

## MEMORANDUM

**To:** Crypto Task Force Meeting Log  
**From:** Crypto Task Force Staff  
**Re:** Meeting with Representatives of Chamber for Innovative Digital Finance, Instruments and Trading and Perpetual Markets

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On June 2, 2025, Crypto Task Force Staff met with representatives from Chamber for Innovative Digital Finance, Instruments and Trading and Perpetual Markets.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. Chamber for Innovative Digital Finance, Instruments and Trading and Perpetual Markets representatives provided the attached document, which was discussed during the meeting.



CHAMBER FOR INTERNATIONAL DIGITAL FINANCE, INSTRUMENTS & TRADING

February 14, 2025

Via Electronic Submission

Mr. Mark Uyeda  
Acting Chair  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

**Re: Proposal for a Joint Regulatory Sandbox for Perpetual Futures Involving Securities and Commodities**

Dear Acting Chair Uyeda and Commissioners:

As you are aware, digital assets and other novel financial and technology innovations have been transforming financial services in recent years, not only within the United States, but also globally. This change will only be accelerated over the next few years with advanced technologies, including Artificial Intelligence (AI) and Quantum computing. It is critical to ensure the technological innovations developed from these technologies in partner nations continues to thrive and be tested in a safe regulatory environment. Furthermore, key technologies continue to mature and allow traditional financial services companies to adopt new innovative ways to help support global investors.

On behalf of the Chamber for International Digital Finance, Instruments & Trading (CIDFIT), we respectfully submit this proposal kindly requesting the creation of a joint micro-innovation sandbox program (the “Sandbox”) under the framework previously discussed by Commissioner Peirce in her public statements<sup>1</sup> regarding collaboration among the SEC and other regulatory bodies as part of the Commission-sponsored micro-innovation sandbox. We likewise draw on the Commodity Futures Trading Commission’s (“CFTC”) existing process for granting equivalency recognition to Multilateral Trading Facilities (“MTFs”) and Organized Trading Facilities (“OTFs”), as outlined in the CFTC’s Order of December 8, 2017<sup>2</sup> (Release No. 12-08-17).

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<sup>1</sup> <https://www.sec.gov/newsroom/speeches-statements/peirce-boe-fca-comment-05302024>

<sup>2</sup> [https://www.cftc.gov/sites/default/files/idc/groups/public/@requestsandactions/documents/ifdocs/mtf\\_otforder12-08-17.pdf](https://www.cftc.gov/sites/default/files/idc/groups/public/@requestsandactions/documents/ifdocs/mtf_otforder12-08-17.pdf)

## **1. Introduction and Purpose**

### **1.1. Who We Are**

CIDFIT is a nonprofit trade association focused on fostering responsible innovation in global trade of perpetual futures, derivative contracts, and digital asset-based financial solutions. Our membership includes institutional market participants, digital asset innovators, broker-dealers, and technology providers who share a commitment to maintaining high standards of market integrity, risk management, and compliance.

In this capacity, we kindly propose the introduction of a joint sandbox for enabling trading in Perpetual Contracts. Please see Annex I for a detailed description of Perpetual Contracts and their mechanics.

### **1.2. Why a Joint Sandbox?**

Perpetual Contracts are agnostic to its underlying and often reference both securities and commodities as underlying assets, thereby implicating regulatory interests of both the SEC and the CFTC. We believe a jointly managed micro-innovation sandbox framework would:

- Provide a controlled environment in which institutional investors in the United States can trade Perpetual Contracts, including those referencing equities but also commodities or crypto assets, under robust risk and compliance controls.
- Ensure that broker-dealers onboarding institutional customers hold the required Financial Industry Regulatory Authority (“FINRA”) licenses, with approved business lines for trading futures and derivatives.
- Preserve market integrity and investor protection through cooperation and coherent oversight by both the SEC and the CFTC.
- Allow market regulators and stakeholders an open and collaborative environment to share and exchange technology and market trends, risks and best practices.
- Explore more direct and more efficient agency reporting technologies.
- Set a common regulatory framework standard, regardless of the underlying.

