coinbase has a unique vantage point from which to respond to the RFC. Coinbase Derivatives, LLC (**CDE**) is a designated contract market (**DCM**) and currently offers a mix of digital asset and traditional futures contracts sized to meet both institutional and retail trading needs. Coinbase Financial Markets, Inc. (**CFM**) is a futures commission merchant (**FCM**). CFM not only provides customers with access to contracts traded on CDE, it also offers event contracts listed on third party venues.

Coinbase has participated first hand in the significant shift in the US derivatives markets over the past decade. We have seen increased interest from retail traders in products such as event contracts, which have existed on CFTC-regulated exchanges for years, and smaller-sized crypto and commodity derivatives contracts. Advances in technology, products, and services have fueled retail participant demand for a variety of market structures, including intermediated, direct, and hybrid access to clearing. Despite the ability for retail participants to clear directly, the number of new FCMs that have registered with the NFA, or are seeking registration, to service customers in these markets has ballooned.[2] This is remarkable given earlier worries about FCM concentration and viability of the business model.[3]

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[2] The overall number of registered FCMs decreased significantly since the Global Financial Crisis, but recent years have seen an uptick in FCMs. In the last five years, there have been 15 new FCMs registered with the CFTC. These FCMs represent a wide range of institutional and retail-oriented customer bases, with some focused on a broad array of products, and others focused on specific markets like cryptocurrency derivatives or event contract markets. https://www.cftc.gov/sites/default/files/2026-01/01%20-%20FCM%20Webpage%20Update%20-%20November%202025.pdf; Commodity Futures Trading Commission, *Selected FCM Financial Data for Reports Filed by January 31, 2003 (January 31, 2003),* https://www.cftc.gov/sites/default/files/files/tm/fcm/tmfcmdata0212.pdf; *CFTC Staff Issues FCM FAQs* (June 30, 2025) (The CFTC's Market Participants Division "has received **an increased number of inquiries concerning the registration and operation of FCMs** by entities that have not been registered with the CFTC or subject to oversight as a financial institution by a federal financial regulation"), https://www.cftc.gov/PressRoom/PressReleases/9091-25; *CFTC's FCM FAQ Aims to Guide New Market Entrants* (July 3, 2025) ("Responding to **a surge of inquiries from entrants seeking to register as FCMs**, MPD outlined the financial and operational responsibilities assumed by FCMs."), https://natlawreview.com/article/cftcs-fcm-faq-aims-guide-new-market-entrants-adds-no-new-obligations.

[3] As of November 30, 2025, there were 66 FCMs registered with the CFTC whereas there were 169 FCMs registered with the CFTC in 2002. *See* Commodity Futures Trading Commission, *FCM Webpage Update – November 2025* (Jan. 2026).

The CEA and the CFTC’s principles-based regulatory framework have proven to be resilient and adaptable to protect customers. We therefore urge staff to continue to embrace a principles based approach and to only adopt new regulations where existing approaches fall short.

From this perspective, we offer four main points regarding the RFC:

First, the RFC conflates two important issues: (1) retail market participation in CFTC-regulated activity and (2) direct access to CFTC-regulated markets and clearing. Any future work by the CFTC or CFTC staff on these issues must be clear as to which of these areas it seeks to address.

Not all retail market participants access markets directly, as some retail market participants access markets and clearing through an intermediary. If the CFTC seeks to advance retail market customer protections, those measures would need to consider both direct and intermediated access models. Similarly, not all direct market access and direct clearing activity is for retail participants (regardless of the definition), as some institutional market participants access markets and clearing directly.

Second, we note that the CEA does not define “retail” per se, and believe any distinction between “retail” or "institutional" clearing access would be premature, at best, and could have significant unintended consequences in the future.

Third, many of the topics raised in the RFC are best addressed depending on the unique characteristics of each DCO, which should consider a number of factors, including customer access models. Specifically, we recommend that conflicts of interest in vertically integrated models be addressed with existing tools to ensure adequate protection of institutional and retail customers alike. In addition, risk management choices are complex and should generally be based on the specifics of a DCO and its membership rather than establishing a bespoke framework for retail clearing.

In the context of event contract markets, for example, all products are traded and cleared on a fully-collateralized basis. As a result, issues related to margin deficits, FCM default, and DCO risk management are less relevant than in a margined-trading environment. The CFTC should carefully distinguish instances where it is trying to address a specific concern with respect to “direct clearing of derivatives by retail participants” rather than a market structure evolution that seems to be addressable within the existing principles-based regulatory framework.

Critically, the RFC suggests prescriptive requirements or bans as an option to address some of the perceived risks of direct access models.[4] We strongly caution staff and the Commission from taking a heavy-handed approach that would limit customer choice where other options can provide equal protection. Innovative approaches should be allowed to flourish within proper regulatory guardrails and customer protections.

