coinbase

To:

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

May 21, 2025

Request for Comment on the Trading and Clearing of "Perpetual" Style Derivatives

Coinbase Derivatives, LLC (**CDE**) appreciates the opportunity to respond to the Request For Comment on Perpetual Futures (**the RFC**) published by the Commodity Futures Trading Commission (**CFTC** or **Commission**) Divisions of Clearing and Risk and Market Oversight.[1]

We are a subsidiary of Coinbase Global, Inc. (together with its affiliates, **Coinbase**) and an affiliate of Coinbase, Inc., one of the United States' leading spot market exchanges for crypto assets. Coinbase is committed to building an open financial system and reimagining the future of finance through new technologies and innovative products.

CDE has been a designated contract market (**DCM**) since 2020 and currently offers a mix of digital asset and traditional futures contracts sized to meet both institutional and retail trading needs. CDE's most liquid contracts – Bitcoin (**BTC**) and Ether (**ETH**) futures – started trading on a 24/7 basis in May of 2025. In March of this year,[2] we announced our intention to launch a perpetual-style futures contract, as it provides the economic exposure that many of our participants and their clients seek.

We commend the staff for its thoughtful approach to the RFC. We share our thoughts on the RFC below and remain available to discuss these matters with staff going forward.

Yours sincerely,

Boris Ilyevsky
CEO Coinbase Derivatives
Coinbase

[1] *Request for Comment on the Trading and Clearing of "Perpetual" Style Derivatives*, Release Number 9069-25 (April 21, 2025).
[2] https://www.coinbase.com/en-nl/blog/coming-soon-24/7-and-perpetual-style-futures-in-the-us.

Introduction

Perpetual derivatives make up the significant majority of crypto futures trading volume – upwards of 90% by some reports and surpassing the underlying crypto spot volumes.[3] Yet until recently, no CFTC-regulated platform has been able to list these products.

Bringing offshore crypto derivatives markets into the US regulatory perimeter would be a boon for US markets and customers. The US is often credited with having the deepest and most vibrant derivatives markets,[4] and we hope that a regulatory approach that embraces innovation will continue to allow the crypto derivatives markets to flourish here. For these reasons, we are encouraged by the RFC.

Perpetual derivatives can have many customer benefits, particularly when traded in a well-regulated environment. Initially envisioned by Nobel-prize winning economist Robert Schiller in 1992,[5] perpetual contracts have flourished primarily in crypto. In addition to working with staff on our own version of a perpetual derivative, our affiliate Coinbase International,[6] currently offers a perpetual contract to non-US customers. Given our unique position, we are well situated to provide feedback to staff on various economic features of perpetual derivatives markets, and do so below.

We also know that perpetual derivatives can trade as futures contracts or swaps, depending on their unique characteristics. We therefore urge staff to continue its well-established practice of evaluating contracts based on their specific features. Our response below is based on our experience with crypto spot and derivatives markets, both domestically and abroad, as well as the utility of crypto perpetual contracts for a crypto-focused customer base.

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[3] Qihong Ruan and Artem Streltsov, *Perpetual Futures Contracts and Cryptocurrency Market Quality*, last modified November 2024, 2, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4218907.
[4] *Derivatives Market Size, Share, Growth, and Industry Analysis, By Types (Financial, Commodity), By Applications Covered (Hedging, Speculative Arbitrage), Regional Insights and Forecast to 2033*, Global Growth Insights, last modified April 28, 2025, https://www.globalgrowthinsights.com/market-reports/derivatives-market-102850.
[5] Robert J. Shiller, *Measuring Asset Values for Cash Settlement in Derivative Markets: Hedonic Repeated Measures Indices and Perpetual Futures*, Cowles Foundation Discussion Paper No. 1279 (New Haven, CT: Yale University, November 1992), https://elischolar.library.yale.edu/cowles-discussion-paper-series/1279/. Specifically, he proposed the concept of perpetual futures as a new type of derivative contract that allows for continuous price exposure without expiration. These instruments, he argued, could support better price discovery and risk management in markets for both tradeable and non-tradeable assets (like housing or inflation indices). Shiller's work laid the theoretical groundwork for modern perpetual futures in crypto markets, illustrating their potential to enhance market efficiency and enable cash settlement based on transparent, index-based asset valuations.
[6] Coinbase International is the dba name for Coinbase Bermuda Limited, an exchange regulated by the Bermuda Monetary Authority as a Digital Asset Business.