## **2. Proposed Sandbox Framework**

### **2.1. Why Perpetual Contracts**

Perpetual Contracts provide a transparent and easy to understand tool to get market exposure in a zero-sum-game fashion. They are highly popular among traders worldwide. The main competing products are options (in the US) and CFDs (for the rest of the world). Both CFDs and Options share a key concept which brings the market out of equilibrium: Both products rely on a single counterparty which also happens to be in a position to determine/influence the price of the product. This situation creates an apparent conflict of interest and has led to widespread regulation around the globe without, however, overcoming the root of the conflict. Perpetual Contracts serve to create a level playing field eliminating the single counterparty and replacing it in a multilateral and non-discretionary way. Perpetual Contracts bring various benefits:

- Price transparency by multilateral trading and public order book more efficient pricing as various traders are competing for arbitrage opportunities no conflict of interest as there is no single issuer

- Easy to understand as price follows the price of the underlying
- Flexible margin management allows to reduce/increase leverage during the lifetime of the position, enabling for better risk management
- Simple costs: Perpetual Contracts have two price components - fixed commission charged by the exchange for the execution of a trade and funding payments between position holders. No spread, no overnight fees, no exercise or cost of carry
- Flexible position sizes allow for precise positioning which is difficult with options

## 2.2. Building on Existing SEC Concepts

Pursuant to the blueprint outlined by Commissioner Peirce, which proposed a collaborative regulatory sandbox with the FCA and other international authorities, we recommend expanding that concept to establish a formal SEC-CFTC joint sandbox. This sandbox would:

- Rely on notice filings and clear eligibility criteria for participation of equivalent standards in regulatory oversight by foreign qualified and robust regulatory bodies.
- Encourage innovative financial products within a defined set of compliance parameters, where participants commit to best practices in disclosures, market surveillance, investor protections, and prompt reporting.
- Ensure integrity of the functioning of markets and avoidance of dubious offshore platforms in the interest of retail investors.
- Implement volatility protection mechanisms to protect clients from negative impacts of extreme fluctuation.

## 2.3. Expanding on CFTC Equivalency Recognition

The CFTC's equivalency process has historically allowed certain foreign exchanges and MTFs/OTFs operating under MiFID II/ESMA regimes to admit U.S. participants under specific conditions. We propose adapting and expanding that process to accommodate perpetual futures referencing both securities and commodities. Specifically:

- **Equivalency Recognition**: Participants from jurisdictions with robust regulatory frameworks (e.g., those recognized by ESMA) would be permitted to operate in the Sandbox and offer perpetual futures to U.S. institutional investors.
- **Limited Monthly Notional Cap**: We respectfully request a \$20 billion USD monthly notional trading value cap per participating foreign exchanges or MTFs during the course of the trial, ensuring a prudent testing environment that remains proportionate to the evolving nature of these markets.
- **Monitoring and Reporting**: Participants would comply with ongoing reporting obligations to both the CFTC and SEC, modeled on the reporting structures set out in Order No. 12-08-17<sup>3</sup> (the "Equivalency Order") and applicable SEC requirements.

## 3. Participation Requirements

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<sup>3</sup>[https://www.cftc.gov/sites/default/files/idc/groups/public/@requestsandactions/documents/ifdocs/mtf\\_otforder12-08-17.pdf](https://www.cftc.gov/sites/default/files/idc/groups/public/@requestsandactions/documents/ifdocs/mtf_otforder12-08-17.pdf)

- **Broker-Dealer Intermediation:** Institutional investors would **only** be onboarded through a FINRA-licensed broker-dealer with business lines explicitly approved for trading futures and derivatives.
- **Risk Management & Compliance Controls:** All Sandbox participants must demonstrate robust risk management protocols, including margin requirements, liquidity provisions, and trade surveillance, to protect against market manipulation and ensure orderly trading.
- **Coordinated Oversight:** The sandbox would include provisions for frequent coordination and data sharing between the SEC and the CFTC, including any relevant self-regulatory organizations (“SROs”) such as FINRA, the National Futures Association (“NFA”), and other bodies as appropriate.

#### 4. Notice Filing, No-Action Letter Approach, and Transition to Formal Registration

In alignment with Commissioner Peirce’s remarks, we recommend structuring the Sandbox to include a test bed period of up to 18 months. During this period, qualifying projects would file a standardized notice outlining their specific perpetual futures products, risk controls, and compliance measures. If staff deems these filings compliant with core requirements, participants could receive no-action relief from certain regulatory provisions—on the condition that they operate within agreed-upon bounds, including the notional trading limits and oversight requirements outlined above.

