



**WFE Response to the CFTC on the Trading & Clearing of
“Perpetual” Style Derivatives
21 May 2025**

Background

Established in 1961, the World Federation of Exchanges (WFE) is the global industry association for exchanges and central counterparties (CCPs). Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 37% are in Asia-Pacific, 43% in EMEA, and 20% in the Americas.

The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some \$1.1 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges, together with other exchanges feeding into our database, are home to over 49,000 listed companies, and the market capitalisation of these entities is over \$116.58 trillion; around \$155 trillion (EOB) in trading annually passes through WFE members (at end 2024).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 49 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators, and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair, and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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Introduction

The WFE welcomes the opportunity to respond to the Commodity Futures Trading Commission's (CFTC) Request for Comment on the Trading & Clearing of "Perpetual" Style Derivatives. Our response focuses on the implications of perpetual derivatives for global market structure, market integrity, systemic stability, and the fair and orderly functioning of financial markets, providing a high-level perspective informed by global practices across our diverse membership base. While perpetual derivatives are not a substitute for traditional futures in all contexts, they may serve as a valuable complement in the broader toolkit for risk transfer and price formation - particularly in new or fast-evolving markets. We commend the CFTC for its proactive engagement with this emerging product class and trust that our insights will support the Commission's efforts to ensure robust, transparent, and resilient markets.

Response

Q1. 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?

The WFE supports the development of a working definition for perpetual-style derivatives based on key features observed in markets where such instruments are listed or referenced. These typically include:

- Absence of a fixed maturity date
- Ongoing pricing mechanism referencing an index or fair value
- Periodic funding or rebalancing mechanism to align derivative and spot prices
- The absence of physical delivery

Perpetual derivatives may also rely on time-weighted averages, median prices, or other statistical techniques over rolling intervals (e.g., 30-second, 1-minute, or hourly windows) to reflect real market activity.

We suggest the CFTC consider applicable pricing models and data-capture windows (which may not be only end-of-day) when establishing their definition.

There is also room for clarification on how tenor duration relates to the classification of a contract as "perpetual" in style. In particular, CFTC guidance may be helpful on whether contracts with shorter durations or automatic rollover features could or should fall within the perpetual definition. Relatedly, the Commission could clarify whether the definition of a perpetual derivative might differ across markets, depending on the characteristics and usage of the underlying asset class.

Q2. 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 derivatives may offer flexibility and capital efficiency for participants seeking continuous exposure. Perpetual derivatives may also provide complementary risk management use cases for market participants operating in sectors or asset classes characterised by:

- Continuous market activity (e.g. digital asset markets)
- High short-term price volatility
- Operational needs for simplified position management

While traditional futures remain indispensable for long-term hedging and structured risk management, perpetual derivatives may serve specialised or tactical purposes, such as filling gaps in new asset classes or evolving liquidity environments.

Q3. 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?

Like all derivatives, perpetuals may be associated with volatility, liquidity, and operational risks, especially under stress scenarios. Market infrastructures implement appropriate margining, position limits, and real-time surveillance mechanisms to mitigate these risks. It is important to emphasise that derivatives, including perpetuals, are not merely sources of risk, but also critical tools for managing risk. In many markets, perpetual derivatives offer flexible, real-time exposure management that enables participants to hedge volatility and respond to changing market conditions.

These instruments may not be appropriate in all markets, particularly those with lower liquidity, fragmented spot pricing, or participant bases unfamiliar with continuous funding models. We urge the Commission to adopt a principles-based, market-sensitive approach that reflects the diversity of risk profiles, infrastructure, and use cases across asset classes.

Q4. 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?

The WFE supports clear and transparent risk disclosures for all product types, including perpetual derivatives. Where such products present unfamiliar features, disclosure frameworks should evolve accordingly to ensure that participants fully understand the risks involved.

Q5. 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 involve distinct considerations compared to financial or digital assets. These include:

- The absence of expiry vis-à-vis the traditional convergence mechanism that anchors futures prices to physical market realities, a cornerstone of risk management in agricultural and energy markets.
- Factors such as inventory management and seasonal effects, which are central to commercial hedging in physical commodities but may not be associated with perpetual structures.

Q6. 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?