Perpetual derivatives are attractive to crypto customers

Perpetual derivatives offer unique advantages compared to traditional futures contracts, making them highly appealing to a broad subset of market participants. For some, a key benefit of perpetual contracts is either the long-dated expiry (years) or a lack of expiry dates altogether, which eliminates the need for traders to roll contracts regularly. For this reason, perpetual derivatives also allow for liquidity to be concentrated in a single contract, rather than being fragmented across multiple contracts with different expiration dates, as happens in traditional futures markets.[7]

As compared to traditional futures contracts, perpetual derivatives also trade with a much smaller basis to the spot market due to the funding rate mechanism, allowing for closer tracking of spot prices.[8] This advantageous pricing structure is particularly useful for hedgers and speculators seeking leveraged exposure, as they can align their trading objectives more closely with real-time price movements without having to navigate the convergence-divergence patterns between traditional futures and spot prices.[9]

Moreover, the simplicity of perpetual futures amplifies their accessibility for retail market participants. Unlike traditional financially-settled derivatives, which often demand a higher level of sophistication and active engagement, perpetual futures streamline execution while retaining all the benefits of leverage and price exposure. This utility positions perpetual futures as a simpler and more versatile option for retail customers, enabling them to hedge portfolios or gain exposure to underlying assets without the complications inherent in traditional futures products or spot crypto.

Crypto perpetual derivatives are a hybrid of spot and traditional futures contracts that combine the best features of both. For this reason, we would also expect a CFTC-regulated perpetual contract to draw in new entrants, expanding the overall size of the market. For some, a CFTC-regulated perpetual derivative product may be appealing because it provides a more correlated exposure to crypto spot markets than a traditional futures contract, but does not require a user to custody spot crypto. Similarly, participants that are deterred by the complexities of traditional futures may be drawn to perpetual derivatives due to their straightforward nature and the absence of complex rollovers or settlement mechanisms.[10]

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[7] Question 2 of the RFC asks whether "Perpetual Derivatives have advantages for market participants over traditional futures contracts or spot market products?"
[8] Ruan and Streltsov, *supra* note 3, at 2.
[9] Question 2 of the RFC also asks whether "Perpetual Derivative products provide commercial risk management features that cannot be met with existing products?" Question 9 of the RFC asks commenters to "describe the likely user base for Perpetual Derivatives."
[10] Question 9 of the RFC asks commenters to "describe the likely user base for Perpetual Derivatives. Will Perpetual Derivatives attract the same array of market participants as traditional futures, including commercials, asset managers, hedge funds, speculators, and others?"

In addition to drawing in new participants, we would also expect perpetual derivatives to influence liquidity dynamics by reshaping trading behavior and reallocating market flows. Evidence from international markets supports this forecast. Over the past five years, the ratio of perpetual futures trading volume to spot market volume has remained relatively constant (3–4x),[11] indicating that the market tends to find a stable equilibrium. While it is impossible to definitively forecast how much of perpetual trading volume is cannibalized from traditional derivatives, spot markets, or represents new activity, historical data suggests perpetual derivatives optimize trading preferences for diverse participants. This equilibrium aligns liquidity across perpetual derivatives, spot markets, and traditional futures contracts based on investor needs.[12]

Ultimately, perpetual derivatives will increase the accessibility and appeal of derivatives trading, broadening the user base and growing overall market participation. Liquidity will likely follow the flow, ensuring equilibrium across product lines while enhancing the trading environment for all participants. These improved dynamics promise long-term growth and innovation.

The Commission should not pre-define what contracts are considered perpetual derivatives[13]

The Commission should not pre-define which products qualify as "perpetual derivatives," given that there is no separate regulatory classification for perpetual derivatives. Rather, like it typically does with other products, the Commission should evaluate each product based on its economic terms and trading characteristics for purposes of determining its classification and regulation under the Commodity Exchange Act (**CEA**). Indeed, there is a long tradition of economically similar products being classified differently (e.g., futures contracts vs. "look-alike" swaps that settle to those contracts, swaps vs. swap-futures that replicate the amounts and timing of all cash flows of equivalent swaps).[14]

Based on this precedent, the Commission already has a toolkit for how to classify perpetual derivatives, including to distinguish perpetual "futures" from other perpetual derivatives. In particular, whether or not a derivative might fall within the first subparagraph of the CEA's "swap" definition (e.g., as a contract that provides on an

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[11] The Block. "BTC Spot to Futures Volume (30DMA)," accessed May 15, 2025, https://www.theblock.co/data/crypto-markets/spot/btc-spot-to-futures-volume.
[12] Question 8 of the RFC asks if "Perpetual Derivatives have the potential to adversely impact the liquidity or usefulness for commercial risk management purposes of traditional futures market products?"
[13] Question 1 of the RFC asks "[w]hat is an appropriate working definition of 'perpetual derivative?'" Question 13 of the RFC also asks if "Perpetual Derivatives [should] be classified as swaps or futures contracts?"
[14] Question 1.c of the RFC asks "[w]hat characteristics must a product have to qualify as a "perpetual" derivative?