Provided that each participant’s activities remain within the expected norms of market trading during the 18-month period, and they continue to uphold robust investor protections, the no-action letter phase would then transition into a schedule of foreign exchanges provided with a safe harbor exemption, removing the trading volume limits. This approach reduces regulatory uncertainty while ensuring that innovation occurs under transparent and enforceable conditions.

#### 5. Rationale and Expected Benefits

##### 5.1. Maintaining U.S. Leadership in Financial Innovation

A structured sandbox, jointly overseen by the SEC and the CFTC, will keep the United States on the cutting edge of financial markets by allowing innovative perpetual futures products to be tested in a controlled, compliant manner. Such a program is in line with the Commission’s prior statements emphasizing the importance of “ensuring that innovation can continue to thrive in regulated spaces.”<sup>4</sup>

##### 5.2. Ensuring Investor Protection and Market Integrity

By restricting participation to institutional investors and requiring FINRA-licensed broker-dealers, the sandbox ensures that sophisticated entities with adequate compliance infrastructures are the only participants. Such measures safeguard investor interests while allowing new market structures to develop responsibly.

##### 5.3. Coordinated Regulatory Approach

Because perpetual futures often straddle the definitions of securities (e.g., tokenized equity references) and commodities (e.g., referencing spot commodity markets or digital assets), effective oversight necessitates close coordination between the SEC and CFTC. This proposal seeks to formalize that coordination.

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<sup>4</sup> <https://www.sec.gov/newsroom/speeches-statements/peirce-boe-fca-comment-05302024>

## 6. Conclusion and Request

CIDFIT respectfully requests that the SEC, in collaboration with the CFTC, consider this proposal for establishing a **Joint Sandbox** with the following key components:

- Eligibility for MiFID II/ESMA-Compliant Foreign Exchanges & MTFs
- \$30 Billion monthly notional open interest value limit for the sandbox members
- Limited of no more than 100 participating members
- Mandatory FINRA-Licensed Intermediaries
- Coordinated SEC-CFTC Oversight and Equivalency Recognition
- Transition to Safe Harbor exemption and reduced restrictions following successful trial

We welcome the opportunity to discuss this proposal in greater detail and assist in crafting the specific parameters of the Sandbox. We believe our approach balances market innovation with robust consumer and investor protection—further supporting the U.S.’s role as a global leader in financial services.

Should you have any questions or wish to schedule a meeting, please contact Sergio Rodriguera Jr., Director of Policy Relations, via phone at (571) 278-9845 or via email at [sergio@cidfit.org](mailto:sergio@cidfit.org) or alternatively Brandon Smith via email at [brandon@cidfit.org](mailto:brandon@cidfit.org).

Thank you for your time and consideration.

Respectfully submitted,

DocuSigned by:  
  
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/s/ Sergio Rodriguera Jr. for

Chamber for International Digital Finance, Instruments & Trading (CIDFIT)

cc:

- Commissioners, U.S. Securities and Exchange Commission
- Commissioners, Commodity Futures Trading Commission

## Annex I - What are Perpetual Contracts?

### 1. What are Perpetual Contracts?

Perpetual Contracts are standardized multilaterally traded bilateral derivative contracts without expiration date and without an ordinary right to terminate those contracts; clients must provide and maintain a margin and are obliged to either pay or receive the periodic funding rate (funding payment).

In the following, we will explain their key characteristics, their historical background and why Perpetuals make markets more efficient. Finally, we will analyze Perpetuals under the MiFID-II-Regime.

#### 1.1. Derivative Nature

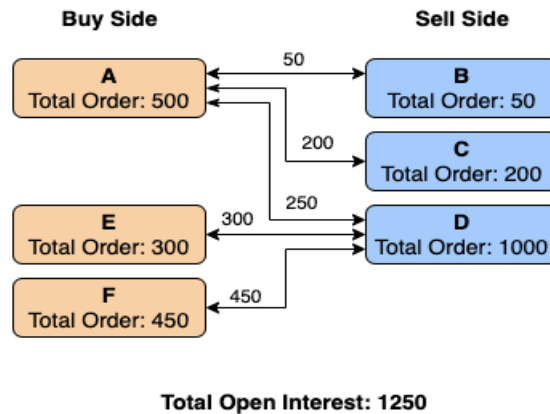
The price of a Perpetual Contract is calculated based on indices or specific assets as underlying. This relation to the performance of the underlying constitutes the derivative nature of Perpetuals.