Perpetual derivatives present unique considerations due to their continuous pricing structure and absence of a natural expiry event. However, this does not imply a lack of convergence with underlying values. Instead, convergence is achieved dynamically through mark-to-market valuation and periodic funding rate mechanisms, which together incentivise alignment with a reference index or spot price over time. That said, the reliance on index pricing and the continuous nature of these products may increase sensitivity to short-term price dislocations or attempts to influence the reference price. To uphold market integrity, the WFE supports robust safeguards — many of which are already well-established among its member market infrastructures. These include:

- Transparent and multi-source benchmark methodologies, supported by governance and audit processes consistent with global standards
- Real-time surveillance systems to detect anomalies and potential manipulation, with capabilities evolving to accommodate continuous pricing models
- Pre- and post-trade controls, such as circuit breakers, order throttling, price collars, and velocity limits (widely used in equity and derivatives markets and readily applicable to perpetual instruments)
- Position limits and concentration monitoring for both the derivative and its underlying reference market

Additional guidance could help clarify the regulatory perimeter for classifying and defining perpetual derivatives to support consistency. Conflicts may arise in decentralised or vertically integrated platforms where the same entity may operate the trading venue, create the benchmark, and manage client positions. In such cases, existing principles on conflicts of interest should apply. Care must always be taken to ensure the transparency of funding rate mechanisms and independence of risk management functions. The neutrality of benchmark contributors should be enforced by compliance with established international standards such as the [IOSCO Principles for Financial Benchmarks](#). These standards support robust governance of the index administrator, as well as index composition transparency and calculation reliability.

Q7. Do Perpetual Derivatives raise unique surveillance concerns for exchanges listing perpetual products?

Perpetual derivatives necessitate enhanced surveillance frameworks given the absence of an expiry event. Market infrastructures may need to adjust existing alert systems, real-time analytics, and coordination to monitor for manipulation or concentration risks, where necessary.

Q8. Do Perpetual Derivatives have the potential to adversely impact the liquidity or usefulness for commercial risk management purposes of traditional futures market products?

Perpetual derivatives do not inherently undermine existing risk management tools, but their introduction should be carefully managed to avoid unintended consequences.

From a CCP perspective, perpetual-style derivatives can offer complementary benefits to the risk management ecosystem - particularly in markets requiring continuous exposure and short-term tactical positioning. However, their introduction must be calibrated to avoid unintended distortions in the structure and function of traditional futures markets, which remain critical for long-term hedging and benchmark pricing.

Key considerations include:

- **Liquidity Fragmentation:** The emergence of highly liquid perpetual markets may divert speculative or short-term trading activity away from expiring contracts, potentially reducing the depth and effectiveness of futures markets around roll periods or settlement windows, especially for commodities, interest rate and forex derivatives.
- **Margining practices:** Margining practices differ in perpetual derivatives markets, requiring a distinct approach to structuring risk management processes. Allowing high leverage can decrease liquidity. Therefore, when determining leverage in perpetual markets, it would be prudent to jointly assess liquidity and market risk.

Q9. 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?

The user base for perpetual derivatives may differ from that of traditional futures in important respects, depending on the asset class and market context. In markets where perpetual derivatives are already active (such as digital assets) participants may include retail traders (particularly those seeking simplified exposure), proprietary trading firms and market-makers, as well as hedge funds and quant-driven strategies. Various factors may impact demand for such products from commercial end-users and institutional asset managers, such as to regulatory uncertainty or classification ambiguity, or a preference for products with established legal finality. That said, as product structures mature and regulatory clarity increases, the potential for broader adoption across participant types may grow. Demand for perpetual derivatives could increase as a complement to traditional tools for tactical risk management, particularly in continuous trading environments.

Q10. 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?

Please see the answer to Q9 regarding participation across market sectors. Regarding the weighting of certain participants, effective and efficient market functioning generally depends on a diverse participant base that includes a mix of liquidity providers, hedgers, institutional investors, etc. This diversity supports robust price discovery, reduces volatility, and limits concentration risk. If perpetual derivative markets become dominated by a narrow group, they may face challenges such as increased intraday volatility, reduced depth and resilience during periods of stress or dislocation, or potential gaps in market functionality. As perpetual products evolve, maintaining a responsibly inclusive participant base should be a priority for market infrastructures and regulators alike.

Q11. 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.

