Submitted by: Singapore Exchange Limited
Date: 21 May 2025
Subject: Response to RFC042125 – Trading and Clearing of "Perpetual" Style Derivatives

Dear Commissioners and Staff of the Commodity Futures Trading Commission,

We appreciate the opportunity to respond to the Commodity Futures Trading Commission's (CFTC) Request for Comment on the trading and clearing of "perpetual" style derivatives (RFC042125). As a regulated exchange registered as a Foreign Board of Trade with the CFTC, we welcome the Commission's proactive engagement on this evolving product class.

We strongly support the classification of perpetual derivatives – particularly perpetual futures – as **futures contracts** under the Commodity Exchange Act (CEA), and we encourage the Commission to treat them consistently with traditional derivatives in terms of regulatory oversight, risk management, and market integrity.

Please find our detailed responses to the Commission's questions as follows. We request anonymity for our responses, if possible.

Question	**Response**
The Staff requests comment on any or all of the below questions related to Perpetual Derivatives. In addition to the below more detailed questions, the staff is interested in comment on the following general themes: 1) any areas of key interest or concern which are not yet covered by any of the enumerated questions and 2) any areas of key interest or concern where Perpetual Derivatives may negatively impact the areas of market integrity, customer protection, or retail trading	

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1. What is an appropriate working definition of "perpetual derivative?" In addressing this question, please consider: a. What characteristics must a product have to qualify as a "perpetual" derivative? b. Is there a taxonomy of different kinds of perpetual derivatives and what would be key characteristics in this taxonomy? c. Are there specific characteristics that distinguish a perpetual futures contract from other perpetual derivatives?	A perpetual derivative is a financial instrument that derives its value from an underlying asset and is characterized by lack of a pre-determined expiration date. It maintains price alignment with the underlying spot market through a funding rate mechanism and daily mark-to-market. **Key Characteristics** A "perpetual" derivative should exhibit the following key characteristics: • **No Expiration Date**: Perpetual derivatives should not have a set maturity or expiration date; they can be held indefinitely. • **Continuous Settlement**: Contracts are settled on an ongoing basis with reference to the value of the underlying asset. Continuous settlement helps maintain the price alignment between the derivative contract and the underlying asset. • **Funding Mechanism**: A perpetual derivative should include a periodic funding rate mechanism to ensure the contract price stays close to the underlying asset's price. **Taxonomy** Perpetual derivatives can be broadly categorized into the following types based on their structure, trading venue, and clearing mechanism:

Type	Description	Venue	Clearing	Key Features
Perpetual Futures	Standardized, exchange-traded contracts with no expiry, settled daily via funding rate and mark-to-market	Regulated exchanges	Centrally cleared	Transparent, standardized, subject to margining and surveillance

Perpetual Swaps	Bilateral or platform-traded contracts with no expiry, often used in crypto-native markets	Crypto-native platforms	Not centrally cleared	Often less regulated, counterparty risk, flexible terms
Rolling Spot Futures	Contracts that simulate daily expiry and re-entry, effectively perpetual	Some traditional exchanges	Centrally cleared	Mimic perpetual behavior via daily roll
Synthetic Perpetuals	Structured products or strategies that replicate perpetual exposure using a series of short-dated futures	OTC or structured desks	Bilateral or cleared	Not standalone contracts, operationally complex

Key Differences: Perpetual Futures vs. Other Perpetual Derivatives

Feature	Perpetual Futures	Perpetual Swaps	Rolling Spot Futures	Synthetic Perpetuals
Standardization	High	Medium to Low	High	Low
Clearing	Central clearing	Typically bilateral or platform-cleared	Central clearing	Varies
Regulatory Oversight	High	Low to medium	High	Varies
Funding Mechanism	Explicit funding rate	Explicit funding rate	Implicit via daily roll	Implicit via strategy
Market Access	For non-crypto assets, these are typically traded by institutional participants on regulated venues.	Typically traded for crypto assets by retail and institutional participants on regulated and unregulated venues.	For non-crypto assets, these are typically traded by institutional participants on regulated venues. For crypto assets, these are traded	Typically traded for crypto assets by retail and institutional participants on regulated and unregulated venues.

		For crypto assets, these are traded by both retail and institutional participants on regulated and unregulated venues.		by both retail and institutional participants on regulated and unregulated venues.	
	Risk Management	Margining, exposure limits, surveillance	Platform-specific	Margining, exposure limits, surveillance	Depends on structure

Perpetual futures are the most suitable candidates for classification as futures contracts under the CEA due to their standardized nature, central clearing, and alignment with traditional futures market infrastructure. They differ significantly from perpetual swaps, which are often bespoke, less transparent, and not centrally cleared.