The composition of the index is key to the quality of the Perpetual contract itself. As a rule of thumb, the more diversified the index is, the less volatile it is for the client from a risk perspective. Elements of the index are usually capped in order to avoid outliers' impact on the price calculation. The main contractual obligation out of a Perpetual Contract is the obligation to pay/receive the funding payments (see below). This constant/periodic (hourly) payment makes Perpetual Contracts closest to a Swap.

**Example:** A BTC-Perp is pegged to the performance of the underlying index of different BTC prices. The index for the BTC-Perp on the exchange will be calculated based on the spot price of 11 trading pairs (BTC/USD, BTC/USDC, BTC/TUSD) on 6 of the most relevant exchanges (e.g. Binance, Bybit, OKX, Coinbase, Kraken, Bitstamp). Based on these elements, the market price of the Perpetual is calculated as the median of last, best bid and best offer. Each element is capped at 30% divergence from the median in order to limit the impact of outliers. Indices are calculated every 5 seconds.

#### 1.2. Multilaterally traded

Multilateral trading means trading between multiple parties. Perpetuals are multilaterally traded as a person can have multiple counterparties for the full position notional. In particular, there is typically no single market-maker that serves as a single counterparty. Every person interacting with the exchange venue can be the counterparty.



### 1.3. Bilateral Derivative Contracts

A position can only be opened against the respective counterparty of the specific formed contract (and not with the exchange itself). Both parties form the Perpetual at the same time upon their agreement. There is no “issuer” in the sense that there is one person distributing assets (unlike primary stock markets) and no issuer under the meaning of the Prospectus Regulation<sup>5</sup>. A party to a trade never assumes obligations towards any other person than the counterparty to the contract. Thus, only members of the exchange but not the exchange itself may become a party to a trade.

The exchange will be the manufacturer of the contract - ie. It will set the key terms, the specifications and the trading rules, where only the order details like quantity and price need to be inserted by the members of the exchange. The matching engine of the exchange will match the counterparties to a contract.

Example: A opens a 5 BTC-Perp long position. B opens a 3 BTC-Perp short position that fills A’s position 3/5. C opens a 2 BTC-Perp short position that fills A’s position 2/5. The obligations of the contract are created in between A and B and A and C.

This example illustrates the bilateral nature of Perpetuals. It is not the exchange or any other third party that is issuing Perpetuals. Perpetual contracts are created with every filled order in between counterparties.

### 1.4. Perpetual (no ordinary right of termination)

Perpetual Contracts do not expire - they do not have an ordinary right of termination.

Similar concepts were developed in 1988 as “undated futures” and were traded at the Chinese Gold and Silver Exchange of Hong Kong. The reason for the invention of those contracts without expiration and even a termination right was the objective to remove rollover costs. Similar contracts

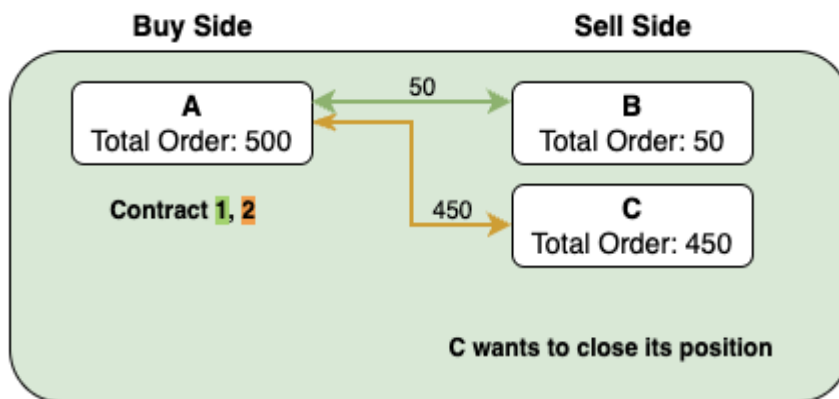
<sup>5</sup> “Issuer” is defined in Article 2(h) of the Prospectus Regulation as “a legal entity which issues or proposes to issue securities”.