Perpetual derivatives can contribute to both price discovery and risk mitigation, particularly in markets characterised by continuous trading, evolving liquidity dynamics, and the need for short-term tactical exposures. Perpetual derivatives may support risk management in use cases where:

- Hedgers seek uninterrupted exposure without the need to roll contracts
- Market-makers hedge short-dated exposures dynamically with minimal rollover friction
- Liquidity providers or high-turnover participants require products that minimise operational risk and tracking error associated with expiry cycles

While their utility in price discovery may be categorised in the following areas:

- **Reduced Expiry Distortions:** As there is no need to roll from one contract to the next, perpetual derivatives eliminate any temporary price distortions and volume imbalances that may occur during expiry periods in traditional futures.
- **High Frequency of Funding Rate Adjustments:** Many perpetual derivatives rely on funding rate mechanisms to keep prices aligned with an underlying index. The funding rate itself becomes a form of real-time signal about market sentiment indicating whether long or short positions are dominant. This introduces an additional, transparent dimension to the price discovery process.
- **Benchmark Role in Emerging Asset Classes:** In some markets such as digital assets, perpetuals have become highly liquid instruments that contribute market volume and depth. As a result, perpetual derivatives may serve as reference points for pricing across platforms, feeding into indexes, structured products, and arbitrage models.

When listed and cleared on regulated venues, perpetual derivatives can also act as mechanisms to consolidate liquidity and establish credible pricing reference points. This, in turn, facilitates the development of additional risk management tools (including derivatives with longer tenors or structured hedging solutions) that rely on stable, observable pricing foundations.

Q12. 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?

Perpetual derivatives do support arbitrage opportunities, but the mechanisms may differ meaningfully from those in traditional futures due to the absence of a fixed expiry and the use of funding rate adjustments. The effectiveness of these relationships depends on transparent pricing, liquid underlying markets, and the integrity of the funding and benchmark systems.

The WFE suggest that a robust, liquid futures market is generally essential for perpetual derivatives to function effectively. These products rely on strong underlying markets to support effective arbitrage, stable funding rates, and reliable price alignment with the reference asset. In markets where either the futures or spot leg lacks sufficient depth or transparency, these mechanisms can fail, increasing the risk of volatility, dislocation, or manipulation.

In some markets (such as digital assets), perpetual contracts have emerged because traditional spot and futures infrastructure was underdeveloped or fragmented. In these cases, perpetuals have become a primary price discovery tool and a central source of liquidity. However, in more established markets with mature infrastructure, introducing perpetuals without sufficient liquidity could fragment trading and create operational challenges.

Finally, the WFE suggests that it may also be helpful for the Commission to distinguish between different types of perpetual derivatives. For example, in the digital asset space, the funding mechanism regularly links the perpetual contract to the underlying cash market through multiple intraday funding rate calculations.

Q13. Should Perpetual Derivatives be classified as swaps or futures contracts?

A perpetual derivative is a broad concept and should not be strictly categorised as either swap or future. The specific categorization for each perpetual derivative should be judged by its own characteristics. If the derivative is very standardised, traded on a CLOB, and cleared, then it would likely make most sense for this contract to be considered as a future. Alternatively, if a particular derivative exhibits more swap-like features, then we suggest it would likely make sense for it to be categorised as a swap.

Q14. 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?

Perpetual derivatives are structurally distinct from traditional futures contracts in key respects, and are not consistent with the classic futures model built around expiration and convergence. Traditional futures are defined by a specified expiry point, where the contract settles against the spot price or involves delivery. Perpetual derivatives are designed for continuous exposure and therefore do not converge to a spot price at any fixed time. Rather than converging at expiry, perpetuals maintain alignment with a reference price using a funding rate mechanism, which periodically rebalances incentives between longs and shorts. These differences mean perpetual derivatives cannot be said to follow the traditional futures model in structure or economic outcome. However, depending on contract design, certain perpetual derivatives may replicate the structural or economic effects of short-dated futures contracts, particularly where mark-to-market valuation, margining, and funding rate mechanisms are employed to maintain alignment with an underlying reference price. Any differences in form do not preclude perpetuals from being able to serve important, complementary roles in the derivatives ecosystem, particularly where continuous exposure, capital efficiency, or simplified rollover mechanics are prioritised.

Q15. 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?

Perpetual derivatives may carry additional risk considerations due to factors such as:

- Continuous pricing and funding adjustments, which create ongoing variation margin flows and funding obligations
- Leverage levels, which in some emerging asset classes can exceed those in traditional derivatives
- Lack of expiry, which removes a natural position-closing mechanism and can result in more persistent risk exposure

These features can be effectively managed by market infrastructures by leveraging existing risk management practices including real-time margining, robust stress testing, dynamic position limits, and established default management protocols adapted to the specific characteristics of perpetual products.

Q16. 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?

Perpetual Derivatives don't appear to raise unique issues when it comes to Part 190 as Part 190 already covers both futures and swaps.