Fourth and finally, the inconsistent regulatory requirements applied to FCMs and direct access models, as they relate to customer asset protections and marketing, merit additional review by the CFTC. Currently, what a CFTC registered entity can or cannot say depends on the registration category. FCMs, for example, are subject to NFA marketing restrictions and must provide various risk disclosures to their customers, while DCMs are not bound by similar rules. The CFTC should consider leveling the playing field for all registrant categories in this area.

We provide our feedback on these points and staff's specific questions in the sections below.

The CEA does not currently define "Retail"

The RFC refers to a "Retail DCO." While we use the phrase "Retail DCO" in our responses for ease, it is unclear what this term specifically means. The RFC does not define a "retail" customer or the context in which the term "retail" will be applied beyond the issues of "direct clearing of derivatives by retail participants."

As we detail below, we do not believe that the CFTC needs to define "retail" in order to provide equal customer protections for customers who trade using intermediated or direct access models. However, to the extent the CFTC wants to pursue retail focused protections, it should undertake a rulemaking to determine 1) whether unique protections are necessary 2) how to appropriately define "retail" and 3) the context in which such definition will be applied. While some market participants who participate in direct clearing should be considered "retail," some direct access customers may be more sophisticated market participants than others, and the CFTC should clarify its intended scope.

We note that the RFC does not make any reference to the longstanding concept of an "eligible contract participant" (**ECP**). As set forth in both the CEA and codified in CFTC Regulation 1.3, to be an ECP, a natural person must have aggregate amounts of more than

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[4] For example, Question 1 makes several prescriptive suggestions regarding FCMs, including: requiring all FCM duties with respect to customer clearing to be fulfilled by a retail DCO, requiring all retail DCOs to establish an affiliated FCM, requiring retail customers to also become customers of an affiliated FCM, and prohibiting affiliated FCMs from clearing membership in a non-affiliated DCO. *See id.* at pages 3-4. Question 4's suggestion of creating a separate registration category for retail DCOs is similarly prescriptive. *See id.* at page 5. Questions 2(d) and 3(d) contemplate banning hybrid DCO models altogether. *See id.* at pages 4-5.

$10 million invested on a discretionary basis (or $5 million if hedging).[5] It is unclear if the CFTC staff intend for "retail" to include highly sophisticated market participants who may fall just short of the ECP definitional threshold. Similarly, there is a long history of CFTC-regulated markets providing intermediated access to natural persons. The definition and the intended application of the definition are important, and related.

Any proposed definition of "retail" customers will need to reflect the realities of the types of customers that trade in the US derivatives markets, including those that trade crypto derivatives and event contracts. Coinbase encourages the CFTC staff to carefully consider what distinguishes retail customers from non-retail customers, if it proposes to adopt a definition of "retail" customers, and to avoid setting subjective thresholds that may not be applicable to all customers of the US derivatives markets.

Customer assets should be protected in all clearing models

We think it is important to ensure that all clearing models – whether so-called Retail DCOs or non-Retail DCOs – provide customers with the same protections. Protection of customer funds is paramount, regardless of business model or registration category.

At the same time, however, it is not necessary to ensure that all FCM duties with respect to customer clearing are fulfilled by the DCO in a Retail DCO model and those DCOs with affiliated DCMs should be able to outsource certain regulatory requirements to its affiliate. In addition, while duties that involve customer protections are necessary, certain obligations (NFA membership, FCM-specific risk management obligations) would be ill-suited to place upon a DCO.

Similarly, FCMs, DCMs and DCOs should have the same requirements and limitations when it comes to marketing. Today NFA members face restrictions that are not applicable to direct access models. Whether a DCM, FCM, IB, or DCO, marketing standards should be consistent, and not dependent on the registration license or NFA membership. We encourage staff to work with the NFA to align on a single, workable set of standards for marketing and customer communications that appropriately address the realities of modern marketing and not registrant categories.

The CFTC should not require retail customers to access a DCO via an FCM

Questions 1(b) and 1(c) ask whether the CFTC should require a Retail DCO either establish an affiliated FCM if it does not have one or require its retail customers to clear via the Retail DCO's existing affiliated FCM. We strongly believe that the CFTC should not pursue a prescriptive approach that would dictate market structure. A DCO should not be

[5] 7 USC § 1a(18).

required to make retail participants customers of an affiliated FCM. Similarly, Retail DCOs should not be required to establish an affiliated FCM.

Market participants and their customers should be free to choose the structure that best fits their own needs, while ensuring appropriate protection of customer assets. Consistent with the CEA's principles-based regulatory framework, the CFTC should allow a variety of models to develop in the market, rather than picking winners and losers or preferred arrangements of one particular market structure for participants. Customer assets should always be protected, regardless of whether an intermediary is involved, and the CFTC should craft rules that create equal protection among all participants, with disclosures addressing any differences.