2. Would Perpetual Derivatives have advantages for market participants over traditional futures contracts or spot market products? Would Perpetual Derivative products provide commercial risk management features that cannot be met with existing products?

Perpetual futures offer operational and capital efficiency by eliminating the need for recurrent contract rollovers to maintain long-term exposure. They provide continuous exposure to the underlying asset and are particularly useful for hedging assets like cryptocurrencies which are traded round the clock on spot cryptocurrency exchanges and of which prices can be highly volatile. They also support intraday risk management and price discovery.

For non-traditional asset classes such as crypto and digital assets which have predominantly been traded/cleared in unregulated platforms/venues, Perpetual Derivatives have the potential added benefit of moving liquidity on to regulated exchanges. This reduces the risks associated with market manipulation and fraud, and ensures greater transparency and security for all market participants.

3. Would Perpetual Derivatives products pose any unique risks for market participants or the broader markets? Are there additional protections or safeguards that the Commission or exchanges should adopt to mitigate risks associated with these products?	**<u>Unique Risks</u>** Perpetual Derivatives pose the following unique risks for market participants and exchanges: 1. **Funding Rate Manipulation** Since perpetual derivatives rely on a funding rate to align futures prices with spot prices, there is a theoretical risk that traders could manipulate the order book to influence the funding rate in their favor. **2. Index Manipulation** There may be risks of index manipulation depending on the underlying asset. For example, Perpetual Derivatives based on crypto assets may face heightened risks arising from index manipulation if the index methodologies are not aligned with rigorous governance frameworks. It also matters to ensure neutrality in the case of decentralized or vertically integrated platforms. 3. **Lack of Term-Structure Pricing** Perpetual Derivatives carry risks due to their inherently short-term nature and daily marking-to-spot mechanism. Unlike long-term contracts such as Freight and Interest rate derivatives, which reflect differentiated forward pricing of underlying assets at various future points, perpetual futures are designed around a short-term forward price (in line with the mark-to-spot frequency as stipulated in the contract specifications, for example 1-day). In long-term contracts, short terms price shocks may potentially be mitigated by longer-term pricing stability. This feature is absent in Perpetual Derivatives, which concentrate all pricing information on the short term. We note, however, that this particular risk is inherently addressed by the funding rate mechanism which is meant to maintain a degree of alignment with the underlying spot price. 4. **Operational Complexity** The funding rate mechanism introduces operational and technological complexity for both exchanges and participants.

	5. **Natural expiry of positions** Perpetual contracts do not have an expiry date, which means that positions cannot naturally converge on the underlying spot price, as well as the fact that exposures cannot be naturally terminated with the passage of time. This can be a factor in both default management, as well as risk management in illiquid contracts. **<u>Safeguards</u>** The following safeguards can and should be adopted by exchanges to mitigate the above risks: 1. **Funding Rate Design** The Funding Rate methodology should be designed to mitigate the risks of manipulation, including by incorporating the following features • **Sweep-to-fill pricing** – the Funding Rate should be calculated against sweep-to-fill bid and ask prices of the Perpetual Derivative to reflect the most accurate and current market prices, and to reduce the opportunity for a single entity to manipulate the price. • **Funding rate caps and floors** – a Funding Rate cap and floor may be imposed (e.g., ±35bps) to ensure the Funding Rate stays within a reasonable range to maintain product stability and to protect participants in extreme dislocation scenarios. • **Weighted averaging** - either through a time-weighted averaging or volume-weighted averaging mechanism over a continuous time period to reduce the impact of outliers and enhance stability. 2. **Index Governance** The Funding Rate should be calculated against an index which is well-governed and administered by a BMR and/or IOSCO-compliant administrator.

	3. **Margining and Exposure Limits** Exchanges should impose a conservative margin floor rate and margin-period-of-risk to address the higher risks associated with Perpetual Derivatives. Exposure limits may also be imposed depending on the underlying assets. 4. **Surveillance and Market Controls** • **Dynamic fat finger limits** to prevent erroneous orders. • **Real-time surveillance** for price deviations and anomalous trading. • **Trade cancellation powers** to address disorderly trading. While perpetual derivatives introduce novel features, the risks they pose are well understood and can be effectively managed using enhanced versions of traditional futures market safeguards. Regulated exchanges have demonstrated that with proper design, governance, and oversight, perpetual futures can operate safely within the existing regulatory framework.
4. Do the current risk disclosures that futures commission merchants are required to provide customers, pursuant to Commission regulations, adequate to address risks associated with Perpetual Derivatives? If not, what additional disclosures should be required to be provided to customers?	Existing disclosures may need enhancement to explain the funding rate mechanism, absence of expiry, and potential for price divergence.
5. Do Perpetual Derivatives pose any unique risks if they were to be offered in physical commodity markets, such as with agricultural or energy commodity derivatives?	Perpetual derivatives on physical commodities may raise delivery-related concerns. However, for cash-settled contracts, these concerns are mitigated. Any future application to physically-deliverable commodities should be assessed on a case-by-case basis.