executory basis for the exchange of payments based on the value or level of an underlying digital asset without conveying an ownership interest in the asset),[15] it could still qualify as a futures contract and thereby be excluded from the "swap" definition.[16]

The CEA does not define "futures contract," which has resulted in the Commission and courts assessing each transaction "as a whole with a critical eye toward its underlying purpose"[17] by evaluating whether certain characteristics common to most futures contracts are present.[18] Key characteristics of futures contracts, which one court has described as "necessary factors," are: "1) futurity, including delivery in the future at prices or pricing formulas that were established at the time the contracts were initiated; 2) risk transference, in that the contracts were undertaken principally to assume or shift price risk without transferring the underlying commodity; and 3) offset, in that the contracts could be satisfied through offset, cancellation, cash settlement or other means calculated to avoid delivery."[19] A product that satisfies these criteria and thus constitutes a futures contract (not a swap) could still share key characteristics of a perpetual derivative; an example would be a long-dated futures contract whose daily settlements are adjusted to reflect differentials from spot (or near-spot) prices.[20]

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[15] *See* 7 U.S.C. § 1a(47)(A)(iii).
[16] *See* 7 U.S.C. § 1a(47)(B)(i).
[17] *See* CFTC v. Co Petro Marketing Group, Inc., 680 F.2d 573, 581 (9th Cir. 1982).
[18] *See* CFTC Interpretive Letter No. 98-73, Comm. Fut. L. Rep. ¶27, 449 (Oct. 8, 1998) ("Letter 98-73"); *see also* Policy Statement Concerning Swap Transactions, 54 Fed. Reg. 30694, 30695 (July 21, 1989) ("Swap Policy Statement"); CFTC Interpretive Letter No. 97-01, Comm. Fut. L. Rep. ¶26, 937 (Dec. 12, 1996) ("Letter 97-01"); CFTC v. UForex Consulting, 551 F.Supp.2d 513, 529 (W.D. La. 2008); CFTC v. Fleury, 2010 WL 5146283 at *7 (S.D. Fl. 2010) ("Fleury").
[19] *See* CFTC v. First Lexington Group, LLC et. Al., 03 CV 9124 (GBD) (Apr. 22, 2008), available at https://www.cftc.gov/sites/default/files/idc/groups/public/@lrenforcementactions/documents/legalpleading/enffirstlexingtongroup032408.pdf; *accord* Fleury, 2010 WL 516283 at *9; Letter 98-73, Swap Policy Statement, 54 Fed. Reg. at 30695. Other characteristics that have been identified include standardized commodity units, margin requirements related to price movements, clearing organizations which guarantee counterparty performance, open and competitive trading in centralized markets, and public price dissemination; however, the Commission has indicated that "[t]he presence or absence of these additional elements, however, is not dispositive of whether a transaction is a futures contract." *Id.*
[20] Although such an adjustment may be less common for futures contracts, there is an economic justification for the adjustment, which is to counteract the convexity bias that might otherwise be associated with a futures contract in which no interest or other payments are made on accrued mark-to-market settlement payments. It is not unusual, such as in the interest rate futures markets, for DCMs to correct for this bias through similar adjustments to futures margining (sometimes referred to as "price alignment interest").

Staff should continue to evaluate specific contracts against the core principles

The Commission's existing, principles-based self-certification or approval processes have proven to be effective. Registrants have the ability to engage with staff in advance of submitting a filing to address any questions or concerns. They may also affirmatively seek approval under CFTC regulation 40.3.[21] As we noted in our response[22] to the Commission's September 2023 Rulemaking on amendments to Part 40,[23] the self-certification process provides the proper incentives for a registrant to ensure that it is confident and comfortable that its product complies with the Core Principles, as the consequences for a false certification or one that may not comply with the Commodity Exchange Act are severe.

We believe that the current statutory framework strikes the right balance, and departing from this process by prejudging certain products would unnecessarily break with well-established practice that has allowed CFTC-regulated markets to remain dynamic, innovative, and well-regulated.

[21] 17 CFR § 40.3(a).
[22] LMX Labs, LLC, dba Coinbase Derivatives, Comment Letter on the Amendments to Provisions Common to Registered Entities (Nov. 6, 2023), available at https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=73183&SearchText=coinbase.
[23] Amendments to Provisions Common to Registered Entities (RIN 3038–AF 28), 88 FR 61432 (Sept. 6, 2023).