As we have noted in the past,[6] vertical integration is a powerful tool that can reduce friction and costs for customers without harming customer protections, as long as proper safeguards are implemented. These include segregation of customer assets, governance mechanisms, and disclosures. Indeed, the CFTC's principles-based regulatory framework does not require a singular solution.

Vertically-integrated structures can coexist with those that rely on unaffiliated intermediaries. Thus, as discussed above, the CFTC should not mandate a particular market structure, but should instead allow each market participant to identify the best structure for themselves in light of its customer profile and products. If an individual believes using an affiliated FCM is the best choice, they can seek out a DCO with an affiliated FCM.

If all retail direct participants are required to become customers of an FCM,[7] whether through an affiliated FCM in a fully-collateralized model or through either an affiliated or unaffiliated FCM in a hybrid model, it will result in the elimination of customer choice without a corresponding regulatory or market benefit. This would be a step backwards, and would impose an undue burden on market operators, intermediaries, and customers to "undo" innovations in market structure that have taken root over the last decade. It is unnecessary for retail participants to be forced into traditional FCM relationships when the existing DCO model can be designed to operate safely without them.

The CFTC's exiting rules are generally sufficient to manage conflicts of interest between a DCO and an affiliated FCM

[6] Faryar Shirzad, Coinbase, *Comment for General CFTC Request Input on All Recommendations for the CFTC in the President's Working Group Report on Digital Asset Markets*, November 28, 2025, Comment No. 113954, https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=113954&SearchText=coinbase
[7] See RFC Question 1(d)(ii).

Question 1(d)(i) asks whether additional requirements are necessary where a Retail DCO has an affiliated FCM. In considering this question, it is prudent to recognize that our financial system has never fully eliminated conflicts of interest.[8] This is well understood by market participants and is addressed in the existing regulatory principles set forth in the CEA. Trying to erase any potential conflict of interest is impossible in any commercial enterprise where transacting counterparties have competing incentives and profit motives; conflicts can arise whether participants are affiliated or unaffiliated.

Further, going beyond the current statutory regime – which contemplates and considers conflicts of interest – would represent a significant departure from the CFTC's longstanding approach of principles-based regulation.

In general, the CEA and CFTC regulations already sufficiently cover concerns of conflicts of interest, and only small changes are likely necessary. As has been discussed in great detail, the existing framework has largely succeeded in preventing or mitigating conflicts of interest. And, where conflicts have arisen, registrants have worked to address or resolve them. For example, the CFTC's principles-based regulatory regime is designed to address potential conflicts of interest in affiliate arrangements and is supported by a robust practice of registrant audits, exams, rule enforcement reviews and other forms of supervision, by both the CFTC and NFA.

Coinbase encourages the CFTC staff to carefully consider existing provisions that address potential conflicts of interest and to revise those provisions through notice-and-comment rulemaking only to the extent that the CFTC identifies a "gap" in the regulatory framework. Conflicts of interest in vertically-integrated models can be addressed with existing tools focusing on information walls and separation of sensitive functions that ensure customer orders and private information are protected.

With respect to market participants who are FCMs, the NFA's rules are sufficient to cover conflicts of interest that may arise in a variety of clearing models. NFA Compliance Rule 2-4 "requires all Members and Associates to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their commodity futures business. This includes a requirement to deal fairly with customers and other market participants at all times." The NFA has issued a number of Interpretive Notices in furtherance of NFA Compliance Rule 2-4, addressing a range of topics, including FCM

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[8] Faryar Shirzad, Coinbase, *Comment on the Impact of Affiliations of Certain CFTC Regulated Entities*, September 28, 2023, Comment No. 73145, https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=73145; Julia Hueckel, Coinbase, *Comment for General CFTC Request for Input on Listing of Spot Crypto Asset Contracts*, August 18, 2025, Comment No. 108253, https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=108253&SearchText=.

transaction cost disclosures, sweep account disclosures, misuse of trade secrets and proprietary information, and commissions, fees, and other charges.[9]

CFTC regulations and NFA rules related to disclosures and customer communications also ensure that customers are made aware of any material conflicts of interest that an FCM may have. For example, CFTC Regulation 1.71(e) provides that "[e]ach futures commission merchant and introducing broker must adopt and implement written policies and procedures that mandate the disclosure to its customers of any material incentives and any material conflicts of interest regarding the decision of a customer as to the trade execution and/or clearing of the derivatives transaction."[10] CFTC Regulation 1.55 requires FCMs to disclose certain information to customers, including information about its affiliates and risks to the FCM created by the FCM's affiliates and their activities. CFTC Regulation 1.55 also requires mandatory risk disclosure statements about the risk of loss in trading futures and a signed statement from the FCM's customer that they received and understood the disclosure statement. NFA Compliance Rule 2-29 prohibits FCMs from employing marketing materials or public communications that may mislead or deceive the public or the FCM's customers.