“Securities” means, according to Article 2(a) of the Prospectus Regulation “transferable securities as defined in point (44) of Article 4(1) of Directive 2014/65/EU”.

were traded at the American Stock Exchange (AMEX) and the Philadelphia Stock Exchange (PHLX) (called Index Participations (IPs)). The first proposal to call these instruments perpetuals came from Shiller, Robert J. in December 1993 with his paper “Measuring Asset Values for Cash Settlement in Derivative Markets: Hedonic Repeated Measures Indices and Perpetual Futures”<sup>6</sup>. This explains why Perpetuals are sometimes called Perpetual Contracts and sometimes – because of this paper – Perpetual Futures.

The exchange will provide the legal framework for the Perpetuals, those contract specifications, where only the quantity and price need to be inserted by the members of the exchange. The matching engine of the exchange will match the counterparties to a contract, as follows:

**1.4.1. Creation of a perpetual contracts**

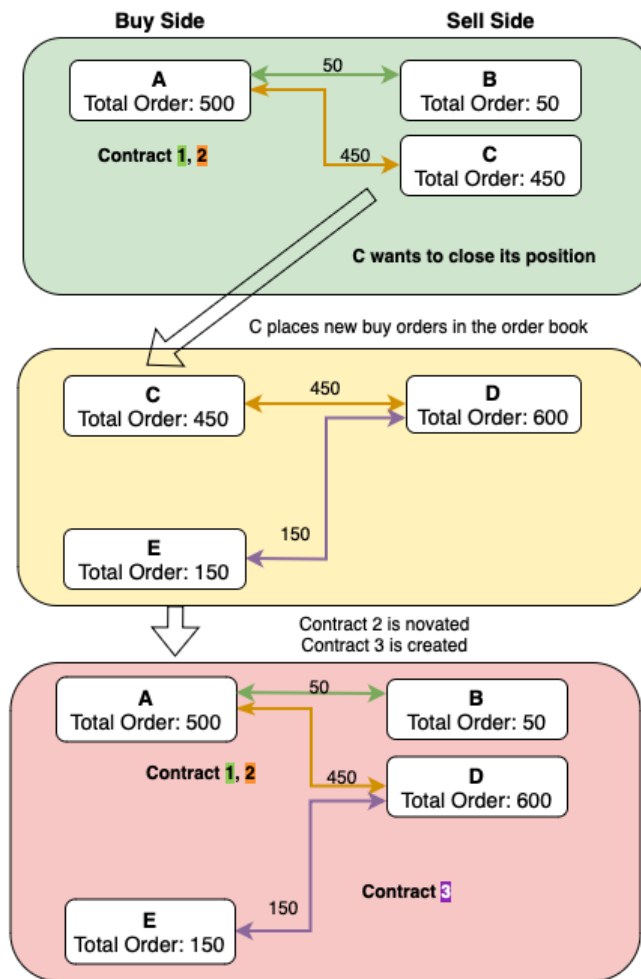


In the above example, Member A submits a Buy Order of 500 in the Orderbook. Member A’s Buy Order is matched with Member B’s and Member C’s Sell Orders and two different perpetual contracts are formed:

- **Contract 1** – between Member A and Member B
- **Contract 2** – between Member A and Member C

<sup>6</sup> NBER Working Paper No. t0131, Available at SSRN: <https://ssrn.com/abstract=995461>, Page 927

### 1.4.2. Novation of Perpetual Contracts



Member C decides to close its position (i.e. get out of **Contract 2**). Since perpetual contracts do not provide for ordinary right to termination, i.e. they do not expire, the exit of Member C from the contract is done by novation of the contract.

**Novation:** In legal terms, novation is the replacement of one party to a transaction/contract with another one, under the same terms and conditions. In effect, novation creates a new contract between the two new parties and *releases* one of the parties from the contractual chain. The key requirement of novation is that it needs consent of all three parties involved.

In our example, if Member A and Member C have a contract between themselves (Contract 2), but Party C wishes to be released from Contract 2 and be substituted by another Member (in our example, this is Member D) then Member A, C and D must all consent to this. Such consent is obtained by all Members via the exchange’s Rulebook, whereby all Members agree that novation will take place in relation to contracts that do not provide for an ordinary right of termination.

In our above example, the following happens automatically via the matching engine:

Member C places a new Buy Order (reverse order in the Orderbook) of 450. Member C's Buy Order is matched by the matching engine in accordance with the matching rules. In the Orderbook there is Member D's Sell Order of 600. Contract 2 will be novated, i.e. Member C will be replaced with Member D for 450 and the remaining 150 of Member D's Sell Order will be matched with Member E (a new Contract 3 is formed between Member D and Member E).