6. Do Perpetual Derivatives raise unique concerns about susceptibility to manipulation? a. Are there additional protections or safeguards that should be adopted by the Commission or exchanges to mitigate concerns about susceptibility to manipulation with Perpetual Derivatives? b. Is there any additional guidance the Commission should adopt to clarify the regulatory treatment of Perpetual Derivatives? c. Would Perpetual Derivatives raise any novel concerns with regard to conflicts of interest?	See response to question 3. Further, given their reliance on continuous price adjustments to reflect current spot rates, Perpetual Derivatives may not be suitable for assets with lower liquidity or fragmented pricing. To provide industry clarity, we encourage the Commission to provide guidance that perpetual futures will be regulated in the same manner as traditional futures, given the structural similarities they bear to traditional futures as set out in our responses to question 1.
7. Do Perpetual Derivatives raise unique surveillance concerns for exchanges listing perpetual products?	There are concerns relating to risk of manipulation of Funding Rate. Please see our response to question 3 above.
8. Do Perpetual Derivatives have the potential to adversely impact the liquidity or usefulness for commercial risk management purposes of traditional futures market products?	Perpetual futures are complementary to traditional futures. They may attract different user segments (e.g., high-frequency traders) but are unlikely to cannibalize liquidity due to their different use cases and the underlying assets to which they are typically applied. They can also play an aggregating role for pricing information in assets where price leadership is fragmented across different OTC venues, by allowing for consolidation of price information on a regulated platform such as an exchange.

9. Please 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?	Expected users include: • Institutional investors (hedge funds, asset managers) • Proprietary trading firms • Market makers • [For crypto-related Perpetual Derivatives] Crypto-native firms seeking regulated access.
10. Are some traditional futures market participants less likely to participate in Perpetual Derivatives markets? Will Perpetual Derivatives markets function as effectively and efficiently if certain traditional participants are less present or if the market is heavily weighted towards certain types of participants?	Some traditional participants may be cautious due to operational unfamiliarity. However, robust risk controls and regulatory clarity will encourage broader adoption over time.
11. The aims of derivatives markets include price discovery and risk mitigation. How do Perpetual Derivatives further risk mitigation? How do they further price discovery? Please provide likely use cases for Perpetual Derivatives.	**Risk Mitigation** Perpetual Derivatives serve as effective tools for managing financial exposure, particularly in volatile and continuously traded markets like cryptocurrencies. They offer several advantages for hedging and portfolio risk management: 1. **Continuous Hedging Without Rollover Risk** Traditional futures require periodic rollovers, which introduce operational complexity and basis risk. Perpetual futures eliminate this by allowing positions to be held indefinitely, reducing transaction costs and slippage. **2. Concentration of Trading and Open Interest** Unlike traditional futures, where open interest and trading activity are dispersed across various points in the term structure, perpetual futures focus market interest on a single, continuous contract. This concentration enhances liquidity and

	potentially simplifies the process of default management, reducing the complexity associated with managing multiple contracts. This streamlined approach can lead to more efficient price discovery and improved risk mitigation, benefiting both traders and the broader market. 3. **Cash-Settled Exposure** Market participants can hedge directional exposure to crypto assets without holding the underlying, avoiding custody, security, and regulatory risks associated with spot holdings. 4. **Funding Rate** The funding rate mechanism ensures that the futures price remains anchored to the spot market, maintaining hedge effectiveness. 5. **Institutional Risk Controls** Regulated exchanges adopt robust risk controls and clearing frameworks, ensuring that perpetual futures can be used safely by institutional investors. Traditionally, crypto/digital assets have been predominantly traded/cleared in unregulated platforms/venues, which are empirically less safe than traditional regulated exchanges. Moving liquidity to regulated exchanges reduces the risks associated with market manipulation and fraud, and ensures greater transparency and security for all market participants. **<u>Price Discovery</u>** Perpetual Derivatives enhance price discovery in several ways: 1. **High Liquidity and Continuous Trading** Perpetual futures are among the most liquid instruments in crypto markets. Their continuous trading and deep order books provide real-time pricing signals that reflect market sentiment.