Further, FCMs affiliated with a DCO should not be prohibited from obtaining a clearing membership with a non-affiliated DCO as suggested by Question 1(d)(iii).[11] This arrangement exists today and imposing a prohibition would upend longstanding market structure. Such a prohibition would not solve or prevent any real or perceived conflicts of interest, and would be easily resolvable under the existing conflicts of interest regulatory framework. Market participants today rely on FCMs that provide customers access to multiple trading and clearing options, including non-affiliated DCOs. Ultimately, such an idea would only serve to limit customer choice and stifle the very innovation CFTC staff should promote.

Finally, the RFC also includes questions about risk transfers between a Retail DCO and an affiliated FCM,[12] as well as between direct and intermediated participants.[13] It is difficult to assess how risk would transfer differently between a Retail DCO and an affiliated FCM, as opposed to an unaffiliated FCM, if proper legal entity separation and governance were implemented. As DCMs and DCOs are regulatorily required to provide impartial, fair and open access, there should be no unexpected or undue risk transfer between a Retail DCO and an affiliated FCM, as opposed to an unaffiliated FCM, if the DCO is complying with its regulatory obligations. Furthermore, DCOs and FCMs are already subject to stringent financial requirements, reporting obligations, and examination by CFTC and NFA.

[9] 16 NFA Compliance Rule 2-4.
[10] 17 C.F.R. § 1.71(e).
[11] See RFC Question 1(d)(iii).
[12] See RFC Question 1(d)(iv).
[13] See RFC Question 2(c).

The CFTC regulatory framework is suited to a variety of clearing models

The RFC includes questions related to hybrid clearing models, where the DCO offers both direct and intermediated access to clearing. The RFC asks a number of questions related to the potential risks associated with a hybrid clearing model.[14]

As a general matter, we strongly believe that the CFTC should encourage a variety of models to develop in order to encourage growth and innovation in the derivatives market. Having freedom to develop different structures and processes, including Hybrid DCO structures and processes that provide clearing services for multiple products under the same legal entity, allows markets to adapt to technological changes and accommodate new market participants. This diversity fosters competition in not only the structure of clearing services, but also price and service. As long as all market participants and activity are consistent with the core principles, such as having adequate financial resources and risk management, allowing diversification of the market serves the CEA's purpose to promote responsible innovation.

A DCO that provides both direct access and intermediated access to clearing should be able to manage its systemic risk, credit exposure, and potential losses from defaults in a manner consistent with the requirements of Part 39. Similarly, providing clearing services for multiple products under the same legal entity should not prevent a DCO from complying with its regulatory obligations. While the specifics of the risk management program will differ depending on the method of access, a DCO can develop sophisticated risk management programs that address the risks of both access methods. The intermediated access model will rely on clearing members' creditworthiness and a mutualized default fund; in contrast, a direct access model may adopt a pre-trade enforcement model with sufficient automated controls and hard limits covering risks holistically before the trade is executed.

As a result, Coinbase does not recommend (i) additional prescriptive risk management protections to address impacts of direct clearing activity on intermediated clearing activity; (ii) any regulatorily-required divide of default-related resources or other risk management protections; and (iii) any kind of ban on hybrid DCO models. As noted above, there are many ways that DCOs can meet their risk management requirements, and we believe that the CFTC is well suited to address the risks posed by a particular model on a case-by-case basis. We believe the CFTC should remain consistent in its commitment to a flexible, principles-based approach to regulation. While the questions posed in this RFC are important, they are more appropriate for consideration during the examination of a registered DCO, which will allow CFTC staff to consider the DCO's broader business, customer base, operations, financial resources and risk management practices.

[14] See RFC Questions 2 and 3.

The CFTC should not create new registration categories based on retail participation

We do not recommend establishing a new, bespoke DCO registration subcategory for Retail DCOs. Consistent with our recommendation that the CFTC encourage a wide variety of DCO models to develop in order to support innovation and the growth of the derivatives market, we recognize that Retail DCOs may differ widely in terms of trading practices and risks to customer protection. Customers would benefit more from CFTC regulations that explicitly ensure customer asset protection and address the risks of each model on a case-by-case basis, rather than developing a sub-registration category that may not adequately address the particular risks and benefits of each individual DCO.

Further, we are concerned that a new registration category may provide unintended incentives for aspiring DCOs to forum-shop the type of registration category based on regulatory burdens, as opposed to business model.

We recommend that the CFTC consider certain additional requirements where a DCO allows direct access for retail customers. This can be done without the need for a separate registration requirement and more adequately addresses the specific needs of customers.