Contract 2 in this example has been novated. The effect is that the original contract between Member A and Member C is extinguished and is replaced by a new one between Member A and Member D, under the exact same terms, which duplicates the rights and obligations of those under the original contract. **Novation does not cancel past rights and obligations under the original contract, therefore the rights and obligations of Member C are undertaken by Member D.**

**It is important to highlight that novation does not lead to a transferability of the position itself. While the economic effect may be similar, contract 2 is newly formed in between two new parties (A and D).**

### 1.5. Funding Rates and Funding Payments

Funding rates are the main obligation that results from entering into a Perpetual Contract and constitute a periodic obligation to pay for one side of the trade, whereas the other side of the trade receives the funding rate as a funding payment. The purpose of a funding payment is to prevent a significant divergence in price from the underlying asset and the Perpetual.

Example: On the exchange, funding rates will be calculated every hour.

Funding rates will be calculated based on the Time-Weighted-Average-Price ("TWAP") of the Perpetual and the underlying. If the Perpetual is trading at a premium (e.g. if its TWAP is higher than the underlying), long positions in Perpetuals pay funding to short positions. The funding rate is negative. If the Perpetual is trading at a discount, short positions pay long positions. The funding rate is positive. The funding rate itself is determined by the divergence of the TWAPs. The bigger the divergence, the higher the funding rate/payment.

This mechanism incentivizes Members to open short positions and therefore lower the TWAP of the Perpetual to the TWAP of the underlying. The funding payment is a key characteristic of the Perpetual contract and distinguishes it from other types of financial instruments like CFDs.

Members can also execute strategies based on funding payments with the aim to receive passive income. If a Member becomes aware of a particularly high funding rate, the Member may open a position in order to receive funding payments.

### 1.6. Margin Trading

Perpetuals are traded on margin. It will be up to the Members of the exchange to provide margin. Members will provide initial margin (to open the position) and maintenance margin. If the maintenance margin is exhausted, the Member will be liquidated by automatically flattening the position by opening the respective counter position (the exchange uses automated liquidations which reduces the systematic risk on the overall market). Margin is not delivered to the counterparty but is kept in the omnibus account maintained by the exchange to be used by the exchange for settlement and clearing.

Example: Member A deposits 100 USD as collateral/margin for a long position worth 200 USD. Member A's leverage is 2x. Funding rates are deducted or credited to the margin/collateral periodically. If the funding rate is positive, e.g. long pay short. This will reduce the margin to – let's say – 99 USD. If the value of the position drops to 101 USD (i.e. 200 USD position size – 99 USD margin), the position of A will be liquidated, i.e. flattened.

Liquidation orders are usually market orders. Thus, the point at which the position will be liquidated is usually slightly above the margin in order to ensure slippage that may be caused when the counter position is filled by the market.

## **2. The Role of the exchange**

PMX will provide three key features to the Perpetual markets:

### **2.1. Standardization**

The exchange will provide the legal framework for the Perpetuals, those contract specifications act like contract templates where only the quantity and price need to be inserted by the parties. It defines the rights and obligations of the parties and sets the standard according to which the trading takes place.

### **2.2. Matching**

Every Member will be able to add orders to the order book (by using the standardized contract and only posting order type, quantity and price into the order book), this order book is free and open to the general public while market data from traditional exchanges are usually expensive. The exchange will be matching corresponding orders between the members and will enable its members to trade multilaterally. The trading is happening on a peer-to-peer level. As said above, the exchange itself will not be the counterparty for any member.

### **2.3. Settlement and Clearing**

Central elements of a Perpetual Contracts market are margin management and settlement. However, even though the members will be interacting with each other on a peer-to-peer level, the counterparty is usually unknown to the members. As Perpetuals always require the counter-position, it is impossible for a member to assess the counterparty risk. This is even more so, as one member may have many counterparties to a contract. It would be unfeasible if the parties needed to calculate the margin and monitor the status of the position.

This is where the clearing facility of the exchange comes into play. The exchange will be managing the margin of the parties to a contract, liquidate the positions if necessary and settle the trade. The clearing facility is fully automated. The standardized contracts include an obligation to use the automated clearing facility of the exchange.

It is possible but not necessary to introduce central counterparty clearinghouses as well.