	2. **Transparent Benchmarking** Prices may be anchored to regulated, IOSCO-compliant indices, which aggregate data from multiple high-quality spot exchanges. This ensures that futures prices reflect a broad and representative view of the underlying market. 3. **Funding Rate as a Market Signal** The funding rate reflects the relative demand for long vs. short exposure. A persistently positive funding rate indicates bullish sentiment, while a negative rate suggests bearish positioning. This provides insight into market expectations and positioning. 4. **Arbitrage Opportunities** The interaction between spot, perpetual, and traditional futures markets creates arbitrage opportunities that help align prices across venues, reinforcing convergence and market efficiency. **<u>Use Cases</u>** 1. **Institutional Hedging** Asset managers and hedge funds can hedge exposure to assets like crypto assets using perpetual futures without taking custody of the underlying assets. 2. **Market Making and Liquidity Provision** Market makers use perpetual futures to hedge inventory risk in spot markets, contributing to tighter spreads and deeper liquidity. 3. **Speculation and Tactical Trading** Traders can express directional views on crypto assets with leverage, using perpetuals as a capital-efficient instrument. 4. **Cross-Market Arbitrage** Traders arbitrage between spot, perpetual, and dated futures markets, helping to align prices and improve market efficiency.

	5. **Risk Transfer in Volatile Markets** During periods of high volatility, perpetual futures allow participants to quickly adjust exposure, facilitating risk transfer and reducing systemic stress.
12. Futures markets can provide arbitrage opportunities between futures and cash markets, with convergence at expiration being a hallmark of a properly functioning market. What arbitrage could reasonably be expected between Perpetual Derivatives, traditional futures, and cash markets? What cash market convergence could reasonably be expected?	See response to question 11.
13. Should Perpetual Derivatives be classified as swaps or futures contracts?	We respectfully urge the Commission to recognize that perpetual futures, despite lacking a fixed expiry date, are fundamentally aligned with the economic structure, operational mechanics, and regulatory expectations of traditional futures contracts. Perpetual futures are structurally aligned with traditional futures contracts in key respects: • **Standardized terms**: Contract size, tick size, and trading hours are predefined. • **Central clearing**: Positions are cleared through a derivatives clearing organization, with robust margining and default management frameworks. • **Daily mark-to-market**: Positions are marked to market daily, with variation margin collected accordingly. • **Cash settlement**: Contracts are settled in cash, referencing a transparent and IOSCO-compliant benchmark index.

	The only structural distinction is the absence of a fixed expiry date. This feature enhances operational efficiency by eliminating the need for contract rollovers, while maintaining the economic equivalence of daily expiry through the **funding rate mechanism**. In contrast, swaps are typically bilateral or OTC contracts which often involve complex or long-date cash flows.
14. Is a Perpetual Derivative consistent with a traditional futures contract model whereby there is a specified expiry date, and the price of the contract represents the price of the underlying commodity at the time of expiry?	While they are not identical, there are embedded structures (such as the funding rate and daily mark-to-market) which support a strong relationship between Perpetual Derivatives and the spot price of the underlying asset.
15. Do Perpetual Derivatives increase customer default risk that may expose other customers to potential losses in the event of an FCM insolvency resulting from the customer default?	While perpetual derivatives introduce certain structural differences from traditional futures, they do not inherently increase customer default risk when listed on a regulated exchange and cleared through a robust central counterparty. With appropriate safeguards, perpetual futures can be managed within the same risk framework as traditional futures. **<u>Potential Sources of Default Risk in Perpetual Derivatives</u>** 1. **Continuous Exposure Without Expiry** The absence of a natural expiry date may allow positions to remain open indefinitely, potentially leading to large, accumulated exposures if not actively monitored. 2. **Volatility of Underlying Assets** Crypto assets like Bitcoin and Ether are highly volatile, which can lead to rapid changes in margin requirements and increase the likelihood of margin breaches. 3. **Funding Rate Dynamics** The funding rate mechanism introduces an additional cash flow between long and short positions. If not properly collateralized, this could contribute to liquidity stress.

	<u>Mitigation Measures</u> Notwithstanding the above risks, exchanges can mitigate such risks with a comprehensive risk management framework that addresses these concerns with the following features: 1. **Conservative Margining** particularly for assets such as crypto assets, including a conservative margin floor and margin-period-of-risk. 2. **Daily Mark-to-Market and Funding Rate Settlement**, which ensures that unrealized gains/losses and funding obligations are realized regularly, reducing the buildup of uncollateralized exposures. 3. **Exposure Limits** based on underlying assets, which trigger additional margin requirements if exceeded. 4. **Default Management and Clearing Fund Protections**, supported by historical and hypothetical stress testing. 5. **Intraday Risk Controls** and real-time surveillance to prevent erroneous or manipulative trades that could trigger margin breaches.
16. Do Perpetual Derivatives raise unique issues in the event of a futures commission merchant or derivatives clearing organization insolvency under part 190 of the Commission's regulations or the U.S. Bankruptcy Code?	No response.