

[Securities Regulation Daily Wrap Up, TOP STORY—Exchanges self-certify contracts for bitcoin future products, \(Dec. 1, 2017\)](#)

Securities Regulation Daily Wrap Up

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The Chicago Mercantile Exchange Inc. and the CBOE Futures Exchange have self-certified new contracts for bitcoin futures products, and the Cantor Exchange also self-certified a new contract for bitcoin binary options. Following extensive discussions with the CFTC regarding the products, CME, CBOE, and Cantor have set an appropriate standards for oversight over these virtual currency contracts, according to a Commission [press release](#).

Self-certification. Prior to listing new contracts, the Commodity Exchange Act provides designated contract markets (DCMs) with the option to self-certify to the CFTC that a new contract complies with the CEA and CFTC regulations, including confirmation that the contract is not readily susceptible to manipulation. With respect to the new contracts, the CFTC [notes](#), DCMs must enforce compliance with the rules of the contract market and have the capacity to prevent manipulation, price distortion, and deliver and cash-settlement disruptions. They are also required to make available information regarding contract terms and settlement prices, volume, and other measurements for actively traded contracts.

Unless the CFTC finds that a new product would violate the CEA or Commission regulations, the DCM may list the new product one full business day following the self-certification.

New bitcoin products. Prior to self-certification, the exchanges provided Commission staff with draft contract terms for the bitcoin contracts, and the agency engaged in several discussions with the DCMs and the derivatives clearing organizations (DCOs) responsible for clearing the contracts. At the request of Commission staff, CME, CFE and Cantor agreed to several enhancements to contract design and settlement and margining in the self-certification process. They also agreed to increased information sharing with cash bitcoin exchanges underlying the products to assist in surveillance and oversight efforts.

As trading on these contracts goes forward, the CFTC will evaluate whether further changes to contract structure and settlement processes are necessary and will engage in a number of risk-monitoring activities, including analyzing the development of the market, reviewing position changes over time, and monitoring margin requirements and stress testing positions. If the CFTC finds DCO margins held against bitcoin futures positions is inadequate, it can take steps to require an increase.

NFA advisory. The National Futures Association issued an [investor advisory](#) on this topic for individuals and entities trading in virtual currency futures products. The advisory notes that, even though virtual currency futures must be traded on regulated exchanges, the underlying virtual currency markets may not be regulated and that trading in the products involves a high level of risk. As such, the advisory urges potential traders to conduct due diligence on individuals and companies soliciting investments in futures on virtual currencies and to be aware of sales pitches promising significant returns with little risk.

Virtual currencies experience significant price volatility, and fluctuations in value between trade placement on a virtual currency futures contract and the time of liquidation will affect the value of the contract. If the price of the futures contract falls, its leveraged nature can produce large losses, including entire loss of the initial deposit and potential additional losses, the advisory concludes.

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